
CRE PERSPECTIVE

THE CHANGING ROLE OF THE COUNSELOR

by Oakleigh J. Thorne, CRE

The practice of consulting/counseling, whereby an individual studies population, housing, employment, income, and consumer trends in advance of formulating a real estate decision, began in the late 1920s. The first formal step in real estate analysis was documented by William J. Reilly in his 1929 treatise on the "Law of Retail Gravitation."¹ Reilly concluded that there was an inverse relationship between relative population densities and the distance consumers will travel to access retail goods and services. Over time, more sophisticated efforts, aimed at fostering a better understanding of retail markets and consumer spending patterns, were promoted, initially by national food store chains looking for new grocery store locations. Although regional hardware and lumber (home improvement) stores followed the lead, advances in retail store analysis were slow to develop.

The first suburban shopping center was delivered in Dallas, Texas, in 1931, and the first enclosed shopping mall was delivered in 1956 in Southdale, Minnesota. The rudimentary information and untested methodologies used to select both locations signified that efforts were being taken to better understand the household income and consumer spending patterns observed in Reilly's work. After the invention of the automobile which quickly gave rise to suburban areas outside urban cores, "retail vacuums" were created. In other words, demand was present as evidenced by the population shifts; however, there were no corresponding retail sites or stores in these newly developed areas to satisfy consumer demand. Nelson (*see bibliography*) expanded upon Reilly's prior work and added to the body of knowledge about how to improve the drawing and analysis of suburban retail trade areas. As retail developers gained operational experience, increasingly detailed information and historical data were used to locate and develop expansion stores. Grocery and department stores relied on "productivity" numbers (sales per foot per year) from existing operations to supply the grist for future feasibility analyses, (now referred to as "volume

expectancy studies"), or projected sales volumes per foot by merchandise line.

The budding advisory industry began to mature, and concepts were formed to define such factors as "primary and secondary trade areas" (formerly known as "sectors"), "projection techniques," "travel time studies," "disposable household income," "absorption elements," and "site capture." Large department stores were the pioneers, and Macy's was the leader in acknowledging the benefits of investigating consumer spending habits and demographics in order to control the best and most successful locations. In the late 1940s, J.C. Penneys, Hudsons, and Sears followed suit.

Following World War II, the advisory industry evolved slowly. As real estate developers and lending industries gained experience and knowledge, each group (the builders and the lenders) developed procedures to protect their specific interests, and seldom was advisory talent sought. As long as real estate market conditions moved forward and upward, the actual health of a specific project was of little concern. Nevertheless, as general economic business cycles waxed and waned, anxiety over flawed real estate decisions became more commonplace, and attempts were made to safeguard against repeated and potential future missteps. Most often, rather than study the causative factors leading to failure, corrective action was taken and those involved moved on to other ventures. The deeper and more prolonged the economic trough, however, the greater the retrospective analysis. At some point in the late 1950s, lenders began requesting "feasibility studies" for proposed new construction. Most reports offered in response were market supply-oriented with a modest effort at forecasting site-specific absorption. Without access to computers, simple cash flow projections resulted in the use of a single-year pro forma.

During the early 1960s, lenders concerned about their collateral in motels and hotels initiated requests for demand studies for new lodging projects thereby giving rise to specialists with a concentration in hotel and motel feasibility analyses. Developers of retail projects, on the other hand, were not questioned about economics as anchor stores completed in-house trade area consumer spending analyses for proposed locations. Likewise, lenders seldom required feasibility studies for proposed office, residential, and industrial projects.

During the late 1960s and early 1970s, retailers and other developers finally accepted that more

formal approaches to demographic analysis were required to reduce the risk inherent in real estate decision-making. A number of white papers, economic reports, books, and demographic studies were published on a wide variety of subjects, which elevated the awareness that economic data could, and should, be employed to predict the success of real estate projects. (See the bibliography for a list of some of the ground-breaking publications.)

Contemporaneously, a number of universities established real estate programs chaired by highly regarded professors, including Paul F. Wendt, Arthur M. Weimer, William N. Kinnard, Jr., CRE, the late James Graaskamp, CRE, and Homer Hoyt. One or two well-known universities initiated degree-granting programs with a concentration in real estate, and the Urban Land Institute published its *Community Builders Handbook* in the late 1960s, offering the best approaches to development of residential, industrial, and retail land uses.

