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Appraising cold storage and food processing facilities - by Thomas Jensen

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Resources

It is important for appraisers to understand the difference between cold storage and food processing facilities properly identifying their physical characteristics and market appeal.

The primary function of a refrigerated warehouse is the long-term storage of temperature-controlled products. These facilities serve as the link between producers and retailers, although food-handling practices are regulated by the FDA.

Refrigerated warehouse properties are comprised of components such as office space, dry storage, cooler storage (0°F to 50°F), and freezer storage (0°F and below). These facilities may be designated for either public or private use. Public facilities are maintained for storing goods for others at specified rates while private facilities are generally maintained by an operator in order to facilitate their function as a producer, processor or manufacturer of such goods.

Cold storage facilities offer four common services: cooler storage; freezer storage; quick-freezing; and food processing facilities. Cooler storage facilities are the most common and are used primarily to store food products for days or months at stable temperatures and controlled humidity. The temperatures vary according to the holding requirements of the products being stored. Freezer storage facilities hold commodities in a frozen state. Quick-freeze facilities are used to quickly freeze soft and perishable commodities into a solid state making handling easier, storage safer, and it makes possible many types of packaging. Processing facilities include the floor space where products are prepared and packaged for quick freezing or storage. Some areas provide the use of dry storage, laboratories, and offices. These facilities must be built and equipped to comply with sanitary regulations.

Compliance certifications are vital for various food processing and handling facilities and include: HACCP (safe meat and poultry handling); Homeland Port Security or TSA (certified cargo screening program); the FDA; and the USDA. In addition, the Food Safety Modernization Act (FSMA) was signed into law in 2011 and is designed to ensure the food supply is safe by shifting the focus from responding to contamination to preventing it.

Factors considered by users of a cold storage plant include: proximity to key industries, distribution, and suppliers; operating expenses (net/NNN pass-through); layout efficiency and the ease of access with some automation and storage flexibility.

Boston-area cold storage and food processing facilities are typically located in the three major food processing and distribution areas: the New England Produce Center, Newmarket Sq., and the Marine Industrial Park. The New England Produce Center in Chelsea is one of the largest in the world served by rail lines as well as I-93 and Boston's Northeast Expressway (U.S. Rte. 1). Most regional produce distributors operate out of the New England Produce Center. Newmarket Sq. in Roxbury was developed in the 1950s after the construction of the Southeast Expressway and also has a high concentration of food processing and distribution centers. The neighborhood offers easy access to Logan International Airport, the South Boston fish pier, and I-90 and 93. The Boston Marine Industrial Park (BMIP) located in South Boston has been designated as a prime location for

consolidating, preserving, and growing Boston's ocean trade, maritime industries and industrial uses. A wide variety of tenants occupy the area seafood processing and wholesaling facilities. The majority of seafood processing operations are located along Seafood Way and Fid Kennedy Way along with the nearby Fish Pier off Northern Ave.

The rental rates for refrigerated warehouse and food processing space in the region is generally higher than for traditional warehouse and manufacturing facilities. Rates increase for smaller suites closer to Logan International Airport containing primarily cooler and freezer space. These facilities typically range from \$10 to \$15 per s/f on a net basis. Larger facilities housing a combination of office and processing areas as well as coolers, freezers, and dry storage range from \$9 to \$12. Smaller seafood processing suites in the Marine Industrial Park achieve the highest rent levels ranging from \$20 to \$25 net due to their proximity to one another as well as I- 90 and 93 and Logan Airport. These suites typically house 100% ground level refrigerated processing areas along with coolers and freezers. The suites typically contain 10% to 15% walk-up mezzanine office areas.

There have been several state-of-the-art food processing and cold storage facilities constructed in the suburbs along the I-495 beltway over the last 20 years with the vast majority being either owner-occupied or build-to-suit facilities. However, there have been a limited number of arm's-length sales of these new generation facilities within the greater Boston area. Locating recent comparable transactions for larger facilities often requires expanding the search to a national level. The sales and rental market for facilities less than 25,000 s/f closer to Boston is substantially more active.

The marketing time for special use food processing facilities is often longer than for similar size distribution warehouse properties. Brokers point out that the timing of the right buyer looking with the right building being placed on the market typically leads to a higher acquisition price paid than other recent transactions in the local market.

Cold storage facilities are special-purpose industrial enterprises having little or no alternative use without a major loss of investment. The refrigerated portions of these buildings often cost in the vicinity of \$100 per s/f to construct. Alternate users such as warehouse operators or manufacturers are usually willing to pay only a fraction of this figure. New facilities are designed and constructed to carry on specific user operations with maximum efficiency and economy.

Construction costs of modern cold storage/food processing facilities typically exceed the property's resale value. Buyers tend to be owner-occupants who immediately retrofit the building to their specific needs. Therefore, the building's use ratios vary from occupant to occupant. Investors have less interest in refrigerated storage or food processing facilities due to the risk associated with the unique nature of the structures. As with any special use property type, appraisers with extensive experience and access to a national database can be a valuable asset for real estate professionals involved in mortgage lending, asset management, and brokerage sales.

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