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The Industrial Flex Building

A high percentage of speculative low-rise industrial buildings today are flex buildings. Developers are favorable toward the flex building as it will meet the needs of many modern sophisticated industrial building users.

The flex building is a speculative, low-rise (usually one-story), single or multi-tenant building that will accommodate different amounts of backroom and office needs, depending on particular tenants' needs. The developer finishes the exterior of the building, the interior remains only partially completed until the tenant signs the lease. The interior is then customized to provide space which might be for light manufacturing, research and development, warehouse and distribution, sales and accounting, or inventory control office space.

In existing flex buildings, 50% or more of the interior space may be used for offices. As a 100% office, the building is a low-cost all-office alternative to the low-rise office building.

Flex buildings usually have standard attributes that will help control construction costs. These are:

- **A ceiling of 16 to 22 feet.** This will handle practically any manufacturing, distribution, or office operation.
- **A modern HVAC system** that will provide zoned temperature control capability, advanced security measures, and "clean" atmospheres throughout.
- **Enough parking space.** Loading docks that can adapt to any tenant's needs. Driveways arranged for easy access for trucks of all sizes.

Because the flex building is attractive to a wide variety

(continued)

of tenants, the speculative builder can expect to find:

- Favorable financing costs, since lenders look more favorably on flex buildings than the standard industrial building.
- Since there is a larger pool of potential tenants for the building, there should be a faster lease-up.
- Lower construction costs. The staged construction will eliminate costly and time-consuming rip-outs of already installed interior spaces that will not meet the needs of a tenant. Later expansions of tenant spaces are easily handled (at lower cost) because of the flex design features. ❑

Benefits In The Small Town Center Investment

When you are looking at shopping centers, bigger is not necessarily better. While a well-run regional or super-regional shopping center can produce a good financial return, so can a successful small-market shopping center. In many cases, the small town center can turn out a better return. One of the benefits is the control that the owners can have by being "the only game in town." This can help generate high returns.

Good Customers and Stable Tenants

In a small town center (10,000 to 100,000 people within a 5-mile radius), there is usually little tenant turnover. The tenants are attuned to shifts in the local economy and can be flexible when economic change occurs.

The stores in the small-town shopping centers have a stable business because they concentrate on basic necessities (food, clothing, dry cleaning services, etc.), thereby insulating themselves from economic downturn which can often spell disaster for merchants of luxury items.

These centers can also benefit from the nature of the customers. They are loyal and want to help their neighbors, who are often the store owners. Further, the small-town shopping center is viewed as a community asset. It can be where community activity takes place–the July 4th parade forms there, band concerts are held there, holiday promotions are celebrated there. For investors, these community events bring additional traffic and sales.

The Successful Center

A small-town shopping center needs "hands-on" investors who carefully plan the investment. The center should:

- **Dominate the market.** The key factors are consumer habits, surrounding businesses, and accessibility. Consumers must habitually look to the shopping center as the place to go for their needs. The surrounding businesses must complement the wares offered at the shopping center. And the center must be readily accessible via a good roadway system with safe entrances off the highway. The minimum size for market dominance usually is 75,000 square feet.
- **Be in a stable market.** Employment base and local industry should be strong and diversified.
- **Locate in an area with the right demographics.** Young families, with growing children who need and want lots of products, are "right." Analyze the growth potential for the market.
- **Have a good tenant mix.** There should be a strong anchor, usually a department store or a nationally known grocery chain, with at least 10 years remaining on its lease. The remaining store tenants should offer products or services in special demand in this particular locale. Sporting goods, for example, usually are popular in small town shopping centers. Expensive jewelry stores typically are not. While electronics, games, department stores and clothing stores generally attract customers, sophisticated and costly gift shops do not.

Re-Energizing The Center

After about ten years, a small-town shopping center may need something to re-vitalize it. Expanding the center with a national retailer might help invigorate the tenant mix. Enclosing an open mall can be a good renovation to attract new interest. Simply giving the shopping center a face-lift might insure its dominate role in the area. ❑

Opportunities In Commercial Real Estate

Investors in real estate may have become fixed on one type of commercial property. There are a wide range of opportunities out there. Commercial properties provide space for businesses, and the kinds of properties are as diverse as the businesses.

Following are the major categories of commercial properties:

- **Retail.** In this category are properties that are rented to tenants who sell goods directly to the public. Under this main classification are the following:

- **Strip Center.** A retail center with a straight line of stores.

- **Neighborhood Center.** A small shopping center with a supermarket or drug store, typically having up to 50,000 square feet of rental space.

- **Community Center.** A medium-size center, with about 50 stores and up to 150,000 square feet of rental space.

- **Regional Center.** A large center, usually enclosed, with two to five department stores and from 400,000 to 1 million square feet of rental space.

