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QUEST SITE SOLUTIONS

Time to Pivot Your Real Estate Development Strategy?

Given the economic shifts and how quickly the world has changed, it may be a good time to rethink your real estate development strategy. Now, more than ever, real estate should be viewed as a tool that can be used to help achieve business goals. As you begin to think of real estate as a tool, there are numerous ways for real estate decisions to impact a company's success - ranging from site location decisions to customized leasing scenarios.

With every business cost evaluation, there is discussion around mitigating risk and preserving capital. When viewing real estate as a tool, it can be used to meet both of those objectives through leasing. Whether choosing a straight lease, a sale-leaseback, acquisition-upfit-leaseback or a build-to-suit-leaseback, the end result is preserving capital. Leasing allows a company to put their money into the production side of the business instead of maintaining a real estate asset.

Straight lease, sometimes referred to as a flat lease, is when a company agrees to lease property for a fixed amount, typically paid monthly, for the entire term of the lease.

Sale-leaseback is a transaction where a company sells its real estate facility to an outside investor and structures a long-term lease on the property. In turn, the company receives capital to grow and revitalize its business.

Acquisition-upfit-leaseback is a transaction where a company selects an existing facility in coordination with an investor/developer with the intention to lease from the investor/developer after the facility is upfitted based on their operations. The developer provides all project financing, and complete project management of the entire development cycle. At the conclusion of the upfit process, the company enters into a lease with the developer.

Build-to-suit-leaseback is a transaction where a facility is constructed specifically for a particular company. Based on the company specifications, the developer will acquire, assume responsibility, and manage the risk of construction. The developer acts a single source of responsibility for both delivery and financing. The property is then leased for a predetermined length of time, typically longer term, due to the fact the building is designed specifically for the company.

Sale-leaseback

One scenario that is being utilized more frequently is a sale-leaseback. A company maximizes the return on their real estate investment, receives money towards working capital, and remains in the same location under a lease agreement. For example, a sale-leaseback can unlock the equity in the real estate to help fund an expansion and/or equipment purchases for a company.

In a sale-leaseback, investors consider many factors including location, building type, credit worthiness of tenant, and lease term. The standard leaseback term for a manufacturing building is 10 years due to the uniqueness and specialization to that manufacturer. If the building is a "vanilla box" and can be easily leased once vacated, investors may consider shorter leaseback terms of 3 to 5 years. A shorter term may also have other advantages to investors. If lease rates are low and the investor sees upward pressure on rates, a shorter term will allow the investor to lease at a higher rate sooner. The property may also be considered for redevelopment sooner than later.

Pattison Sign Group, a leading sign manufacturing company serving the U.S. and Canada, worked with Agracel to conduct a sale-leaseback transaction that resulted in Agracel buying the 150,000 square foot facility from the company in exchange for a long-term lease. The company was able to use the capital gained for other purposes related to business growth.

Acquisition-upfit-leaseback

The acquisition-upfit-leaseback is another approach that the team at Agracel has been a party to many times over the years, especially with publicly-owned speculative buildings. Recently, Agracel helped Muffin Mam by acquiring a county-owned speculative building in Upstate South Carolina, completing the necessary upfit, and providing a customized leasing scenario. This approach enabled the company to begin production in their new customized space in less than eight months, put their money in operations and not real estate, and mitigate risks.

Build-to-suit-leaseback

A build-to-suit-leaseback should be looked at by companies who are having trouble finding suitable space in a market, whose business represents a long-term commitment, and whose business is in growth mode and capital needs to be infused into operations. The build-to-suit approach is applicable to both new construction and renovation / adaptive reuse of existing facilities. By utilizing a developer such as Agracel, a company can leverage a skilled team to conduct a pre-development cost analysis, handle architectural and contractor management, entitlements and financing. For companies who prefer to own their facility, there are options to incorporate a buy-back as part of the lease agreement.

Teknoware, a Finland-based manufacturer and supplier of interior lighting systems for commercial vehicles as well as emergency lighting systems for public premises and ships, engaged the development services of Agracel to provide a real estate solution for their new U.S. manufacturing facility. Agracel took the unique design specifications of their facility needs and enlisted a general contractor to build the 45,000 square foot facility.

Agracel's Approach

As a full-service developer, Agracel structures a custom-tailored solution to meet each project's unique real estate objectives and acts as a single source of responsibility for both delivery and financing. We work closely with our clients to help with everything from evaluating an occupancy strategy that best suits a company's needs to crafting the most cost-efficient ownership/capitalization structure. Essentially, it is about preserving capital. We are relentlessly focused on creating tailor-made solutions for a specific client as no two projects are the same. We start by understanding a project's needs and develop from there.

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Agracel, for over 30 years, has successfully developed over 20 million square feet of industrial space in 20 states. Past clients include Michelin, Caterpillar, Komatsu, ZF Transmission, Grupo Antolin, Gestamp and Faurecia. Agracel is a long-term investor who is interested in lasting relationships with both the tenants who occupy their buildings and the communities with whom they partner. For more information, visit Agracel at www.agracel.com.

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