

# UNDERSTANDING “BUILD TO SUIT” DEVELOPMENT

April 19, 2021

Build to suit development can be a great choice for many businesses. If you’re thinking of building a new building for your business, build to suit allows you to get the fully customized space you need, without a lot of capital out of your pocket.

Many business owners need or want a space that’s designed and built just for them and the way they operate. If that sounds like what you’re looking for, keep reading to learn about whether build to suit development might be a good solution for you.

## WHAT EXACTLY IS “BUILD TO SUIT” DEVELOPMENT?

Basically, “build to suit” is just what it sounds like – a building that’s built specifically to suit you and your needs. So how does it work?

As a commercial tenant, you sign an agreement with a commercial real estate developer who will buy the land, design the building (customized for you), and build it – and finance everything too. The developer will own the building and the land, and you’ll lease the building from them.

There is another possible build to suit arrangement, but it’s less common. Some business owners may decide to use a more “DIY” approach by securing financing, buying the land themselves, and entering into contracts for the design and construction of the new building. Then, when the building is complete, the business owner sells it to a commercial real estate developer and leases it back from them. This is usually called a “sale-leaseback.”

In this article, we’ll assume the first arrangement (a developer-owned build to suit).

## WHAT ELSE SHOULD I KNOW ABOUT BUILD TO SUIT DEVELOPMENT?

### YOU’LL HAVE TO BE REALLY INVOLVED IN THE DESIGN

Since the building is being built specifically to suit your needs, the design team needs to understand those needs intimately. And there’s no better person to communicate them than you, the business owner!



In Build to Suit Development, the building is built exactly how the owner wants. If the owner can dream it, he/she can build it!

Expect to have a lot of conversations, ask a lot of questions, and answer a lot of questions from the designers. They'll be trying to get inside your head, so to speak – it'll be important for them to understand how your business operates, and how your space can make your operations as seamless and efficient as possible.

And when your space allows your business to run as a well-oiled machine, that's where the benefits of build to suit can really be seen. A build to suit may cost more money than leasing an existing building, in overall dollars, but the efficiency that you can gain from having a space custom designed for the way you work may very well make it worth it.

---

## **EXPECT A LONGER LEASE TERM**

In order for the project to make financial sense for the developer, they're going to want a long-term tenant. It reduces their risk and provides them a secure income. So, you should

expect that the developer will want you to sign a longer lease agreement, usually at least ten years.

It's also worth noting that most build to suit leases are what's called a "triple net lease." That means the tenant is responsible for paying for maintenance & repairs, taxes, and insurance.

## HOW IS THE RENT CALCULATED?

Like any other business, commercial real estate developers are looking for a return on their investment. So the developer will figure out their desired percentage of ROI (often called a cap rate) and apply that to the total cost of the project. Keep in mind, the total cost of the project isn't just the bricks and mortar. There are other costs too, like legal fees, costs associated with getting the land entitled, taxes, and architectural/engineering fees.

If you're considering a build to suit, make sure you understand the costs associated with the project and how they can affect what your rent will end up being. A good commercial real estate developer can walk through this with you so that you're well informed.



Make sure you are aware of the costs if you are considering a build to suit.

## WHAT ARE THE BENEFITS OF BUILD TO SUIT DEVELOPMENT?

There are many potential [benefits](#) in build to suit development.

Most business owners find that the biggest advantage is that build to suit development frees up capital for other things. When you don't have to finance a construction project and come

up with a lot of money upfront, you can invest your money in other ways that may be more advantageous for your business.

Plus, when you sign a lease for a build to suit project, you'll be locking in the rental rate for a long period of time – usually at least ten years. This predictability can make your financial forecasting easier.

Furthermore, your rent may be fully tax-deductible (of course, you should talk to your tax advisor about this), and this could be another big benefit for your business.

Another advantage is that your building will be designed for the way your business operates, not the other way around. If your business has specialized space needs, then having a space that fits those needs is really important for you to be able to operate efficiently and/or create the type of customer experience you want to provide. You'll have a brand-new space that can fully reflect your brand – and you'll know that the equipment and building systems are new and in great shape, which is important since you'll be responsible for the cost of repairs.

Yet another benefit is that you won't have to manage the land acquisition, entitlement, design, and construction yourself. The process of buying land and constructing a new building can be a huge undertaking! Unless you're a real estate and construction expert in your spare time, it's best to have professionals handle all of it for you.