



Hunt Corp. Commercial Real Estate Q&A: Buying for resale value - by David Hunt

January 14, 2025 - Long Island



David Hunt

Q: We are in the market to purchase a 30,000 s/f industrial building suitable for light manufacturing and warehousing. What criteria should we consider in our purchase that will maximize the appreciation of the real estate in the future?

A: I have five criteria for you to consider that will help boost the future value of your real estate. But first and foremost, the building must suit your own needs today. Don't get so caught up in the investment side of the acquisition that you ignore your company's business. Future appreciation is dependent on your new acquisition being desirable to a large population of buyers in the future. It is, therefore, likely to be more expensive than other alternatives today. Only you can make the subjective decision as to the value achieved and the associated cost.

Given that caveat, the number one criteria for future resale value is, of course, location. Why is this at the top of everyone's list? It is the criteria that cannot be changed. We can renovate offices, we can add power, and we can even raise a roof, but we cannot move an industrial building. Location controls transportation, shipping and employment costs. On Long Island, buildings that are close to limited access highways, primarily the Long Island Expressway will appreciate the fastest. And those buildings further west will sell for more than their eastern counterparts, all other things being equal. Restrictive zoning and planned industrial parks add further value to industrial real estate.

The second criteria is parking. Generous parking allows flexible use of the building for a wide variety of users. This is because zoning codes limit the amount of finished area to the number of parking spaces provided. To be flexible for future use, I would recommend a parking ratio of three cars per thousand square feet of building area, if possible.

Next, I would be concerned about ceiling height. On Long Island, an industrial building today that would appeal to a wide section of businesses has a ceiling height of 18 ft., under steel. This is a height that will allow racking of three standard pallets, yet not be exorbitantly expensive to heat. Specialized warehouses may have higher ceilings, but the number of potential users drops dramatically as the ceiling heights increase (or decrease.)

The fourth criteria is the quality of the construction. You may need an engineer to help evaluate your alternatives, but clearly a well-constructed building is a much better investment. I am less concerned with cosmetic appearance than structural problems. We can paint and carpet easily, but a cracking floor, shifting foundation, or poorly constructed roof is another matter entirely.

And finally, environmental considerations, whether on site, or in the general area, can have a massive effect on the desirability of real estate. Most buyers have a very limited tolerance for the possibility of environmental action or clean-up, so I would stay away from anything questionable.

Take these five items into account as you work through your decision-making process, and you can significantly boost the resale value years from now.

Do you have a question regarding commercial real estate? Email your question to Commercial Real Estate Q & A, at email@huntcorp.com for possible inclusion in a future column.

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