

Planning for Your Company's Build-To-Suit Project

W. David Stoutamire, President, Sempai Services, Inc.

All organizations have special requirements and facility needs in order to run their business. These needs drive the acquisition and utilization of real estate. The real estate market often provides a wide selection of existing property for sale or lease the company can consider. If existing product in the market is unable to satisfy a company's real estate needs, the company sometimes chooses to develop a one-of-a-kind facility. This development process is called build-to-suit.

In a build-to-suit, the company designs, constructs and outfits a customized facility to meet specific requirements. The company can choose to engage a third party to manage the process or the company can self-manage the process.

Since built-to-suit projects represent major company financial commitments, proper prior planning can greatly reduce the risk inherent in such ventures. Before engaging the services of an architect, developer, or other real estate professional, SSI recommends the company complete the following steps in order to define clearly the expectations for the project and to ensure adequate management controls are in place. Completing these steps will simplify and expedite the build-to-suit process, reduce project uncertainty, and can contribute to reducing the overall cost.

#1: Prepare a business case.

The project should satisfy a specific business need. The business need must be quantifiable and demonstrate an adequate return on investment. The business case should quantify both tangible and intangible benefits. The business case should include all costs and benefits, not just the costs of design and construction. Companies often rely on specialized external resources to prepare a detailed business case on specialized facilities. Architectural firms and some furniture manufacturers have practice groups that can assist the company in workspace planning and programming. Professional real estate firms offer detailed market real estate market information and can assist in relocation planning. Development and construction management firms offer construction cost information. Selectively engaging external resources can ensure the business case is accurate and complete.

#2: Obtain early senior management support and commitment.

Often, the staff develop alternative solutions to business problems. If the proposed solution is a build-to-suit, it is critical that senior executive management understands and supports recommendation early in the process. Significant company initiatives which lead to a build-to-suit may require significant company investment, significant operational disruption, or culture change. Without senior management commitment to the proposed solution, the build-to-suit process will not have access to the management and financial resources to implement the solution.

#3: Appoint a senior project executive who is empowered to lead the project and has the necessary time available.

SSI recommends the company appoint the project executive early enough in the project process to lead the team preparing the business case. Most build-to-suit projects represent major company initiatives. Senior management attention is critical to maintain momentum. The project executive must “own” the project and have the ability to commit personnel and financial resources as required. The project executive must have access to the leadership committee in order to communicate status and to obtain consensus on critical strategic project decisions. Senior management must delegate to the project executive the responsibility and authority to manage and lead the project effectively. The project executive must devote adequate time to managing the project. The amount of time required depends on the particular executive’s management style and company policy on delegation of authority.

#4: Prepare a strategic program of requirements.

The strategic program fleshes out the business case and establishes the overall parameters for the project. The overall parameters include a collection of functional and performance criteria, a preliminary budget and a schedule. The functional criteria include the proposed population, a breakdown of the spaces required by the population, a gross description of the operational functions to be performed in the facility and a description of any critical attributes of the space that may affect the workspace vis-à-vis the corporate culture. The performance criteria include the economic service life of the facility, and details of how the project should perform. The performance criteria also include the quality required and any particular utilities infrastructure requirements.

The preliminary budget should include all costs to create and occupy and complete and useable facility. Often companies prepare preliminary budgets on the construction costs only. Design, loose and systems furniture, voice and data communications infrastructure, financing, legal and relocation costs should be included in the budget along with the construction costs. For some specialty projects, information technology infrastructure costs can be several times larger than the cost of the structure.

The schedule presents the overall time frame for the project. The schedule should allow sufficient time for not only design, construction, and furnishing the project, but also sufficient time for corporate decision making, navigating regulatory requirements, and procurement of long-lead materials. The schedule should also include time to commission and test the facility prior to occupancy.

#5: Validate the business case.

By fully reconciling the requirements, budget and schedule against the business case, the company confirms the project is still realistic and achievable. Companies often neglect this critical step and proceed to expend significant resources, only to find later that the financial assumptions in the initial planning were invalid. The project should solve the business problem in a manner that makes business and

financial sense. Sometimes the company cannot construct the project by the required date within the established budget. Sometimes available financing alternatives can adversely whether the project is feasible. A thorough reconciliation will identify and resolve these issues in the planning stage.

Once the company has completed the steps above, it is better prepared to move forward in the market. The company can now clearly express to the market the detailed requirements for the project. The response from the market should be much more focused. The company knows the intrinsic value of the solution, which helps define what the company should be willing to pay. Now the company is much better prepared to evaluate the alternative financing and facilities solutions the market will generate in response to the company's need.

W. David Stoutamire, President, has led the planning of major projects for Office Depot, Toyo Tire, Citrix, Royal Caribbean Cruises, the Georgia Institute of Technology, Equant, AGL Resources, and others. David can be reached at dstoutamire@sempaiservices.com.

Sempai Services, Inc. 4854 Leeds Court, Suite 100 Atlanta, GA 30338

Comments? Email us at info@sempaiservices.com. Copyright © 2009. All rights reserved.