Business opportunities for consultants and counselors evolved more rapidly during the late 1970s and early 1980s as their expertise began to transcend the typical feasibility study. Numerous forces combined to promote the industry's growth. For instance, more information became available for use in analytical assignments, and well-defined paradigms were tested and accepted by the advisory/consulting community, lenders, and developers in response to feasibility questions. Further, the market (traders and users) became more sophisticated in its approach to decision-making, and lenders seeking to reduce collateral risks turned to third-party vendors (consultants) for advice.

Structural changes in the capital markets forced consultants to

adapt during the 1990s as new financing products gained in prominence including CMBS pools; T.I.F. (Tax Increment Financing); public/private joint-ventures (fiscal impacts); and MUDs (Municipal Utility Districts), all of which required innovative approaches to market analysis and valuation. The rise in sophisticated land use controls and related litigation also fostered a demand for counselors. Emerging new trends suggest that counselors must broaden their skill base, increase their knowledge of industry specialties, think globally, and continue to maintain technological and information resource awareness.

Today, consulting/advisory/counseling activities generally fall into the following categories:

Consulting is the catch-all definition that may or may not include all of the following: delivery of information only, advice and recommendations (action plans), and implementation.

Information delivery is considered consulting by many in the real estate industry. Market information vendors offer current state-of-the-market reports without site-specific recommendations; additionally, a number of vendors offer intuitive observations about future market conditions. The reports concentrate on past trends and present supply and demand factors. Some vendors project future market conditions, but most merely report the

current market situation.

Advisory consulting assumes that the assignment's objective is to offer advice, opinions, recommendations, or an action plan for the client. Issues such as whether to lease, build, demolish, expand, abandon, reorganize, own, renovate, arbitrate, and even litigate or disengage the client from any one of the above actions represent advisory assignments. The amount of information, selection of its source, and the analytical treatment to support the advisor's opinions are unbounded and result from the complex nature of the work identified by the client's unique situation.

Counseling activities differ from writing and/or expressing opinions in that they concentrate on implementation tasks. Although the counselor may or may not have been previously engaged in the collection and analysis of information, the primary focus here is to make the event occur to the satisfaction of, or on behalf of, the client. Several practitioners in the real estate industry refer to implementation tasks as consulting.

The following tables reveal two situations typical of today's consulting/counseling industry. *Table 1* describes four study types where a site or sites are known to the parties, *i.e.*, the client and vendor. *Table 2* assumes that no specific site is under study, and four different client groups are listed.

Table 1

GIVEN A SPECIFIC SITE
Corporate Strategies
Impact Statements
Certificates of Need
Dispute Resolution/Arbitration

Table 2

GIVEN NO SPECIFIC SITE
The Fortune 1000 Companies
Merchant Builder/Developer
The Public Sector
Risk Analysis (Institutions)

Figure 1 and Figure 2 (pages 71 and 72) are an extension of the two tables illustrated on page 69. The flow chart is not a data dump of all known consulting activities but a representation of the most prevalent assignment types. Site-specific feasibility studies have been ignored in this effort as an adequate number of publications already address most land uses.

The parallel blocks in the flow chart have only a common thread when corporate assignments are involved. The two columns, however, concentrate on two different situations. Figure 1 illustrates a few assignments where there is a known site, and Figure 2 presents those assignments when there is no specific parcel under study, but where regional or national issues are under review.

The explanation below is not intended to be an exhaustive recitation of infinite detail. Rather, the intent is to educate readers about the breadth, depth, and diversity within today's consulting/counseling industry and the opportunities for business expansion. Each column offers only four primary clients (Figure 1) or study groups (Figure 2).

ASSIGNMENTS WITH A KNOWN SITE

Corporate Strategies as a study group frequently involve companies retaining outside vendors to assist facility managers with decisions about both contraction and expansion plans. Regardless of the mission's nature, the consultant vendor's participation is governed by the needs of his or her client. When plants are abandoned, the effort by the consultant may be limited to recommending an agency to list the plant for sale. By contrast, the consultant's role in a plant expansion or relocation is much more intensive and demanding. Relocation studies are more

prevalent where the company's objectives are to reduce business costs, capture lower wages for the same skills, or achieve lower transportation costs for its products.

