

Identifying Opportunities

The Entire Purpose of Studying Demand and Supply is to Identify Opportunities!

“When demand exceeds supply an opportunity exists”

Opportunities come from three sources in Real Estate

- Gaps
- Cycles
- Growth Patterns, changes and vectors

Gaps

Analysis of Demand and Supply Patterns within your study area may reveal opportunities!

e.g. Your market analysis reveals there is a demand for restaurants (eating establishments) not being served by the total number of restaurants in the area – this a “Gap” which can be filled by adding this type of space.

There are several types of Gaps which can be found within a market

Gap Types

- A) Providing a unit of supply which does not already exist in the market. e.g. Providing office condominiums for owner users in a market of for lease space only!
- B) Providing a unit of supply for which demand can be created: Mini Storage, Juice Bars, etc..
- C) Providing a unit of supply for which there is an excess of demand e.g. Housing in California
- D) Converting units of supply from insufficient demand into units of excess demand e.g. Downtown San Francisco Industrial buildings converted to Lofts
- E) Upgrading Units of Supply from low demand to higher demanded uses e.g. converting obsolete industrial property into condo/owner user business properties
- F) Repricing Units to meet demand e.g. Reducing Office Building rents in order to fill vacant space and compete with owner user opportunities

Identifying Gaps

Central Place Analysis— “Comparing study areas with the same economic profile”

This study compares, by ratio, land uses in similar areas to identify opportunities (Gaps)

e.g. Restaurant sales per person

Central Place Analysis

City	Population	Restaurant sales	Restaurant sales/person
A	100,000	180,000,000	1,800/person
B	120,000	200,000,000	1,667/person
C	80,000	120,000,000	1,500/person

Basic Gap Formulas

	Demand Units	Supply Units
Industrial	Sq.Ft./Employee	Square Feet
Office	Sq.Ft./Employee	Square Feet
Retail	Sales/GLA	Gross Leasable Area
Residential	Households	Units

E.g. Residential Gap Analysis

Market X “Three Year Forecast” of residential demand

Total Population divided by 2.476/Household		<u>259,500</u> =
Total Housing Units (occupied 7.7% vacant) Equals Average persons per household	104,800	
Forecast Total Population, three years units		<u>300,000</u> = 121,163
Divided by Average persons per household	2.476	
Total Existing Housing Units		113,500
Plus pipeline units	<u>+ 5,000</u>	
Forecast total housing supply		118,500
Less vacancy @ 7.7%	<u>- 9,124</u>	
Forecast Occupied Units		109,376
Forecast Units of Demand	121,163	
Less Forecast units of supply		<u>109,376</u>
Equals excess demand units (Gap)	11,787	