



Industrial Property Appraisal from an Investor's Perspective:

The Case of Orange County, California

› NEURUS seminar Berlin

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Outline

- › *Introduction*
- › *Research Problem and Goal*
- › *Research Question*
- › *Conceptual Model*
- › *Methodology*
- › *Results*



Figure 1 University Research Park, Irvine O.C. (JTS, 2009)



Introduction

> What?

Industrial property investments: manufacturing, warehouse/distribution, flex

> Why?

Inventorize 'Best Practices' and apply to the Netherlands

> Where?

Business parks in Orange County, California

> Who?

Real Estate investors (e.g. REITs), developers and managers

> How?

See methodology



Research Problem

In the USA the share of industrial property in the total capital value invested by the largest REITs is 20.4%, although industrial real estate in the USA is performing below average returns on all property in the last ten years. In the Netherlands it is the exact opposite. (Investment Property Databank, 2009).

Goal

To find out what the reasons are for these differences and what Dutch investors and developers can learn from the American situation: therefore look at industrial property characteristics, locations, concepts, development and investment strategies, ownership, and risk in Orange County, California.



Research Question

- › *What are the reasons that, contrary to the Netherlands, industrial property is an attractive investment category in the USA? What are the success factors and what can Dutch real estate investors and developers learn from the situation in Orange County, California?*
- › Sub questions:
 - type
 - characteristics
 - location
 - risk
 - concepts
 - strategies
 - ownership



Figure 2 Flex Property Irvine Spectrum Industrial Complex, Irvine O.C. (JTS, 2009)



Conceptual Model

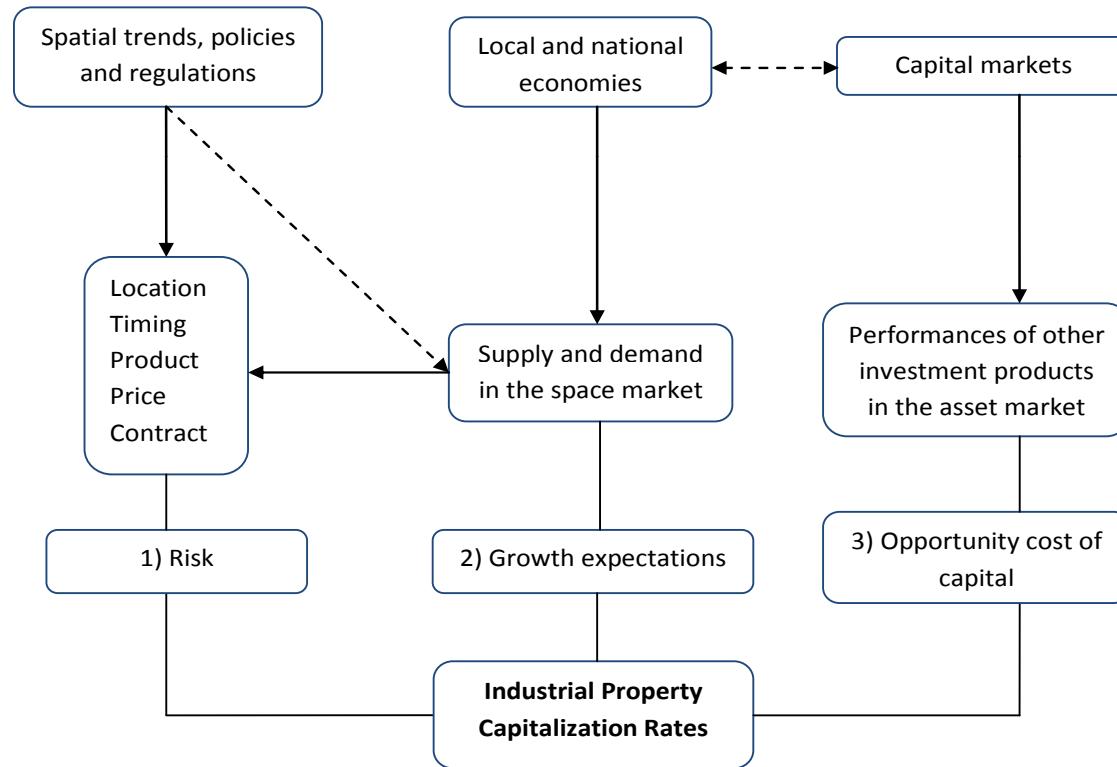


Figure 3 Conceptual Model (JTS, 2009)



Methodology

- > Case study approach
 - Orange County*
 - University Research Park
 - Irvine Spectrum Industrial Complex
 - Irvine Business Complex
- > Methods
 - Literature
 - GIS data
 - Property statistics
 - In-depth interviews

