

COMMERCIAL SERVICES

**COMMERCIAL PRODUCT SPECIALTIES
INDUSTRIAL PROPERTIES**

Commercial Services



Prudential
Real Estate

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PRODUCT OVERVIEW

“Industrial” encompasses a wide variety of properties, uses, and owners

- Uses, such as manufacturing, processing, storing, transporting, research and development
- Warehousing included in industrial classification
- Some office component in most buildings
- Office/warehouse
- Flexible, general purpose buildings that can be adapted to a small user’s needs
- Owners, from huge corporations to individuals

Differs from other real estate types

- Height is third significant dimension.
- Utility is overriding factor
- Little concern for the “public”

To be successful as a Broker

- Small to medium users - more turnover
- Office/warehouse - more flexible; appeals to broader market
- Small, single-user properties
- Selling and/or leasing
- Large, specialized properties change ownership and use less often
- Be sensitive to special requirements of users (whether buyers or tenants), i.e. technical or logistical needs that must be met

CATEGORIES – BY USE

Heavy Industrial. Manufacturing properties comprise the heavy industrial segment. Auto making, textiles, steel, chemicals, and food processing are typical uses of such properties. Typically zero to five percent office space.

Warehouse/Distribution. Generally the least intense industrial use, warehouse and distribution facilities often are located in the lowest-priced land in older parts of town or in suburban fringes. Typically, like light industrial/assembly property, office use is limited to management tasks for the distribution or warehouse facility, or about 15 percent of total space.

Light Industrial/Assembly. Production lines that assemble components produced elsewhere are based in light industrial/assembly facilities. Some light manufacturing requiring limited raw materials and physical changes to the materials also might be conducted in such facilities. Space devoted to offices usually is less than 10 percent.

Office/Warehouse or Research & Development. Broadly defined to include wide variations in markets across the country. Research and development office/warehouse properties could have lab facilities, offices, warehouse facilities, or personal services such as carpentry or machine repair. Typically, each property allows a variable combination of office and other uses. The percentage of office space ranges from 20 percent to 100 percent, depending on the market and individual needs of the user. In markets oriented towards high technology, these facilities generally are research and development/office facilities. In other areas, these facilities might be true office/warehouses. Generally, these facilities are of smaller size, with multiple tenants.

- “Flex space”
- Services
- Showrooms
- Business incubators
- Small manufacturing

OTHER SUB-CATEGORIES

Multi-tenant vs. single user

Leased vs. owner-occupied

Business or industrial parks

- Protective covenants (retain value)
- Pads with utilities and roads in place
- Security, landscaping, image, employee amenities

Size categories - typical characteristics

- Small
 - 1,000 to 5,000 square feet
 - 12 feet of vertical clearance
 - Ground-level doors/truck doors
 - High proportion of office space
 - Lowland usage (30 to 33 percent)
 - Generally short leases
- Medium
 - 5,000 to 20,000 square feet
 - 16 to 18 feet of vertical clearance
 - Both dock-high and ground-level doors
 - Lesser proportion of office space
 - Better land usage (50 to 60 percent)
 - Seldom has rail service

- Large
 - 20,000 to 100,000+ square feet
 - 23+ feet of vertical clearance
 - Dock-high building
 - Little or no office space
 - About 50 to 60 percent land usage
 - Often with rail service

Specialized vs. general purpose.

- Specialized are difficult to resell; usually not leased

NEEDS OF USERS (Owner/Occupants or Tenants)

Users may need any of the following for the success of their business:

1. Location.

- Near transportation
 - Highways
 - Airports
 - Railroads
 - Seaports
- Labor
 - Low wages
 - Skilled
 - Non-union
- Raw materials
- Markets
- Zoning
- Incentives from local government

2. Access.

- Loading docks
- Drive-in doors
- Rail spur
- Truck turnaround space
- Visibility from major highways

3. Site

- Employee parking
 - Manufacturing: 1 space/250 gross sq. ft.
 - Warehouse: 1 space/500 gross sq. ft.

