

Real Estate Strategies

An Inside Strategy For Saving \$\$\$ Leasing Industrial Buildings

BY GORDON RASMUSSEN, CCIM PRINCIPAL
ITRA / MARTIN PROPERTY ADVISORS, INC., PHOENIX,
ARIZONA USA

WHEN IT COMES TO INDUSTRIAL BUILDINGS, WHETHER IT'S LEASING SPACE, OR BUYING PROPERTY, IT PAYS TO THINK INSIDE THE BOX.

Whether it's a factory, research and development facility, warehouse and/or distribution facility, the "i's" on any leasing agreement have to be dotted and the crossdocks, if needed, better be included.

Industrial buildings not only come in many shapes and sizes, but the needs of every potential tenant and buyer-user vary across a broad spectrum. And the issue of whether to but outright, triple-net lease can be affected by a company's tax structure, cash flow or the vertical industry it serves.

To the untrained eye, the industrial buildings is a plain box. To the CFO, or CEO/owner, it's a fiscal as well as physical profit center with attributes that must raise operational efficiency and productivity.

7 Tips For Better Lease Terms

Here are seven important tips and strategies for industrial building tenants that can facilitate the negotiation of the most favorable lease terms and conditions:



Thoroughly Describe the Proposed Use of Both the Exterior and Interior of the Premises: Kick some tires.

In order to effectively evaluate alternatives and negotiate the terms and conditions of the lease, the tenant representative must have a thorough understanding of the proposed use of the exterior and interior of the space. Valuable insights can be obtained by touring existing facilities, consulting with the tenant's staff (e.g. warehouse supervisor, building engineer, director of logistics) and vendors (e.g. suppliers or trucking firms). It is important for the tenant representative to know the "got to-haves," as well as the reasons behind the requirements.

Verify the Measurement of the Leased Area: Use industry standards.

Many industrial leases contain a provision that states that the leased area is by "agreement and not subject to revision whether or not the actual square footage is more or less. This provision may be acceptable, provided that the square footage is confirmed by a 3rd party and was calculated in conformity with BOMA & SIOR standards described in "Methods for Measuring Floor Area in Industrial Buildings."

Negotiate "Caps" and Timing for NNN Charges: In a soft market, set limits.

Many industrial leases provide for a "base rent" plus a prorated share of all operating costs including but not limited to real estate taxes, insurance, maintenance of common area and management fees. It is the landlord's objective to pass all operating and property costs on to the tenant as additional rent. In "soft markets" with high vacancy factors, it is possible to negotiate for the landlord's responsibility to maintain certain items such as HVAC and mechanical items during the initial 3—12 months of the lease. Similarly, it is possible to

negotiate a “cap” or “not-to-exceed” amount for all triple net charges.

Purchase Professional Building Inspection: Inspect Before Negotiating.

If a property is being considered for a long-term lease, and it is likely that the tenant will be responsible for the repair or replacement of HVAC, mechanical or plumbing item, professional building inspection is recommended. The cost of a written report can range from \$300--\$1,500+ depending on the size of the property and improvements. The building inspection report can be an effective tool for negotiating “caps” and timing for NNN charges.

Differentiate Tenant Improvements vs. Cost to Correct Building Code Deficiencies: Don't Take

Compliance For Granted.

Never assume that property under consideration (based upon a prior use or occupancy) is in compliance with current building codes. Any tenant improvement allowance should be directed for the construction of improvements that are tenant specific requirements. The cost to retrofit the building to bring it in compliance with current building codes should be in addition to the tenant improvement allowance.

Carefully Define Occupancy Date vs. Commencement Date: Know your start date.

The commencement date of the lease is the date that term begins and rent, including any free rent, starts to accrue. The commencement date should be keyed to the occurrence of a specific event such as 100% completion of

tenant improvements and issuance of a certification of occupancy. The Occupancy Date may occur prior to the completion of certain tenant improvements, and is the date that the tenant takes possession of premises.

Retain an Experienced Tenant Representative: Avoid brokers with dual loyalties.

Seek the services of an exclusive tenant representative or competent real estate advisor that has current and verifiable experience and uses current available market data bases in the product type that is under consideration. An ITRA tenant representative does not work for landlords—they work only for you, the tenant.