Impact Studies are, at least now and in the foreseeable future, keeping vendor consultants much busier than typical site-specific feasibility reports. What is intriguing about these endeavors is that: a). the contractor has its own reporting guidelines; b). the scope of work is defined by legal counsel; or c). the work tasks and deliverable are defined by legislative bodies.

New Hotel Impact Statements - All hotel chains complete an analysis of the supply and demand for room nights in markets where a new proposed hotel of the same flag might compete with existing hotels of the same franchise. The objective is to assure the existing competition that sufficient demand exists for the new facility to avoid injurious competition among the franchisees. The vendor (Marriott seldom goes outside its company to complete the analysis) must comply with the due diligence and reporting requirements of each of his or her clients.

All chains have different recommended processes and reporting requirements. As an example, Holiday Inn requires a study restricted to the proposed hotel's impact on the occupancy levels of existing facilities; other chains seek the vendor's opinion on both occupancy and rates, and still others require redistribution of fair shares, rack rates, occupancy levels, and cash projection calculations.

The hotel chains do not use a common process for their competitive surveys. In fact, the International Society of Hospitality Consultants recently published a white paper for its members' review to better clarify and

standardize the methodologies relating to competitive impact studies.

Branch Bank Applications - Admittedly, some states have no mandates regarding how and where competing branch banks locate. Moreover, consolidation of the banking industry has reduced the number of consulting opportunities. In light of potential public harm, the objective in the investigative work is to assure the banking commission that adding a new branch will not generate injurious competition for deposits. Each state has its unique lexicon and legislative process for communicating the vendor's opinions and testimony before the banking commission. Common threads exist among the studies; however, there are substantive variations among the jurisdictions, making the use of uniform guidelines ineffective.

Land Use Impact - In regions where land use controls are complex and a developer or property owner seeks to obtain a special exception or variance from by-right zoning, a number of studies may be completed by several experts, and testimony may be required before approval is granted to change the by-right zoning. Each land use appeal is different and is orchestrated by the attorney responsible for presenting the case to the pertinent land use authority. Study methodologies vary by case—"before and after" and "echo sounding" methods are commonly practiced by vendor experts. Property types include dog kennels; drive-thru, fast-service restaurants; table-service restaurants; communications structures; adult care facilities; all types of medical, surgical, detox, and drug rehab centers; and more.

