



The industrial site selection process: Know what questions to ask and determine a course of action

October 12, 2007 - Long Island

Up until now real estate has been an ignored asset. Corporate America feels the pressure and is changing its view on real estate. New standards are adapted to maximize real estate values while minimizing the cost of real estate operations.

As companies become more sophisticated about their requirements, more is required from their real estate professional. Identifying sites and helping negotiate a deal is simply not sufficient in today's economic climate. Today's real estate professional has a greater responsibility to his/her client. They must know what questions to ask and determine a course of action.

The first question is, do you need to relocate? Reason being 1) the inability to expand, 2) the need to be in proximity to their customers and/or suppliers, 3) highway inaccessibility and 4) a more qualified labor force.

Once the decision has been made to relocate, the real estate professional can put together a team necessary to facilitate the relocation. Typically a relocation team would consist of:

- 1) Management from their company (i.e. CFO, facilities manager, warehouse manager.)
- 2) The real estate professional
- 3) The space design team (i.e. architect, space planner, builder, manufacturing and/or warehouse experts.)
- 4) The attorney
- 5) Banks to qualify client for project
- 6) Economic development

The interaction between the real estate professional and management is crucial to the success of the team. The companies representative's responsibility is to provide correct information about how the company does its business as well as know who in the organization has the correct answers. Once the information has been obtained the real estate professional can analyze the data and implement it by preparing possible sites. Concurrently he or she will coordinate with the design team to determine office space location, manufacturing and warehouse logistics.

Now that a plan is in place to relocate, one needs to determine whether they should:

- 1) Purchase
- 2) Lease

When considering leasing versus owning, a company should consult with their real estate professional to determine market data, and provide the client with net rental data versus the cost of debt service, if any. In addition the company's CFO will provide data on the cost of capital or required return on capital.

If a business can earn a higher return, investing its cash in equipment or products is perhaps better to lease versus owning.

When a decision has been made with lease versus owning, your real estate professional begins his site selection by using his computer database of currently available properties that are about to become available. The database has been created by physically canvassing the market for properties for their physical characteristics, and working directly with all brokers who have comparable facilities in the target area.

Once the alternative properties are identified, both physical characteristics and economics must be compared. In addition to the property prices, one should also consider real estate taxes, special taxes, zoning issues, local political climate, special economic incentives. At this time the economic development issues are analyzed, some companies leave a lot of money on the table because of the lack of current information on economic development incentives that are available. A seasoned real estate professional can shepherd a client through the process and protect the client's interest. When the data has been reviewed the client should narrow the possibilities to at least two suitable properties, possibly three.

Now the client and real estate professional are ready for their detailed Request For Proposal (RFP) or letter of intent. An RFP shifts the burden to the owner/landlord for stating price and terms of the deal, where the letter of intent usually requires the lessor/purchaser to state the price and terms of the deal.

Typically the letter of intent is used for the final choice. When the deal has been successfully negotiated, it is recommended a letter of intent be signed before sales or lease contracts are prepared so both parties are in agreement on price and business terms.

This makes the contract negotiations proceed smoothly.

After the signing of the sale or lease contract the real estate professional can provide additional services. He can coordinate the due-diligence inspection for the buyer or tenant; in the event of a sale he can recommend sources of financing.

With the right relocation team headed by a real estate professional in partnership with the client's team leader, the company can proceed through all the subtle nuances and complexities of a real estate site selection process with confidence and take advantage of all the real estate opportunities that are available to a growing company.

Tom Attivissimo, CCIM, is the senior director of GREINER-MALTZ, Plainview, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540