

# Perspectives

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## Build-To-Suit & Design-Build Construction Demystified

Occupiers may consider a Build-To-Suit or Design-Build if they want to have a brand-new building tailored to their needs.

**Having a building built to your specific criteria can provide the flexibility to either own or lease.**

Typically, a user/occupier will enter into an agreement with a developer, contractor, or landowner to design and construct a new, custom-built facility for their intended use. The land for the development may be controlled by the developer, the user, or a third-party owner. The differences between a Build-To-Suit and Design-Build can be summarized as follows:

### Build-To-Suit

With a Build-To-Suit, a developer or contractor will work with a tenant to design a building and enter into a development and long-term lease agreement prior to construction. These leases are usually for 10 – 20 years with a fixed rental structure and terms. Typically, the leases are “Triple Net” meaning the tenant pays all operating expenses throughout the term. Once construction is complete, the developer or investor will either retain the ownership or sell to an investor. Some of the pros and cons of this structure are as follows:

- Tenant simply rents and occupies the building for the term and has no equity at the end of the lease. Owner can either sell the building with the lease in place or keep it for future income.
- Short-term leases are typically not available for this structure.
- Developer or contractor will usually finish out the space according to plans agreed upon prior to construction.
- Risk to the building owner is they will need to find another tenant for the building when the lease expires and tenant moves out, or if the tenant defaults on the lease.
- Having a lease signed before construction begins mitigates the owner’s risk of lease-up time, which should yield better economic terms for the tenant.
- With a custom designed building, a tenant can employ facility optimization to maximize productivity across the organization and ultimately increase revenue.

## Design-Build

Design-Builds start off very similarly to a Build-To-Suit. Prior to construction a developer or contractor works with a tenant to design a building and enter into a development agreement to have the building built. Upon completion, the tenant purchases the building to occupy and use. The tenant is then responsible for all future operating expenses including taxes, insurance, ongoing maintenance and/or replacements.

- This structure is ideal for tenants with a specialty use, meaning it may be difficult or very expensive to relocate and replicate the space. Also, owners typically do not want to be responsible for re-tenanting the highly specialized space in the future.
- Because the building is pre-sold or has a significant deposit in place before construction begins, risk is mitigated for the ownership, which directly benefits the tenant's economic provisions.
- With a custom designed building, a tenant can employ facility optimization to maximize productivity across the organization and ultimately increase revenue.
- When a tenant owns their building, they take on the associated risk and responsibility; however, they are not subject to rent increases or other changes the landlord may implement with a lease renewal.

### Next Steps:

Engage Citadel Partners to investigate the short-term and long-term needs of your company to determine the best real estate solution.

Citadel Partners is well-versed in guiding users through this entire process from design, cost containment, development, negotiations, financing, and ultimately construction. Working with Citadel Partners simplifies a Build-To-Suit or Design-Build by providing a single point of contact all along the way. We put our clients first and employ a Best-In-Class approach when interviewing and selecting subcontractors.

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