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Industrial retrofit and renovation trends in the speculative environment - by Parker Snyder

May 19, 2023 - Construction Design & Engineering



Parker Snyder

The New England market saw unprecedented demand for industrial space over the past few years. During that time, there was a growing amount of speculative development as vacancy rates hit record lows and end-users needed space quickly.

While new speculative development starts are expected to slow in 2023, backlog from last year will continue to bring product to market. Although vacancy rates are expected to rise as projects finish and more space becomes available, they will most likely remain below pre-pandemic levels as

leasing activity remains strong, with demand largely driven by e-commerce, third-party logistics and parcel delivery, and large traditional retailers.

Often, choosing to retrofit or renovate rather than build new is a more cost-effective and functional solution. With speed to market and proximity to population centers, labor, and raw materials driving decisions for many owners, choosing to retrofit offers the potential to simultaneously prioritize schedule and location. Continued demand, combined with the increasing availability of speculative space, will most likely result in a growing number of end-users choosing to retrofit or renovate an existing warehouse.

Speed to Market & Location Benefits

Owners who choose to retrofit rather than build new, experience a quicker speed to market, as valuable schedule time is saved due to the building shell and infrastructure already being in place. Retrofitting can allow for increased capacity or expanded operations to occur much earlier than it would when building a new facility as ongoing supply chain disruptions continue to have an impact on construction schedules. While pricing for some commodities began stabilizing at the end of 2022 and historic material escalations are not likely to persist, supply chain disruptions are expected to continue impacting construction material lead times in 2023. Specifically, electrical switchgear and mechanical equipment lead times continue to present substantial delays, and securing permanent power to buildings can be challenging.

For many end-users, especially those in the e-commerce, third-party logistics and parcel delivery, and traditional retail industries, location remains crucially important as quick delivery turnaround times are the new norm. However, increased competition for space and rising land costs are pushing new construction sites further away from large population centers. Rather than building new, retrofitting an existing, ideally-located warehouse is a viable option in many cases. In ideal scenarios, retrofitting an existing speculative development gives companies ample space for the technology, equipment, and automation upgrades needed.

Design Flexibility Benefits

With speed to market the highest priority among many end-users, design flexibility is more important than ever. Because of this, developers have put a focus on creating facilities with potential to accommodate a variety of end-users and decrease time on retrofit. Full dock, lighting, and HVAC packages, along with speculative offices, are often incorporated to ensure tenants are fully operational within the facility as soon as possible.

Additionally, the market has seen a growing number of speculative developments aimed toward specialty end-users. For example, ARCO has partnered with developers to build speculative buildings targeted toward GMP users. These facilities feature designs that allow for equipment and manufacturing components, as well as necessary utilities, to be easily implemented and updated without the need to adjust the fixed infrastructure. These facilities also offer location benefits as they are typically in proximity to the region's growing life science hub.

Design-Build Benefits

The integrated approach of design-build delivery can compound the benefits of retrofitting, especially when it comes to schedule savings and addressing market challenges. Unlike traditional delivery methods that treat the phases of design and construction sequentially, the design-build process combines quality of design and construction, management of capital expense, and adherence to schedule into a single point of responsibility.

ARCO's design-build approach allows us to determine construction costs significantly earlier than the traditional design-bid-build method. By working directly with the architect and engineers to ensure feasibility and design efficiency, all decisions can be made with full knowledge of their impact on cost and schedule at a much earlier date. This, combined with our expert proposal delivery and national buying power, allows pricing to be locked in and key materials to be secured immediately upon execution of a letter of authorization, mitigating risk and saving valuable schedule time.

Parker Snyder is the director of business development for ARCO National Construction – New England, Framingham, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540