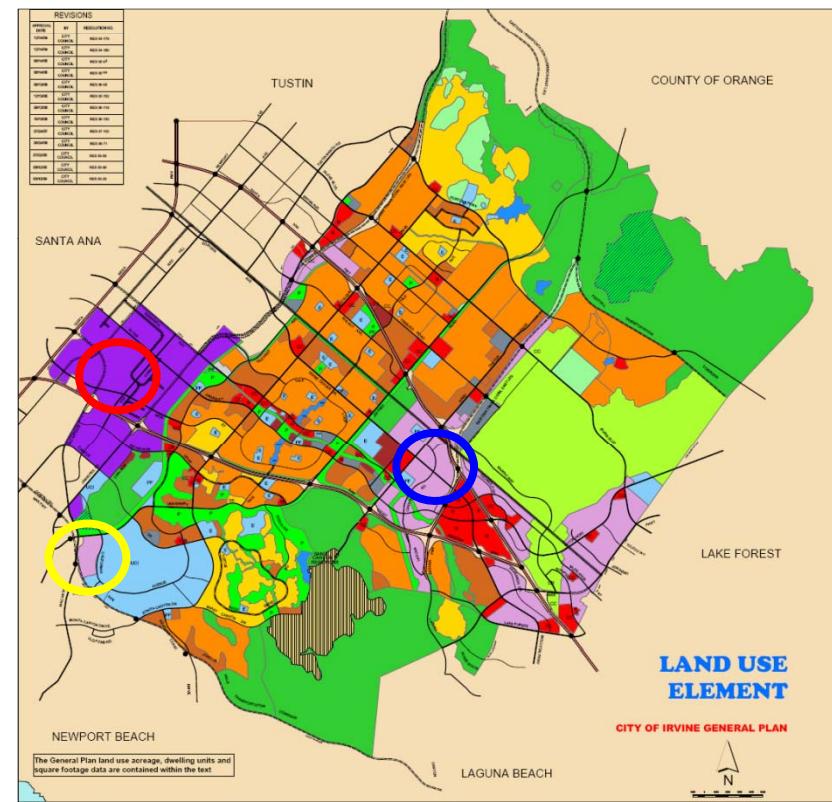


Figure 4 Irvine General Plan Zoning Map and Land Use Elements (City of Irvine, 2009)



Methodology (2)

› In-depth interviews

- *33 companies contacted (REITs, private investors, developers, managers)*
- *eventually 8 phone interviews performed (CEOs, executive vice presidents, associates and partners)*

- CB Richard Ellis Investment Properties (Commercial RE investment broker)
- Guthrie Development Co. (Full service real estate)
- Master Development Corporation (Industrial developer and contractor)
- Prologis (Industrial REIT)
- PS Business Parks, Inc. (Full service REIT)
- Resco Self Storage LLC (Industrial REIT and developer)
- Sperry van Ness (Commercial real estate advisors)
- Western State Technologies, Inc. (Full service REIT)



Results

› Type

An industrial building is “a facility in which the space is used primarily for research, development, service, production, storage or distribution of goods and which also may include some office space”. (NAIOP, 2005)

Primary classification: Manufacturing, Warehouse and Flex



Figure 5 Manufacturing, Warehouse and Flex Properties in Irvine, Orange County (JTS, 2009)



Results (2)

> Characteristics

- Built-to-suit;
- Illiquid properties;
- Flexibility;
- Functionality of the product;
- Relatively high occupancy levels;
- High tenant retention;
- Long-term lease arrangements;
- Little maintenance and few capital improvement expenditures;

- O.C. industrial market is (zoned) land-constrained;
- Rents in O.C. currently not high enough to support new developments;
- Small multi-tenant ‘incubator’ industrial units are desirable assets in O.C..
- *“if you own it, you don’t typically sell it”.* => ‘scarcity premium’
- *“industrial properties are like cornflakes; they aren’t glamorous, but they always taste the same”.*



Results (3)

› Location

- Site versus situation;
- Multi-tenant business parks in O.C.;
- Access to transportation systems;
- Proximity to the ports (L.A./Long Beach);
- Visibility of the property;
- Distance to operative and executive labor;
- Distance to investor's office;
- Amenities and services.



Figure 6 On-site Starbucks, University Research Park Irvine, Orange County (JTS, 2009)



Results (4)

> Ownership

- Capital-intensive product;
- Debt (e.g. bank loans) or equity (e.g. pension fund or REIT);
- Direct versus indirect and public versus private ownership;

- Different forms of property ventures in O.C.;
- Limited partnerships, Limited Liability Companies, Corporations (REITs)
- A lot of institutional ownership and wealthy families in O.C.;
- Mutual funds sharing ownership with local operating partners (i.e. joint ventures);
- Partners set up their entities as single properties;
- Larger deals done by REITs, some small developers work for fees.



Results (5)

> Strategies

- Focus on well-located properties with good transportation acces;
- Focus on flex properties with tenant mix;
- Focus on leased properties with credit and term;
- Focus on good relationships with brokers and lenders;
- Timing: "*buy low and hold*";
- Target potential competitors that need to recapitalize their portfolios;
- Responsiveness to tenants and providing excellent customer service.



Figure 7 Manufacturing Facility Irvine Business Complex, Orange County (JTS, 2009)



Results (6)

> Risk

- Risk-return ‘tradeoff’;
- Uncertainty, constantly in flux;
- Location, product, timing, price and contract;

- Declining economic and business conditions in O.C. during recent years;
- Tenant default and loan maturity;
- Many older buildings in O.C. (63% <1980);
- Too many industrial properties with office space;
- Relative high cost of living in O.C.



Figure 8 Distribution Center Irvine Spectrum Industrial Complex, Orange County (JTS, 2009)



Conclusions

No conclusions yet...

‘Best Practices’ from O.C. for the Netherlands to be tested by Dutch experts.

Any ideas or suggestions?



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