

When is the time right for build-to-suit?

COMMERCIAL REAL ESTATE

By **Bradley Vear**

Build-to-suits offer tenants a means to gain more control over their business needs and future options for growth.

A build-to-suit facility is exactly that — it is “suited” to the user’s exact needs — and that is clearly the best reason to consider one. It may or may not be less expensive than leasing in the short term, but will almost certainly generate savings, efficiencies and equity in the long term. The build-to-suit that I am suggesting here is one when the end user is the buyer rather than a tenant.

Why now? Why consider a build-to-suit when the economy is struggling to recover and when one’s confidence about future business may be waning? Business cycles create opportunities, and a build-to-suit takes time — probably nine to 18 months, which is both good news and bad news.

The site search, planning and construction process are performed best if one can avoid undue pressure generated by an overheated market. Construction costs and competitive pricing on a build-to-suit are noticeably more user-friendly on the down side of the business cycle. Financing costs remain low and can be locked in for 10 years or more.

But build-to-suits are not for everyone. For an industrial or flex facility user, a minimum size requirement of about 20,000 square feet would be necessary to justify initial site costs. A rule of thumb for single-story buildings is

roughly 25 percent of a site is the building footprint, thus a two-acre site should be sufficient for a 21,000-square-foot building. The capital required — as little as 10 percent of overall project costs using certain financing programs — can be an obstacle that prevents a company from pursuing a build-to-suit. And timing, anywhere from six to 24 months from initial site search to building completion, can rule out the user seeking an immediate solution.

If a build-to-suit sounds like an attractive option, the first step for the user should be to assemble a team, which initially should include a competent broker and site engineering firm. These team members will be used to identify potential sites and estimate preliminary site costs for likely locations. An experienced broker can coordinate the overall process from site selection to arranging financing to selecting contractors. Both the broker and engineer should be experienced in working with town zoning and planning processes to be able to offer guidelines for expected schedules and challenges within a particular town.

Once an acceptable site is located, the next step is to negotiate an agreement that puts the property under contract subject to the approvals necessary to construct the build-to-suit. This would be considered the due-diligence period, when the next two members of the team, the real estate attorney and an architect or design engineer, should be brought in. Your lender also will need to be consulted to advise on cost of capital. The attorney should

have experience working in the zoning and planning process of the particular town and be alert to any issues that might affect site plans. Presenting site plans before the town’s zoning and planning boards is usually handled by the engineer, architect or attorney or some combination.

Next on the team is the contractor or construction manager. They will be selected through bidding and/or an interview process. Estimated costs will vary, but the final decision for a contractor does not always depend on lowest cost. Once again, experience in a particular town should be given added weight.

Costs of construction for flex space (office/warehouse buildings) can range from \$45 to \$60 per square-foot, while warehouse space may range from \$22 to \$35 per square-foot. Office building costs can vary from \$90 to \$115 for the building structure plus another \$15 to \$25 per square-foot for interior fit-up.

The key to a successful build-to-suit project is careful planning. Set up a realistic schedule and goals that work for your business plan. Build in the ability to expand in the future and be conservative in the building’s design — you may choose to sell it sooner rather than later. Current conditions in the real estate market, the construction industry and the capital market offer today’s user a good opportunity to pursue a build-to-suit. **NHR**

Bradley Vear, a real estate adviser to small companies and individual investors throughout southern New Hampshire and northern Massachusetts, is a principal of Vear Commercial Properties Inc., Nashua. For more information, visit www.vear.biz.