

# MADISON CAPITAL PARTNERS, LLC

## THE BUILD-TO-SUIT – IS IT FOR YOU?

### Why you should consider a Build-to-Suit/Leaseback facility

- ‡ Leases are an operating triple net lease
- ‡ Long term fixed rentals are at competitive rates
- ‡ Leases provide total operational flexibility with options to buy
- ‡ Tax advantages in the leaseback vs. ownership
- ‡ Long term renewal rights can provide complete control of the property for its economic life

### Introduction

For the first time in over a decade, many corporations are inquiring into the feasibility of a build-to-suit facility for their company.

Do you have a unique or specialized need, which no building currently in your market can accommodate? Does any portion of your business represent a long term commitment?

If your answer is “yes” to any of the above questions, consider designing and building your next facility to suit your needs rather than renewing your current lease or taking an “as is” building available in your area.

### Definition

A build-to-suit building is specifically constructed to meet the design, location and physical specifications of one major user. Excess space in the building could be leased to additional tenants or set aside for the planned expansion of the original tenant.

A user has several alternatives in which to originate and transact a build-to-suit opportunity. The following three are the most typical:

- ‡ The user assumes the responsibility of acquiring the land; hires a general contractor to oversee the planning and construction; and assumes the liability of financing, either with debt or equity. Upon completion, the user has the option to continue ownership or sell the property to an investor and lease it back. This is known as a sale-leaseback transaction.
- ‡ The user approaches a developer with a requirement and transfers the construction, ownership risk and potential profit to the developer.
- ‡ A hybrid between the above choices, including shared equity and joint venture arrangements.

### Credit of the Tenant

Initially, most build-to-suit opportunities were with users whose credit was classified as investment grade which typically falls in the Standard and Poors classification as BBB- and above. However in today's market, financing is available for tenants rated slightly below investment grade (BB, B). Obviously, the stronger the credit rating of the company, the more favorable rental rate a company can obtain due to the reduced risk assumed by the investor and lender.

### Length of Lease

A longer term lease generally allows the developer to achieve more favorable financing, translating into a reduction in rental rate. Reducing the Lender's and developer's rollover risk allows the lender to amortize the loan over a longer time period. In addition, a longer lease term reduces the real estate and property-related risk of the transaction and places greater emphasis on the credit risk of the tenant. Most users prefer that the lease remain off their balance sheets to improve corporate key financial ratios such as return on assets and return on equity.

### Location and Construction

The cost of a build-to-suit facility is influenced by the credit of the tenant and the underlying real estate. Upon lease expiration, the developer must assume the risk of releasing the property. In the past this could frequently mean an empty building for one to three years, new interior improvements and many other associated fees. This gamble is minimized if the property is well located and is not constructed as a “special” or “single use” type of structure.

### Team Structure

In a build-to-suit lease transaction, provisions relating to transaction structure, rental pricing, project control, construction issues, performance standards, environmental issues, title, non-disturbance and subordination all play a very major role. Tenant concerns relating to early termination, renewal, expansion and contraction are also frequently found in a build-to-suit lease. An experienced real estate advisor will assist in ensuring all these items are addressed to the corporate user's advantage.

## Advantages

A build-to-suit can offer several advantages to a relocating tenant. First, a build-to-suit allows the tenant to achieve maximum space efficiency since the space is designed specifically for the tenant. Second, new construction allows a developer to incorporate the most cost-effective energy systems in the project resulting in a reduction in operating costs of the property and lower occupancy costs to the tenant. Third, the tenant will have maximum design input to create a building that will project the desired company image. Fourth, a build-to-suit project will allow the user space for future expansion.

## Why you should consider Madison Capital Partners, LLC as your Build-to-Suit developer/landlord

- ‡ Tenure – 25 years of direct participation in the development market
- ‡ Background & Knowledge – Extensive training and experience in the commercial/industrial real estate market
- ‡ Contacts – A broad base of regional and national contacts which ensure that team members are the best available.

## How can you become a Madison Capital Partner?

Madison Capital Partners, LLC encourages the participation of site location consultants and real estate professionals in finding build-to-suit/leaseback opportunities. We look forward to the opportunity to pay you a negotiated fee for your assistance in the identification of these projects.

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## BUILD TO SUIT LEASEBACK DEVELOPMENT

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