

Perspectives

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Where is the Future of Industrial Development Heading?

The Need

In 2019, a client sought to consolidate its manufacturing and warehouse facilities into one 600k SF location with space for future expansion within the Northeast Dallas area. Various obstacles were quickly discovered. Between Citadel Partners Market Principal Andy Goldston and me, we accepted the challenge of finding our client the best new industrial development site.

The Challenges

We initially looked for available buildings and land in Allen, Plano and Richardson and the largest available consisted of 195,000 SF. After exploring all land opportunities that could accommodate the client's needs including zoning and reasonable pricing, we began to think outside of the box and consider alternative sites in areas considered non-traditional industrial parks within the McKinney industrial market.

We were looking for solutions to a wide variety of questions and issues including:

- With industrial user demand remaining high and vacancy low, where do tenants go for additional space?
- Where are the 200k SF to 800k SF blocks of space?
- With established industrial parks built out, where is available land for future development?
- Given the pricing and lack of available land in traditional industrial parks, are there options for developers outside of higher-priced alternatives such as adaptive reuse and/or redevelopment?
- With strict municipal zoning restrictions to navigate, where will municipalities ultimately allow industrial development?
- Where is relatively affordable land for development?

The McKinney area was not known as a big tenant market which led us to explore what to do with a large user here. Some bigger and medium-sized tenants had outgrown their spaces and had to relocate. Moving was not a great option for them, but because of a lack of available space, they were forced to go south or west.

Thinking Outside the Box

Pioneering has always been difficult for institutional investors and developers. This is where our vast tenant knowledge added value for our client. Citadel's client commitment led the team to track all of the users in this far Northeast Dallas market where we found more than 100 users were occupying 100k SF or more. If any of them wanted or needed to consolidate, like this client, there was only one alternative, and it contained only approximately 200k SF. To find a 500k SF facility, particularly cross-dock configured, any of these users would need to consider markets nearly 20 miles away.

Once we determined the market's lack of larger industrial buildings, we identified sites in non-traditional locations that could accommodate the zoning requirements as well as offer competitive pricing.

Finding Solutions

Andy and I identified a site that the city would support being rezoned to accommodate industrial use and convinced the seller, who had been contemplating selling this site for nearly 20 years, that a user like our client was the key for him to finally pull the trigger on the sale. Next, we approached Texas Commercial Development (now Falcon Commercial Development) President Doug Johnson about the opportunity to buy and develop this site and build two facilities (500k SF and 300k SF, respectively) on it. The idea: build it for Citadel Partners' client with a second facility to fill the gap for other users. Intrigued by our analysis of the need for facilities like this, Doug was interested in the longer-term play. He saw the broader, sweeping opportunity to acquire the entire 85-acre area, spurring new interest in this previously overlooked area.

When presented with a site for future industrial development in McKinney at that time, none of the large institutional developers and investors could get comfortable with pioneering large industrial buildings in McKinney without needing a joint partnership with the city. They would ask for user comps ranging from 300k SF to 500k SF in the area. At that time, there were none. They asked who would want to take the space. The answer: tenants from within the market looking to expand or last-mile users wanting to be near rooftops or users from another market who cannot find large blocks of space. With the lack of comps, they all said no except Doug. Fast forward to today and there are now 10 different developers building large industrial facilities in and around McKinney.

What Does it All Mean?

Looking back on the actions that led to this development has reinforced our practice of staying focused on the user and understanding the market's capabilities. Citadel Partners' ability to explore out-of-the-ordinary solutions and be creative provided the correct response for this client and the developer pulled into the deal. Following growth trends and taking advantage of the opportunities led to many satisfied parties.

Recently, United Pacific Industries (UPI), an international firm that designs and manufactures automotive products for commercial trucks and classic cars, moved into a 279,180-square-foot facility at 3827 N. McDonald St. in the Core5 Logistics Center in McKinney. It sits on 16 acres of the project we put together off State Highway 5 between Wilmeth and Bloomdale roads.

Before this, big developers didn't want to go to McKinney because they considered it a small tenant market and didn't believe they could get their investors on board with building there. After this project's success, other developers have now followed, and the market is growing.

Ultimately, our tenant knowledge paid off. We understand tenants and look for opportunities from the demand side rather than the supply side. The moral of this story: don't assume in this expanding industrial market that the only option lies within traditional industrial parks. This was a pioneering move for McKinney's industrial market; there were no big buildings out there before this one. We likely won't see any 1M SF facilities going up in McKinney, and this area won't be the next version of South Dallas or Alliance, but the previous gap is now being filled.

This white paper explores how Citadel Partners created an ideal solution for a client when the situation looked impossible. We are experts at looking outside the box and creating opportunities others have failed to deliver to help you meet your real estate needs. While this example occurred in McKinney and Far North Dallas, be assured, we can take this model – along with our determination and tenacity – and make things happen for you in other locations. Our lens is that of the user; we believe in taking a strategic approach to pioneering solutions for your real estate challenges.

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