

# 5 Things to Consider BEFORE BUYING OR LEASING PROPERTY

by Jon Yanta, Jason Meyer, Kris Smeltzer, Brent Masica, and Hudson Brothen

The Twin Cities industrial real estate market is the hottest it's been since 2005,\* meaning manufacturers and distributors are seeing a tightening of industrial space supply and a lack of new building sites in sought-after areas. If your company is looking for space now or in the near future, here are some things to consider:

## HOW IS YOUR REAL ESTATE IMPACTING YOUR BUSINESS?

First, do a thorough analysis of current and future real estate needs, and how they impact your business. Consider:

- How can our company better utilize the space?
- Is our current layout conducive to our culture?
- Are we having trouble attracting and maintaining top talent?
- Is our existing space layout as efficient as it should be with today's new technology and building features?

Next, think about location. Access to quality labor is extremely important with unemployment at historic lows. Satisfying your current employees will also be a big part of where your facility is located.

Access to highways will always be critical. Transportation costs (gas prices) are low today, but will likely increase and quick access to highways will lower your company's expenses.

Buy vs. Lease: Both have pros and cons. Low interest rates and increasing rental rates have companies looking to own. However, preserving capital and re-investing in new equipment and people will likely yield a higher return on investment. Get a buy vs. lease analysis for your company to quickly determine which is the more attractive route. In addition, an analysis of depreciation schedules, opportunity cost of capital and flexibility of long-term growth should also be considered.

## HOW TO MANAGE RISING PRICES IN A HOT MARKET

In today's local economy, fewer companies are closing and downsizing, so industrial building options are increasingly limited. That means higher prices for you and your company, whether buying or leasing. In fact, when the market is hot, landlords might raise rents 2.5 – 3.5 percent per year, versus a 1.5 – 2 percent raise per year in calmer times.

Rising prices in a strong market can bring good news, too. When options are limited, some cities may be more willing to offer tax breaks for new construction projects to incentivize a move.

While leasing may work well for some companies, others prefer the benefits derived from owning. Owning your own building gives you the freedom to control costs while building equity. Plus, you also have control of how your building footprint is configured.

## THINK HIGH AND LOOK LOW

Two fundamentals need to be taken seriously when looking for a new manufacturing/industrial building: ceiling height and floor thickness. Make sure your ceilings are high enough for your manufacturing equipment and storage of your raw and finished goods.

Another key factor to consider is floor thickness. If a developer has not taken the proper precautions to reinforce flooring, the impact of heavy manufacturing equipment can lead to massive maintenance costs. If you use heavy equipment, make sure your floors are thick enough to carry the load or negotiate with the developer to pay for improvements.

## GOT THE POWER?

Today's developers don't always outfit a building with the infrastructure needed to run a manufacturing facility at the most basic level. The result is new owners or lessees must sometimes pay the extra expense to increase power or have it properly distributed. Make sure

you know how much power you need and who's responsible for distribution within the building.

## FORM A TEAM

To ensure your facility is optimally and efficiently outfitted, it's worth hiring experts to ensure your property design fits the needs of your business.

### Specifically:

- Process designers can help address the flow of the space, considering things such as drive-in doors/docking stations, racking and machinery flow, warehouse space and office space to confirm that a particular space works for your company.
- Environmental engineers can help make sure your building is as compliant and efficient as possible before you move in. That includes everything from lights and window sizes to building emissions and waste management.

## Planning Ahead

If you're looking to make a location change for your manufacturing facility, be pragmatic. Assess both five and 10-year goals for your company before beginning the search for a new facility. Most businesses also underestimate the time it takes to locate a new facility. If you're considering a move, be sure to start the process nine – 12 months in advance.

Jon Yanta, Jason Meyer, Kris Smeltzer, Brent Masica, and Hudson Brothen are members of the five-person Minnesota Industrial Team at Cushman & Wakefield NorthMarq. For more information, go to [www.cushwakemn.com](http://www.cushwakemn.com).

*\*According to the Cushman & Wakefield NorthMarq Compass Report, 3.7 million square feet of absorption was recorded in the Twin Cities industrial sector for 2015 and 1.35 million square feet of absorption has been recorded thus far in 2016. Meanwhile, the industrial vacancy for the Twin Cities metro is 8.2 percent for the first half of 2016, down from 9.4 percent in 2015.*