The market is shifting

How to navigate through real estate today for commercial, industrial uses

INTERVIEWED BY DENNIS SEEDS

GEORGE J. POFOK, CCIM, SIOR
Senior vice president
Cushman & Wakefield/CRESCO Real Estate

(216) 525-1469
gpofok@crescorealestate.com

WEBSITE: For more information on real estate relocation topics, visit www.crescorealestate.com.

Commercial and industrial real estate activity has been seeing a recent uptick. With a shift from a tenant/buyer market to a landlord/seller market, it's time for buyers to do their homework and bid aggressively before an attractive opportunity is lost.

"We have even started to see some multiple offers," says George J. Pofok, CCIM, SIOR, senior vice president for Cushman & Wakefield/CRESCO Real Estate. "There has been even been movement in class C-type buildings that for an extended time have been on the market, and this is simply because inventory levels are so low. Companies that need additional space may choose a less-than-ideal building since it is their only option."

Smart Business spoke with Pofok on how to navigate today's commercial and industrial real estate market in order to take advantage of available opportunities.

What are the real estate options today for a company looking to grow?

While new construction may cost $60 to $90 a square foot for industrial use, if a company is able to acquire a lesser quality building in the low- to mid-$20s a square foot, and spends another $20 a foot to retrofit, it's definitely a savings. With that being said, those types of deals are becoming scarcer with recent activity.

What about considering new construction?

Given the tightness in the market, companies should explore new construction opportunities. While speculative new construction had been dormant during the recent economic slowdown, over the last three months there have been five new speculative construction projects announced in the area, so in that regard the market is turning more favorably.

The cost of new construction might be higher today than it is for existing buildings but in the long run, companies may save on items such as costs for utilities and taxes.

Does a speculative construction project offer advantages?

The speculative product is more for the warehouse/distribution/light assembly type of operation vs. heavy manufacturing, but it is definitely a good option. The buildings constructed today typically are more energy efficient, have higher ceilings, more docks and drive-in facilities than those built 10 to 20 years ago.

While the norm in the past may have been an 18-foot ceiling, today's buildings are being developed with 30- to 32-foot ceilings so companies can rack more product in a smaller footprint. For example, with an 18-foot ceiling, companies may have required 50,000 square feet of space, but if they can take advantage of the higher ceiling/cube height, they can reduce their footprint to 30,000 square feet.

What steps should a company take when it looks for existing space?

Companies should do their homework before they get into the market. They need to secure preapproval from a lender and have completed their own internal analysis as to their specific facility needs — docks, drive-ins, ceiling height and perhaps a location analysis of employee drive times. It is extremely important to start early. There is a longer lead time required for manufacturing operations vs. warehouse/distribution operations.

A manufacturing operation has to build inventory so that it can shut down and move equipment before it can ramp up production again, so additional time is needed. But a warehousing operation only needs a short amount of time to relocate racking and product in the new location.

In addition, once a company locates a building that fits its needs, it should take action. The company can't wait two or three months because that space likely won't be available in today's environment.

How does a company prepare for competitive bidding?

If that situation presents itself, the broker should advise the company that the market is tight, and it should be ready to be aggressive with an offer if this is the space desired. The offer should also be as clean as possible — free of demands such as an extended due diligence period or a larger than typical share of the due diligence costs. A seller might not look favorably on those types of requests, and the fewer strings attached, the better. ●