- Security
 - Fence
 - Alarms
 - Guards
 - Yard storage for machinery, materials, waste
 - Room for expansion
4. Utilities.
- Electricity - 3 phase
 - Water
 - Natural gas
 - Natural gas
 - Sewer
 - Chemical handling
 - Waste disposal systems
5. Building features
- Floor space (square feet)
 - Ceiling height (clear)
 - Bay spacing
 - Span distance
 - Floor-load capacity
 - Lighting
 - HVAC
 - Sprinklers, fire hydrants
 - Cranes
 - Freezers
 - Computer rooms
 - Clean rooms
 - Furnaces
 - Extreme security
 - Etc.

NEEDS OF OWNER / INVESTOR

The Owner/Investor is also concerned with location, access, site, utilities, and the features of the building, but more from the point of view of how they affect the marketability of the property. Special features (freezers, built-in over improvements) can be a disadvantage.

Condition of improvements

- Will it need major repair soon (depreciation)?
- Roof
- Parking lot

- Walls, foundation
 - Will it need major changes to meet modern standards (obsolescence)?
Example: Two-story warehouse with low ceilings

Competition for tenants

- What comparable properties are available?
- Will new comparable properties be built in the area in the near future?

Economic climate

- Local
- Regional
- National
- As it affects the use of this type of building

Existence of latent liabilities

- Toxic wastes
- Asbestos
- Underground tanks

If property is tenant-occupied

- Credit of tenant
- Terms of lease
- Future of tenant's business and industry

INDUSTRIAL BUILDING CONSTRUCTION TERMS

Beam: Supporting horizontal member of roof construction

Column: Vertical member that supports the beam

Span: Unsupported length of the beam

Bay: Distance between beams

Clear Span: Used to describe a building or room with no columns other than the exterior walls.

Loading Dock: Loading platform at truck-bed height.

Dock High: Entire floor level of the building at truck-bed height.

Ceiling Height: Unobstructed distances between the floor and the lowest beam.

Shell: Foundation, walls, roof.

Spur: A railroad track owned by the user, connecting to the main line or siding.

Three-Phase Power: The type of system commonly used for transmitting electric power for heavy loads. The output is three alternating currents, each of which can be carried by a separate wire, and which reach their peak values one after the other. 3-phase power can be carried on 3-wire or 4-wire circuits. It is supplied to users who need a large amount of power, or who need 3-phase leads for devices such as large motors. Small users usually get single-phase power. Advantages of 3-phase power: The total load is balanced, and the power flow is constant over time, resulting in smoother operation and less vibration in AC devices. 3-phase devices are also more economical to operate than single-phase devices.

Drive-In Door: Door large enough for small trucks and vans to enter building.

INDUSTRIAL LEASES

Own vs. lease

- Specialized properties usually owner-occupied
- Multi-tenant properties usually leased to users
- Free-standing buildings can be either

Owner's analysis of tenant and lease

- Lease
- Rent per square foot
- Landlord vs. tenant costs
- Length of time (term)
- Options
- Cost of living escalators
- Option to purchase
- Option to expand
- Security deposit
- Tenant
 - Net worth and profitability
 - Industry trends and tenant's position in the Industry
 - Number of years in business
 - Additional security; personal liability

Evaluating expenses

- Real Estate taxes
- Insurance
- Interior maintenance
- Exterior maintenance
- Landscape maintenance
- Roof maintenance
- Utilities
- Janitorial
- Management fees

Net vs. gross leases, or “who pays what expenses?”

- “Gross” means landlord pays all expenses: taxes, insurance, maintenance, etc.
- Historically, all leases were gross leases.
- “Net” means landlord pays nothing extra - rent is “net” to him (also called “net, net, net” and “absolute net”).
- Many leases are hybrids: landlord pays some expenses, such as taxes or roof maintenance.
- Terminology is not standard - always ask for clarification.
- Industrial leases are most often net (tenant pays all expenses).

Effective rent vs. “quoted” rent

- True cost after free rent is factored in

Expense stops

- Tenant pays increases over base year

Costs of occupancy

- Rent plus space-related expenses
- Know all costs before comparing

FURTHER INFORMATION

Recommended Texts:

Successful Industrial Real Estate Brokerage
Order through Dearborn Financial
Developing Industrial Real Estate
Urban Land Institute
Washington, D.C.

Organizations:

National Association of Industrial and Office Parks (NAIOP)
Arlington, VA 22202
Society of Industrial and Office Realtors (SIOR)
Washington D.C.