A growing practice of entities

Figure 1

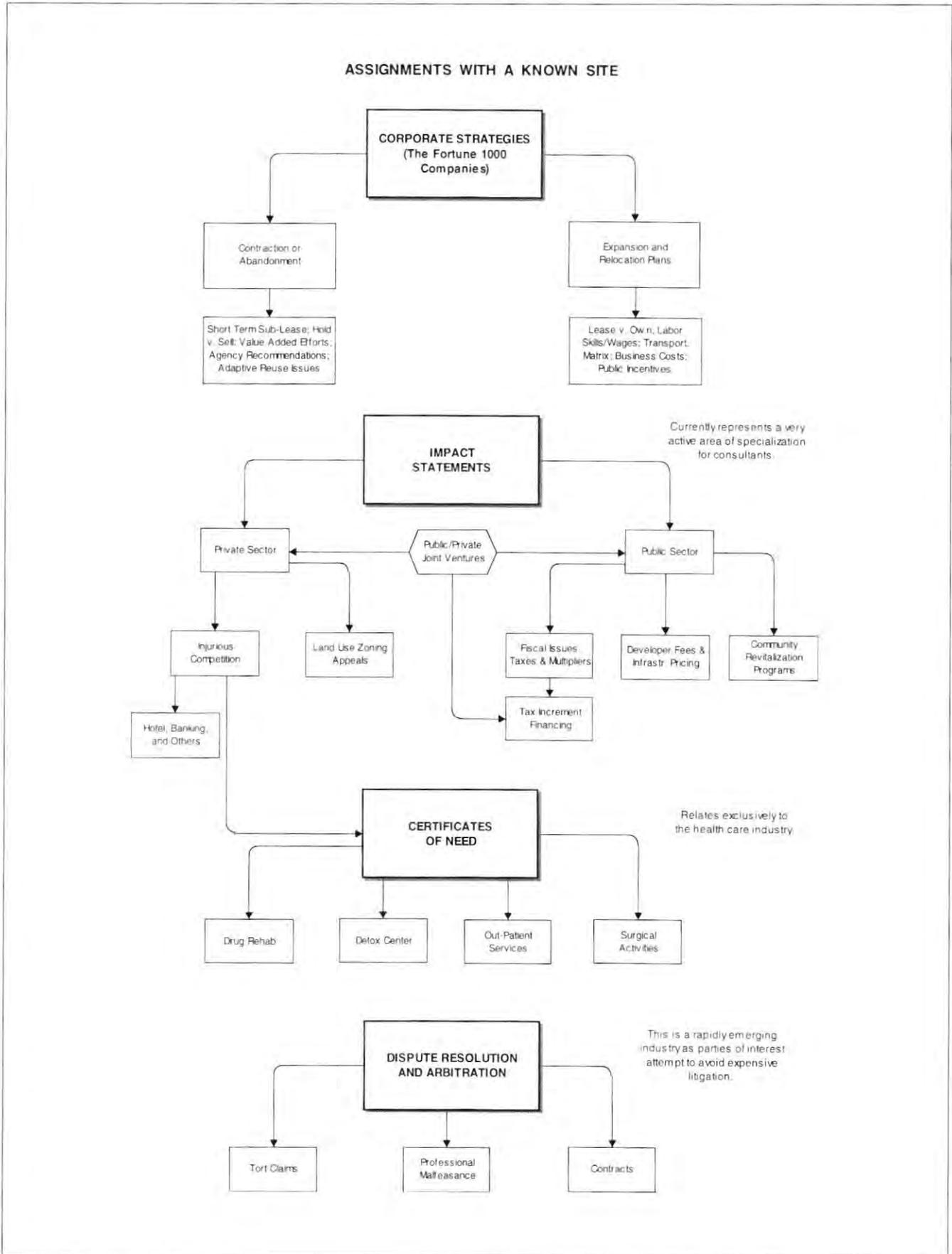
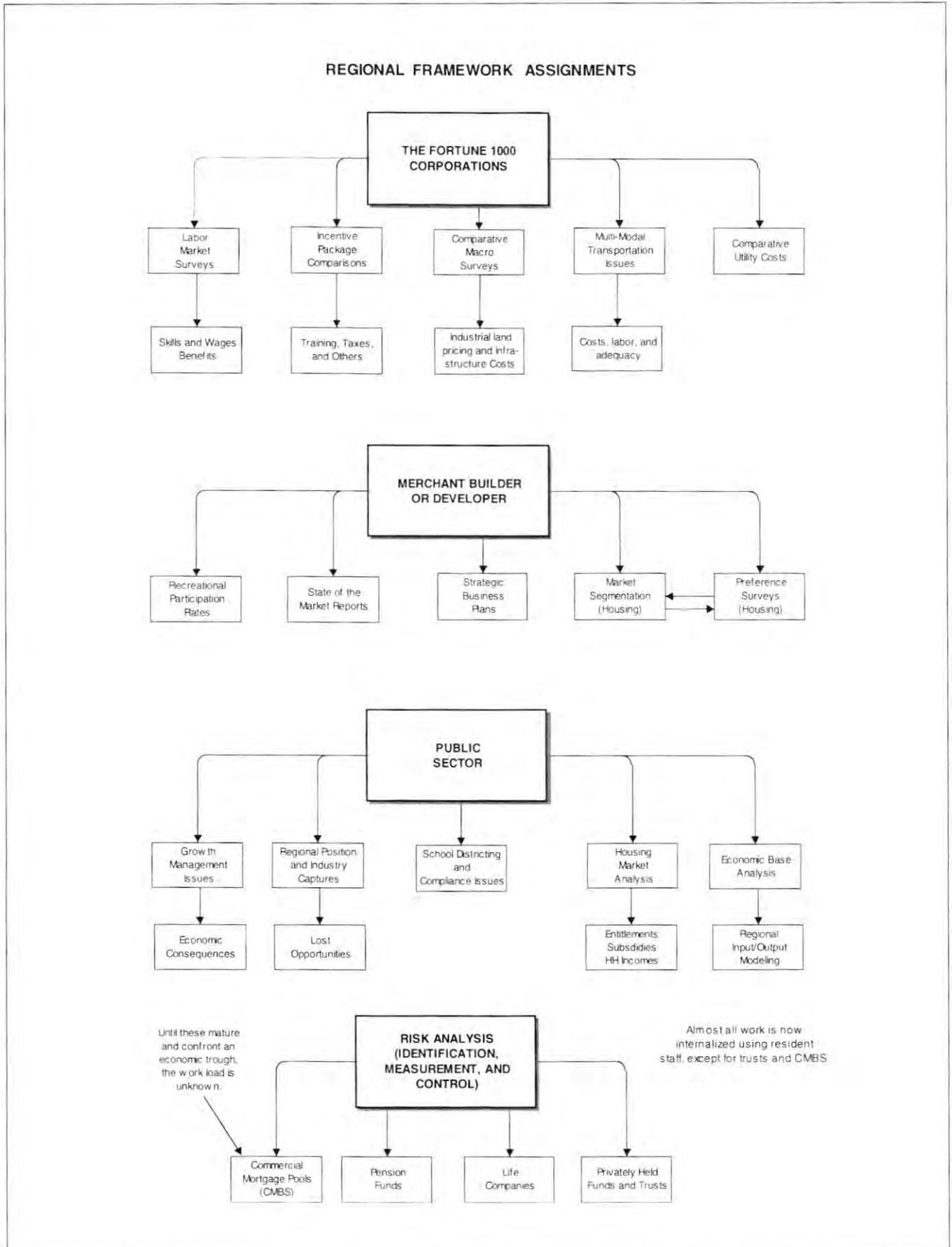


