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# Apartment Resources

A Real Estate Research Periodical

*Apartment Resources is a monthly publication designed for apartment developers, lenders and builders involved in all forms of multifamily housing.*

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# **2 Old Myth, New Setting: GIS and Location, Location, Location**

Don't let new technology trick you into falling back into old, outdated decision-making techniques.

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# Old Myth, New Setting: GIS and Location, Location, Location

*West Side Story* is one of the most popular and most-performed musicals of our era. Yet, it is an updating of a play that is nearly 400 years old: Shakespeare's *Romeo and Juliet*.

Just as *West Side Story* is an old myth in a new setting, the real estate industry is facing another new setting for the old myth of "Location, Location, Location": geographic information system(s), or GIS.

A GIS consists of linking locational data with data of another sort, such as demographic data or sales or inventory data. GIS have been around in one form or another for 30 years, but until recently they were very expensive to set up and maintain, as the data linking and graphics necessary required expensive mainframe computers. However, recent breakthroughs in computer technology and the wide availability of accurate small-area demographic information in computer formats that can be used easily by personal computers have allowed the field to experience a tremendous boom over the last few years as companies in a variety of fields use GIS technology to streamline operations.

## Real Estate Applications

Lately, GIS professionals searching for new markets have been trying to sell the real estate profession on GIS in a variety of ways. The most prevalent—and dangerous—sales pitch has been the use of GIS as the new revolutionary way to determine without leaving the office the best locations for new development.

GIS can be an important tool in determining appropriate locations. In fact, the demographics that we use in our market studies are based on a GIS, in which our demographics provider takes data from the 1990 Census, codes them geographically, and then uses these data to make small-area demographic projections based on a variety of factors.

We combine these demographics (secondary data) with primary data on the condition of the market gathered by our analysts who visit the site, survey the market by visiting competing area projects, and interview area professionals. We then use all these data in preparing our conclusions on whether a location is

appropriate for development, and what kind of development is appropriate for the site.

## One Stop Location Shopping?

However, GIS is being sold as the new way to have everything necessary to make good real estate decisions at your fingertips. Slick multicolored maps and multimedia presentations look very impressive. These maps can track income and population levels, traffic counts, or any of a variety of demographic data that may be deemed important.

Unfortunately, such an approach assumes that the old axiom "location, location, location" is the only criteria necessary for making good real estate decisions. As we have mentioned repeatedly in previous articles, "location, location, location" is outdated, a fossilized approach to real estate that is best left buried. If location were all that mattered, we would never see problem projects with good locations, nor would we see projects with "bad" locations with waiting lists.

## The New Criteria for the Nineties

We constantly advise our clients to take a broader approach to multifamily development. The developer who will survive the nineties will focus on the three new criteria for real estate development: "conceptual, economic, and geographic," or "the right project at the right price in the right place."

Conceptual considerations have become even more important in the nineties, as the entry-level pool

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continues to decline. In addition, the current round of low interest rates is making single-family housing more affordable to renters, and thus more competitive with multifamily.

The apartment pool no longer consists (nor has it ever consisted) of only young single or married professionals. The apartment market has—and will continue to have in increasing numbers—families, the elderly, and divorced/separated people of all ages. Projects that are targeted to these niche markets are more likely to do better than those targeted exclusively to the young and mobile, a group that demographics show is shrinking. Even those projects targeted at the young and mobile will do better in the future than the large number of projects that have no target group, no focus, and no clear image of a community lifestyle.

Economic considerations then must help determine appropriate price points for any proposed project. As we have discussed in past articles, appropriate price points must be determined by a relationship to existing market-driven rents.

We focus on identifying a 100% Data Base. Our field analysts visit each modern market-rate apartment project in the Site Effective Market Area to give us *the primary data that can only be gathered by being there*. Only a 100% Data Base can establish the level of competition and the price point potential in an individual EMA. A project with a great location and a great concept can still fail due to economic considerations.

Geographic considerations include much more than the traditional definition of “location.” Having a good site is more than being prominently featured on a major thoroughfare. When we evaluate a site, we also look at existing mobility patterns, supportive growth trends, demographic and economic perceptions of the area, and the relationship of the site area to existing multifamily development. Some “good” locations turn out to be marginal when considered in the light of these additional criteria, not all of which can be measured from a desktop.

### **Application of GIS**

GIS technology is revolutionizing a variety of industries. However, it is important to use the technology to support proven methodologies, rather than let technology dictate methodology.

Using solely GIS to make important real estate decisions is akin to following blindly the axiom “location, location, location.” If you build it, they might not come because there may be factors at work that you have not considered. Renters have more options than ever before, and they will not occupy overpriced or poorly conceived product just because it sits on a desirable plot of land.

A second problem of using only GIS is that it provides a separation of the decision-makers from the market. It is easier to sit in an air-conditioned office watching pretty displays on the computer than it is to get into the market and go out in traffic and see the market first-hand. But it is only by gaining solid first-hand information that truly informed decisions can be made, and in these tough times, decisions need to be made more carefully than ever before.

If used in combination with proven methodologies, GIS can help with good decision-making. For example, we have been suggesting for years the value of using visitor cards and tenant files to help in marketing. GIS make such applications easier. Using a GIS, it is possible to enter a prospect’s address and link it with a variety of information about that tenant: occupation, income, type of unit desired, how the prospect first heard about the community, and whether the prospect eventually rented a unit. Such tracking could provide ongoing data for analyzing the success of current marketing efforts and planning future marketing.

Another positive use of GIS is in demographic analysis. Demographic analysis can be conducted with a large number of variables. Such analyses can identify the presence of *potential* target markets that may currently be underserved. However, only a field survey of existing product can determine the extent to which any target market is served by the existing rental stock.

GIS technology is a powerful tool that can help display information visually in a variety of inventive ways—but it is only a tool. Ultimately, a combination of good demographic information and primary market data are the best combination to use in determining market feasibility and other important real estate decisions. Don’t let new technology fool you into making the mistakes of the past.