

Buying Industrial Real Estate - Key Factors to Consider

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Given the current condition of the commercial/industrial real estate market, there is an excellent opportunity for people who have the capital, and or credit to acquire industrial/warehouse properties well below market pricing.

With this in mind, it is important to follow the old adage in any type of real estate "keep the next buyer in mind when purchasing the property". In other words, make sure the features of the property will be appealing to as many potential buyers as possible. Realizing that this property is there to support your business, you cannot meet every potential buyers needs, but below is a list of key features that are very important to most buyers.

Before we begin, I would like to comment of the state of industrial properties in the U.S. As we all know, more manufacturing jobs are moving overseas. The U.S. is shifting from a production-based economy to a distribution economy and import volume is increasing quickly every year. Consequently, developers have responded by providing larger and more efficient distribution centers (warehouses) to meet this need. These are key factors to keep in mind.

1. Location, location, location - This golden real estate rule still applies and even more to industrial real estate as fuel prices climb. Having a facility close to expressways is critical for you and the next user in keeping their transportation and logistics down. As fuel prices increase, having a facility in the right place can make a major impact on a firms ability to compete. For distribution centers, labor and fuel costs can account for 50% of the costs of operating a facility according to logistics industry experts.

2. Clear Height - This term refers to the maximum height in a facility before you encounter joists, piping or anything else hanging from the ceiling. Typically clear height on newer facilities is approximately 2'-3' below the roof deck. Traditional production facilities have lower clear heights that can range from (age is usually a big factor) 12'-24' feet. Newer warehouse/distribution centers built in the last 8-10 years are 30'-32' clear height on average.

3. Docking - There are two different types of docks that a building could have; internal & external.

Internal docks allow for trucks to drive into the dock area, and dock doors can be closed thereby protecting the product from the elements. This is usually seen on older facilities. The major drawback for internal docks is you or your next buyer is paying for the square footage in the dock area in purchase price, operating expenses and real estate taxes.

External docks have the dock doors flush with the buildings external walls and trucks can back right up to the building. Seals around the door keep the cold/hot air from entering the building. This has become the standard for buildings built today thereby eliminating the additional costs of internal docks as discussed above.

Newer facilities usually have 1 dock per 10,000 square feet of space, and new large distribution centers can have as many as 1 dock per 6,000 square feet of space. It is very hard to have too many docks.

4. **Column Spacing** - As developers respond to the increasing demand for more efficient distribution space, column spacing in buildings has become more important. Facilities are now being built with 50'x50' and larger column spacing. New innovations called "speed bays" (area from the dock doors to the first column) have larger spacing than the rest of the facility to provide more room for product to be staged for loading/unloading trucks.

5. **Land**- Obviously the more land with the property, the better. Three key areas land around the property can be utilized for:

- Trailer Storage - As mentioned earlier, imports to the U.S. are increasing rapidly and the need for trailer and shipping container storage is becoming a crucial issue. Communities are beginning to push back on this issue limiting, or banning trailer/shipping containers in their communities, which they see as an eyesore. It is important to check with local officials to understand the laws pertaining to this to make sure the limitations are understood.
- Car Parking - This will be particularly important to manufacturing companies who typically have many more employees than a distribution center. Typically new distribution centers will not have as good of a parking space/building square footage ratio than older production facilities.
- Outside Storage - This ties in with the trailer/shipping container storage issue. There is a strong demand for outside storage from both distribution and manufacturing facilities. With communities trying to restrict this, you will have a distinct advantage over competing buildings when you sell.
- Building Expansion - This is a little more obvious, but having land to expand your building is very important to many buyers.

6. **Taxes** - What you are going to pay in real estate taxes will have a big impact on your selling price. In the Chicago industrial market where I work, we see real estate taxes ranging from \$.30/foot to \$4.00/foot depending on which county you are in. This will have a significant impact on the price you will get when you sell. Check with your county and local community to see what types of tax incentives are available to you. For example: in Cook County, IL there is a tax abatement program that you must apply for before you purchase the property so it is important to check on this prior to you (or your potential buyer) purchasing the property.

7. **Labor Supply** - Being located near the labor, your need is critical for your operations. Companies have relocated to nicer buildings in better communities only to experience significant losses in their labor force. All the gains they made in real estate are lost in productivity. This is particularly important if you are looking to purchase an older lower clearance facility where the next user will probably be a production company.

8. **Office Space** - Typically 5-10% of the building's total square footage is office space. The percentage of office space can be critical in how many users could use your building. Too little space will force the new user to create space in the building thereby taking up room for their operations and add costs to the acquisition for the buyer. Industrial buildings that have too much office space will make it difficult for users to justify purchasing space that they can't use.

9. **Building Materials** - The vast majority of facilities today are being built with precast concrete, which is typically formed off-site and shipped to construction sites and put into place thereby reducing construction costs. In addition to cost savings, architectural design, and color schemes can be added to the facility to give users a more modern look. Having the ability to repaint the facility and give it a fresh look when you sell will give your building "curb appeal".

In summary, these are key features that users will look for. The stronger your building is in each of these areas, the better.

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