Figure 2



proposing or opposing sports stadiums is to engage consultants to illustrate the proposed (or existing) stadium's effect on the local community's quality of life, regional employment figures, and increased tax revenues.

The Public Sector and Public/Private Joint-Ventures have produced this decade's greatest demand for highly skilled and analytical professionals. Many studies are fiscal-related, addressing employment, gross and net multiplier, and tax revenue issues. Tax increment financing (T.I.F.) is fairly common when a jurisdiction seeks to offer its credit to finance part or all of a new development at a lower cost by using the state's bond rating to sell tax-exempt bonds. T.I.F. requires the consultant vendor to project the incremental benefit to the community and bond holders to retire the floated bonds. Moreover, as the public sector seeks to enjoin the development community to revitalize neighborhoods, brown fields, waterfronts, and abandoned rail stations, economic and fiscal impact statements will become more in demand.

Certificates of Need studies are similar to hotel franchise issues in that standardized formats are non-existent. Testimony is generally not required; however, as the general public is at risk, legislative agendas of several states in the Northeast and Midwest dictate well-defined processes prior to issuance of permits to build a wide range of health care facilities. As with injurious competition studies for branch bank applications, the presence of adequate demand is required.

Dispute Resolution/Arbitration is an emerging industry that produces \$100 million or more in annual fees for the top five national accounting firms. Skills usually

associated with the staffing of these departments encompass economics, engineering, architecture, construction and construction management, and finance. Although real estate prices or values may be impacted by the decision of the panel, appraisers are seldom, if ever, part of the process. Each case is unique, and the dollar amount varies from modest to millions. The complexity of the cases and the dollars at risk define the methods used by the arbitrators to reach equitable determinations. This sector is expected to offer great opportunities for counselors over the next decade.

REGIONAL FRAMEWORK ASSIGNMENTS

Entities searching for a site require a large geographic framework and demand extensive preliminary information before making a decision regarding a region's opportunities, assets, and viability.

Corporations expanding and/or relocating pursue a number of avenues to obtain information on labor markets, public incentives offered to induce companies to locate, comparative land and utility costs, and transportation issues. The continuing pressure on increasing shareholder values implies cost-effective site selection and expansion programs that meet facility budgets. In prior years, the work was completed by contacting and traveling to the E.D.A. of the counties comprising the regions under review. Today, almost all the work, except for site selection, can be done remotely on the Internet. Not all the factors listed are studied by expanding companies. The firm may be concerned only with labor supply issues or access to new and specific skills.

