

CRE Terms: Industrial Drill-Down



Let's look at commercial real estate (CRE) terminology terms specific to new builds. Read on to double-check your understanding and working knowledge of these terms, in order to speak to clients (and builders) with confidence. We're looking at speculative builds, infill, and functional obsolescence.

Speculative Development

According to the NAIOP Terms and Definitions booklet – an excellent resource – a speculative build is “developed and constructed without any preleasing in place”. They write: “Construction commences without a prelease when the developer believes there is so much demand for that type of building in that market or submarket that a lease commitment is bound to come through.”

It is key to note that “speculative” in this sense doesn't mean merely hopeful or “chancing it”, although every developer's own appetite for risk will guide them. Rather than acting out a commercial property version of Field of Dreams (“if you build it, they will come”), speculative projects ought to be strategic endeavors, undertaken after a careful review of the market and its needs. Thankfully, any financing partners will likely insist on seeing that the homework has been done in this regard long before breaking ground.

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Infill

One strategy for planning a speculative build is to look at infill options. This is defined, by NAIOP, as “the development of one or more buildings on underutilized land situated between existing buildings”. The reason we say it may make strategic sense to look at infill within the context of speculation is that you’re not pushing the peri-urban boundaries or looking to develop in untested territory, and can use the data from the existing market to inform what you chose to develop.

NAIOP continues: “Infill development is typically done in dense environments where land is scarce. The slightly broader term ‘land-recycling’ is sometimes used.” Although infill is acknowledged as expensive, some research suggests that it’s a far better option than the alternative, urban sprawl.

In densely developed spaces, infill development is often considered by local government to be “critical to accommodating growth and redesigning our cities to be environmentally and socially sustainable.”

Functional Obsolescence

It’s also important to understand when existing buildings may be best served by complete re-development. A building described as “functionally obsolete” is one that “cannot be improved to meet current market standards or tastes without a complete replacement of buildings systems and finishes”, reads the NAIOP document.

