

Special-purpose buildings worth it?**COMMERCIAL REAL ESTATE**

Commercial real estate assignments ebb and flow between buyer opportunities and seller representations. Occasionally, we're asked to market a special-purpose building or find ourselves considering one for our clients to purchase.

These unicorns can portend great risk and must be evaluated carefully. But before I launch into how I caution buyers against said beasts, allow me a bit of explanation.

A general-purpose industrial building has broad appeal to the universe of buyers. Most structures fall into this category.

Power, warehouse clearance, loading doors and single-story office space will be found on a typical buyer's wish list. If an address carries favor with a narrow slice of occupants, we call these special-purpose buildings.

We witnessed a spate of these in the mid-'80s as our industrial market adapted to the surge of microelectronic manufacturing. Clients needed a hybrid between a high-rise office and a down and dirty place where stuff was made. Enter research and development or R& D locations.

Sporting more parking and a higher percentage of office space where engineers could work bolted onto areas used for manufacturing. This product type was dramatically overbuilt. Unfortunately, as supply was increasing, demand was falling as more of this genre's output was shipped overseas.

Thus we found ourselves with a whole class of industrial construction with limited flexibility — special purpose. Many lay fallow for years. Those that secured residents prayed for their longevity lest they'd be stuck with a costly void.

Another one we see is a facility improved with food-grade infrastructure as they are rarely morphed into anything else. Sure, the next guy might be able to use some cold or frozen space, but generally, the floor drains, washable walls and the like end up in the scrap heap.

Buying a parcel with special-purpose improvements becomes challenging for myriad reasons.

Chances are the occupant uses the intricacies and as long as he's in residence, the owner is golden. If he bolts, they're scrambling to replace his tenancy. You see, a substantial investment went into the goodies and now the owner must pay to remove them.

This assumes, of course, that what underpins is marketable. Frequently, it's cheaper to scrap the whole thing and start new. We saw this on the countless aerospace campuses occupied by the likes of Boeing, McDonnell Douglas and Beckman Coulter. Built specifically for the use they housed, no one foresaw a time when a retool would be necessary. Why would they?

Rarely are sellers prepared to hear the downside

and how this impacts the price a buyer might be willing to pay. In the case of the aforementioned campuses, owners had to realize the buildings had no value and all would be based upon the land underneath. A bitter pill indeed!

Now for the good news. If you're fortunate to find one of these with a mammoth credit tenant and a long-term lease, there is a great upside to be found. The bad news is a vacancy. However, because the location is so unique, there are no places to move. We refer to this as a "sticky" tenancy. The improvements cause the occupant to "stick" in place and not relocate. *Allen C. Buchanan is a principal with Lee & Associates Commercial Real Estate Services in Orange. He can be reached at abuchanan@leeassociates.com or 714-564--*

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Special-purpose buildings, such as the case for the Beckman Coulter campus in Brea, are tricky investment properties as their uses are specialized and not suitable for every tenant.

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