Merchant Builders or Developers (especially national firms) have an equally diverse set of needs, only five of which are illustrated in

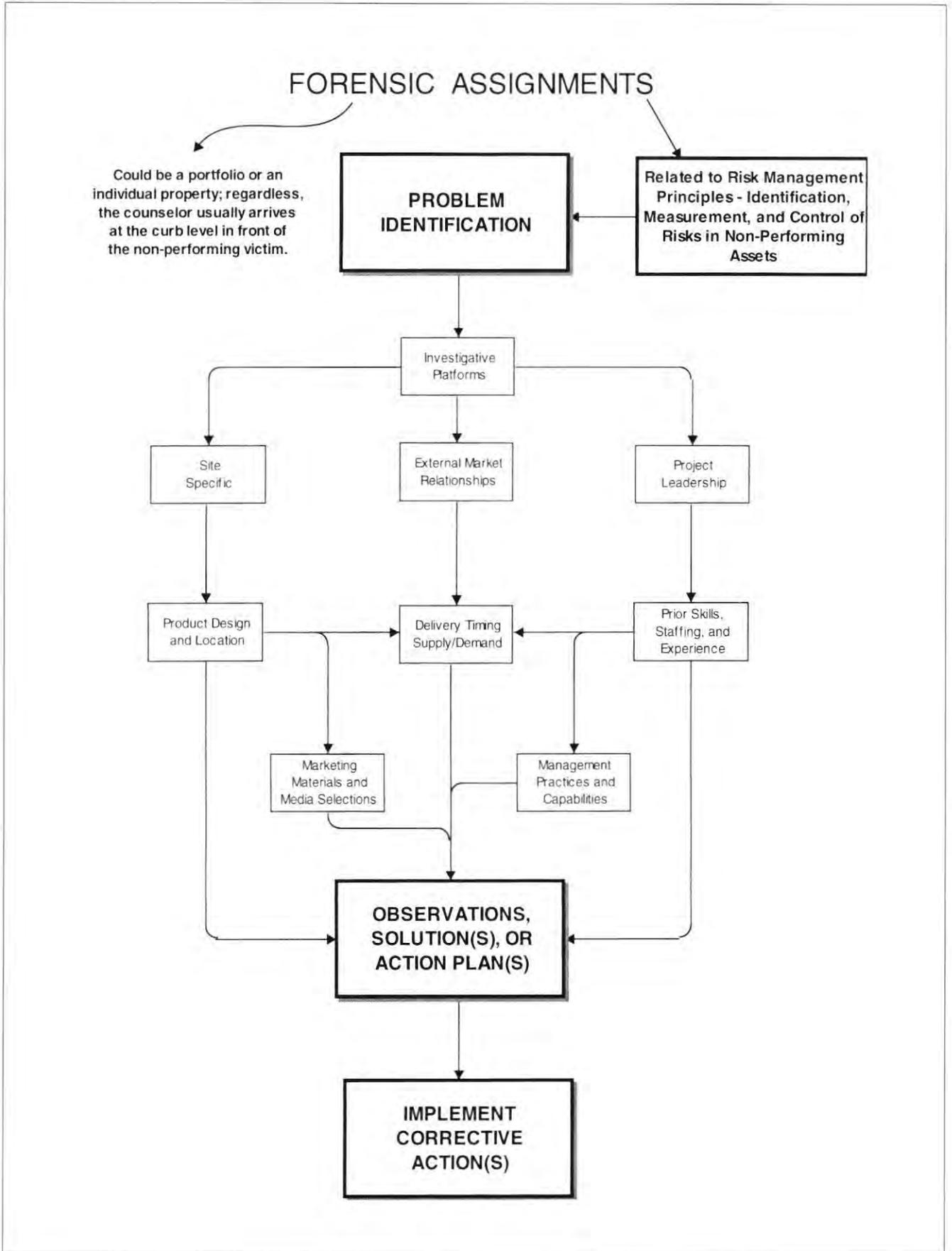
the chart and some of which may overlap. For example, a firm interested in sport and recreational activities may retain a consultant to study regional participation rates for golf, skiing, water sports, soccer, and tennis before considering whether there is sufficient demand to generate further interest in their project.

