

COMMERCIAL REAL ESTATE – INDUSTRIAL LEASING GUIDE

Single-tenant industrial leaseholders heed advice to avoid pitfalls

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Single-tenant industrial leaseholders can avoid some of the problems associated with their leases by following several pieces of advice:

• **Hire a consultant.** It pays to enlist a consultant who is knowledgeable in the tenant's industry and will know and understand its needs.



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This individual can review the parameters of the proposed design or existing facility and develop a program for the company's needs. A reputable consultant is not only interested in the deal getting completed, but has the tenant's best interests in mind.



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The facility eventually leased might come at a higher monthly rent, but the consultant will know whether in the long-run it will be more efficient and save on expenses caused by inefficiencies.

Companies have been known to move from single- to multitenant facilities in order to pay less rent. This may not be the best move, as these facilities probably are not going to be tailored to the specific needs of the company and could ultimately cost more money as a result of retrofit costs. If high power, truck parking, storage yards and loud

noises will be required, single-tenant is the best way to go.

• **Do the homework.** Managers of a company that decides to relocate to Houston need to conduct as much research as possible before making any decisions.

They need to hire a broker to show them a variety of available sites. They'd also be wise to spend time contacting local economic development agencies, such as the Greater Houston Partnership. These groups have the resources to conduct research on the industry, the region and available sites. They can also aid in selecting a developer. The Internet is a great tool for initial research to see what is available.

• **Look ahead.** As a part of due diligence, depending on the company's expectations of future growth, company managers should make sure that whatever facility they choose can be expanded by at least 25 percent.

Many developers try to put buildings on small sites to keep costs low, but higher costs will be incurred if the company needs to relocate because there is no room for expansion.

• **Get a broad view.** In the Houston area, prime properties are controlled by a relatively few developers. It's important for a company planning to build to weigh options in choosing a construction company on their ability to put the company in the best location for its business and not let the decision be primarily site driven.

Be sure the agent assisting the com-

pany in finding a site is not showing only land it controls. If so, this may not suit the company's needs.

• **Consider maintenance.** Maintaining the major systems of a building can go a long way in saving on costs in the long-run.

Enter into maintenance agreements for fire sprinklers, overhead cranes, heat/ventilation/air conditioning systems, detention ponds and roofs/gutters.

Roof maintenance is crucial and the gutters must be kept clear of debris.

Damages to the roof can cause mold, mildew and damage to expensive equipment.

Storm water is the greatest threat to industrial facilities, not fires. Keep storm water grates and areas around the grates clear of debris. These grates will be located in truck wells and parking lots.

Related to this is the maintenance of the facility's detention pond. The two major requirements to maintain the pond are mowing the sides and bottom when the pond is dry and having a quarterly review of the pump as well as its electrical system. A pump could be out of service and the facility's managers would not even know it if the company hasn't had quarterly inspections.

• **Get plenty of power.** Heavy power is strictly based on the needs of the tenant. Single-tenant is the way to go for a business that utilizes heavy power. If a company that needs heavy power chooses to locate in a multitenant fa-

cility, it might cause power surges which may harm neighbors' equipment.

Tenants have the ability to negotiate with their chosen power company. Monthly rates may be reduced or installation charges may be discounted. Some tenants even purchase their own transformers, because if these are rented from the power company, they will charge a higher rent to amortize the capital costs plus costs of repair or replacement.

• **Sign the right kind of lease.** Extra fees and costs can be hidden in an industrial gross lease in which the landlord is responsible for paying all property expenses, such as taxes, insurance, utilities and repairs.

In a modified gross lease, the landlord pays the taxes and insurance on the first year of the lease (the base year) and the tenant pays the difference in following years.

In a triple-net lease (a lease in which the tenant is to pay all operating expenses of the property), the rent is the rent. This creates more flexibility on the base rental price because it is unknown what tax and insurance rates will be.

If a company has an NNN lease, it is advised to protest ad valorem taxes with a professional firm on a retainer basis instead of on a percentage of savings. ■

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