- **Super Regional Center.** A large regional center, with 750,000 to 2 million square feet of rental space.

- **Theme Center.** A retail center designed around a common theme. Under this group are the following:

  Off-Price Center: A retail center that caters to tenants offering merchandise at discount prices.

  Factory Outlet. A retail center that caters to manufacturers who sell their goods directly to the public.

  Fashion Center. A retail center that deals in high-priced, high fashion merchandise.

  Car-Care Center. A retail center that caters to tenants who deal in automobiles and the automobile aftermarket business.

- **Office Buildings** that are rented to non-retail commercial users. These buildings are designed as garden, mid-rise, or high rise structures.

- **Business Park.** A group of rental buildings designed for office and warehouse users.

- **Warehouses.** Buildings that provide rental space to users of bulk storage. There are two types:

  Light Industrial. Buildings that cater to storage users.

  Heavy Industrial. Buildings that cater to manufacturers.

- **Self Storage Units.** Buildings designed to rent space to small storage users. Usually 25 square feet to 500 square feet.

- **Lodging.** Properties that lease living space to individuals on a daily basis or longer. These properties can have price ranges from budget to mid-range to luxury. They may be marketed toward the transient, resort, convention, or commercial user. Under this category are the following:

  Motel. A property in which a renter can park his automobile adjacent to his rental unit. This type of property is usually a garden type building with few amenities.

  Hotel. A higher quality property, with more amenities than a motel. These properties can be garden-style, mid-rise, or high-rise in design. They usually contain such amenities as food and beverage services, conference areas, or health facilities.

  Suites. A lodging property that offers a living and bedroom area.

- **Multi-Use.** Properties that combine two or more of the following uses: residential, commercial (retail or office), or lodging.

- **Condominium.** Commercial properties that are either converted or developed to be sold to the individual users. These can be either retail, office or industrial properties.

- **Single Purpose Buildings.** Properties designed for a specific purpose, for example, a theater or a bowling alley.

Your Investment

Successful commercial properties give their users what they want and what they need. Some properties can be upgraded by renovation and a change to a different use. For example, an old industrial building can be converted to a retail or office property. ❑

The Buyer For Commercial Property

When we represent a seller of a commercial property, we try to determine, as soon as possible in the marketing process, what type of buyer is most likely to be interested in this particular property. We then focus the main appeal on those elements that are most important to that type of buyer.

Types of Buyers

Normally there are three types of buyers for commercial property:

- Investors, who seek an income-producing investment in which to place their surplus funds.
- Speculators, who buy so they can sell when the market goes up.
- Users, who seek sites for their businesses.

The seller's agent will appeal to the special interests of each of the three types of buyers. Advertising and marketing materials should develop each appeal and furnish supporting facts, realistic projections, and professional information.

The Appeals

For the primarily income-seeking buyers, we focus on the financial data, concentrating on rentals from the property, terms of the leases, maintenance charges, mortgage information, and net income. We will also demonstrate the probability of income growth from the property.

For the speculator-buyer, the stress is on the potential for a resale profit. We might show that the property is in the line of future development (new public transportation is planned or being built, or there are other newly built or renovated commercial properties as neighbors). Demonstrate that the property is in a growing, vital locale.

Since income is of only a secondary interest to the speculator-buyer, we'll go no further than the current income status. The focus will be on the potential for profitable resale.

The location will be of greatest interest to the user-buyer. Is it right for the user's business? Is the building in good physical condition, or must it first be remodeled, improved, or up-dated? We must demonstrate the wealth and habits of the surrounding population.

With each type of potential buyer, the marketing effort will focus where it is most likely to produce a prompt, successful sale. ❑

Legal Definition Of A Shopping Center

We have all kinds of shopping centers from the smallest strip center up to the centers of the size of the West Edmonton, Canada or Bloomington, Minnesota centers, the super centers. Recently, in a case in a federal bankruptcy court, the court was required to distinguish between a "shopping center" and other types of retail properties. The federal bankruptcy code did not define the term. The Third Circuit provided the following 14 elements to be used in determining whether a property is a shopping center.

- A combination of leases;
- All leases held by a single landlord;
- All tenants engaged in the commercial retail distribution of goods;
- The presence of a common parking area;
- The purposeful development of the premises as a shopping center;
- The existence of a master lease;
- The existence of fixed hours during which all stores are open;
- The existence of joint advertising;
- Contractual interdependence of the tenants as evidenced by restrictive use provisions in the leases;
- The existence of percentage rent provisions in the leases;
- The right of the tenants to terminate their leases if the anchor tenant terminates its lease;
- Joint participation by tenants in trash removal and other maintenance;
- The existence of a tenant mix; and
- The contiguity of the store. ❑

As commercial brokers, we are part of your professional team. It is our job to create the real estate transactions that will be needed to enhance your estate.