Market Segmentation and Preference Surveys - Local and national home builders qualify markets with preference surveys and segmentation studies. The preference surveys can be post-transaction interviews of home buyers to determine consumer satisfaction. Segmentation studies uncover the depth and purchasing power of the market usually targeted to high-end products and different life styles.

The **Public Sector** offers the greatest opportunities for consultants/counselors due to the need for studies that relate to economic base analysis, regional competition surveys and industry capture rates, and land revitalization issues. *Figure 2* is relatively self-explanatory. However, the RFP published by the jurisdiction defines the scope and deliverable. The public body knows the problem, and the consulting vendor supplies the solution within the bid and scope.

Regional Studies are used by cities, counties, and county groups to assert or improve their competitive position in an effort to induce new and relocating industries to select their community. Adequacy of serviced land, schools, inexpensive transportation, resident employment skills, and housing are key factors in the site selection process. As communities witness the capture of new and relocating industries by other regions, they seek to reposition and redefine the competitive odds by implementing

Figure 3



needed changes to attract the firms.

Risk Analysis represents the next horizon for the advisory industry. Although a large amount of current work is performed inside institutions (pension funds and life companies), considerable expertise will soon be demanded from consultants/counselors by private trusts, limited partnerships, and public commercial mortgage pools (CMBS). Our capital-rich nation and the five percent who control 70 percent of the nation's real estate will need superior advice. CMBS pools are leaderless and have not matured. Although investors in the high-risk tranche may write off losses, a deep economic trough will effect low-risk investors, prompting a need to review and re-price portfolios within regional markets and by product condition (occupancy, leasing status, and capital needs).

Two additional business lines are considered, including forensic assignments (Figure 3) and litigation support.

Forensic Assignments are directly related to **Risk Analysis** mentioned above. When an asset or group of assets fails to meet expectations (financial or absorption), individuals with appropriate skills are directed to investigate why intended goals were not achieved.

Real estate investment and/or development is a complex mix of ingredients, some of which can be isolated while others are inextricably entwined with larger issues. Regardless, the common or isolated platforms for analysis include site specific issues, exogenous (external) or market-related factors, and project leadership.

Attention is usually directed toward product design and location decisions that are identified as errors. In some cases, both the

location and product are unsuitable for the market. Inappropriate project scale and amenities appear to be major factors in the collapse of projects.

Externalities may also lead to failure, including poor timing with respect to construction, renovation, or acquisition. Between the decision to construct and the actual delivery of the product, supply-side factors may worsen beyond a plan's expectations.

Finally, the qualifications of the developer or team leader may result in an asset's poor performance. It is rare to find a developer with solid credentials in the development, marketing, and management of all phases of residential, hotel, retail, and office land uses, yet attempts at such broad-reaching activities are frequently made. Occasionally, a homebuilder decides to construct an office building. No matter what the scale, something in the design, timing of delivery, location, or marketing of the project comes unglued in the process. Moreover, developers have a tendency to overextend staff responsibilities, often resulting in delays which cost the project lost opportunities.

In other situations, marketing materials completely miss the intended user. The promotion of a project can be instrumental in its success or failure. Moreover, advertising methods are very complex as consumers become more sophisticated.

Litigation activities have always been profitable endeavors for the counselor/consultant. However, support has moved beyond testimony to the initial decision whether to litigate.

Beyond the scope of this article is the growing use of GIS and its impact on consulting and site selection teams used as vendors by the grocery, food service, auto, and communications industries.

CONCLUSION

What does the future hold? Outstanding prospects lie ahead for the real estate advisor if efforts are made to increase skills, adapt to changing technology, develop new data sources, and enhance global perspectives. Dispute resolution, portfolio risk analysis, and forensic assignments offer vast opportunities for counselors and consultants in the future.^{REI}

NOTES

1. Reilly, William J. "Methods for the Study of Retail Relationships" (Austin: Bureau of Business Research, University of Texas, 1929), p.16.

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