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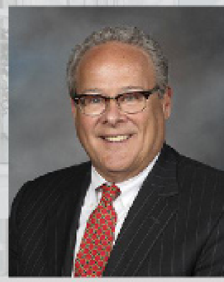

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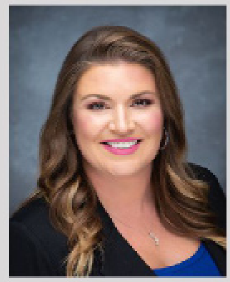

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The Industrial Flex Building Investment

A high percentage of speculative low-rise industrial buildings today are flex buildings making them a good investment. One of the most appealing aspects of flex space lies within its customizability. For example, if a tenant wants to increase their office space or warehouse space, they are easily able to do that with flex space due to the reduced improvement costs. A flex building also allows for the tenant to have more choices in the type of space their company needs now and in the future at a more affordable price. 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.

Another benefit is the vast diversification of its tenant mix. Unlike multi-tenant office buildings that are catered only to businesses such as law firms, insurance companies, financial institutions, etc., flex assets have tenants that range from construction companies all the way to retail-style restaurants. The customizable build-outs allow for a strong mix throughout each flex industrial park that normal multi-tenant office buildings would not be able to accommodate. As a result, landlords are mitigating risk by having a wide range of diversified national and local tenants throughout their business parks.

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.

(continued)

- 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 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 new tenant. Later expansions of tenant spaces are easily handled (at lower cost) because of the flex design features. With this many attributes, the flex building has the making of a very good real estate investment. ❏

The Conversion Of A Railroad Station

In many areas of the country, railroad stations are being re-awakened and brought back to a beautiful new life. The small town railroad station which had been closed down, boarded up and left to crumble into dust for many years is now being converted to a useful and desirable part of town. The large abandoned terminals which were once the busiest and most accessible buildings in a city are no longer deserted and deteriorating but have been converted to shopping centers, entertainment venues, and hotels. Stations along commuter lines in smaller towns are being used for small cafes, coffee shops, a flower shop and an assorted businesses to take care of the needs of the commuter.

Things have been changing along the old rights-of-way. Former railroad depots have been fixed up and now serve as retail furniture stores, antique or gift shops, as restaurants, even beauty salons. When the building has burned down or has been demolished, the area has often has been converted into commuter parking space.

Among the larger vacant train stations, the plan is to facelift the historic structure and redevelop the space into hotels, offices, stores and parking garages. For example, the St. Louis Union Station has undergone a $135 million renovation and now includes entertainment areas for cultural activities, specialty retail shops, restaurants, and a 550-room luxury hotel.

In the state of New Jersey alone, more than 140 train stations have been involved in a re-awakening of redevelopment interest. Mass transit experts, community leaders, and real estate investors have been planning on how to use an old railroad station to liven up a whole section of town. Developing the railroad station can encourage other new real estate ventures in the nearby area. ❏

Raw Land For Development

Land investment is much more complex than it was a few years ago. Because of expanded regulation and environmental concerns, the development process is much longer and so more expensive. The time from the initial raw land purchase until final sale of completed homes may be as long as 10 years.

Despite this, the purchase of raw land or partially developed land has the prospect for big profits without the burden of active property management.

The term "subdivision" describes the legal and physical steps taken by a developer to convert raw land into developed land. The most common example is the residential subdivision, because new homes usually precede (and create the need for) retail, commercial, and industrial development.

The subdivision process has three stages:

- Land in its raw or natural state.
- Semideveloped land, usually divided into tracts of 20 to 100 acres, including roads and utilities.
- Developed or subdivided land, platted into individual sites for homes as well as commercial structures.

From the developer's point of view, the subdivision process identifying the cost of the various elements that go into the development of the land can be helpful to the land investor in determining how to price the land when it is finally ready to sell. ❏

The Single Tenant Market

Investors who can provide the housing that satisfies the needs of the single tenant will stand to profit. We all know that the number of persons living alone has increased. Figures from the census bureau show that households that contain only one person have increased 90% since 1970. There are now more than 20 million people who live alone, more than twice the number of twenty years ago. This trend is expected to continue.

The One Person Household

Population experts say the trend is caused by a larger number of widows and divorced people and by the decision of more young people to wait longer before marrying.

Although the census bureau's data is not broken down by local areas, demographers say that inner-city housing is hardest hit by demand for the single tenant.

Investments In Singles

There are different kinds of residential rental properties that can help meet the growing demand for the housing-for-one:

- Developments which consist exclusively of mobile homes, modular homes, and pre-fabricated homes. The less expensive construction costs will attract many one-person, one-income households.
- Apartment buildings specifically designed with one-person units. Generally speaking, these buildings offer smaller units, more compact units, and more units per floor.
- Townhomes, condominium apartments, and homes with only three or four rooms are investments that attract those one-person households for whom money is not a major concern. The householder may prefer to buy rather than rent or may prefer a more private, secluded environment.
- Accessory apartments and echo housing units are forms of modifications or conversions to an existing home, usually a garage. These offer owner-investors a rental income and a higher market value on the basic property.

Rentals offer young people maximum flexibility and offer older people minimum upkeep chores. Thus, one-person households will tend to be renters rather than owners. ❑

The CPI Escalation Rental Clause

Putting a CPI (Consumer Price Index) escalation clause in a lease is to make the lease fair to both the tenant and the property owner.

A primary benefit of escalation clauses is they help protect against diminishing purchasing power related to inflation. The CPI measures monthly the average change in the prices consumers pay for certain goods and services such as oil and gas, healthcare, food, and housing.

Commercial leases commonly provide that while rents will follow the CPI upward, they will remain the same when the CPI goes down. Landlords will argue that this is necessary because the CPI rarely declines and the one-way provision is necessary in leases when the owner obtains financing. Institutional lenders are always concerned that the income stream from a property not be subject to decreases due to lease provisions.

CPI clauses operate in one of two ways in the calculation of annual changes. Most common in use is the "yearly method". At the end of the year, the rent is increased by the amount of the increase in the CPI in the previous year. So, the rent each year is raised to a new level and this is the basis for the next year's adjustment.

The other method is the "cumulative method." Using this, the initial rent (at lease commencement) is increased each year by the change in the CPI between the beginning of the lease term and the current year. In other words, each CPI adjustment reflects the cumulative CPI increase since the beginning of the lease term.

When the CPI rises steadily throughout the lease term, both methods yield the same results. However, if the CPI declines in a year and then increases in the following year, and if the lease contains a one-way provision, the cumulative method favors the tenant. This is because using the cumulative change in the CPI means that declines are included as well as increases in the total. By comparison, under the yearly method, the tenant loses the benefit of a year in which the CPI has declined. ❑

The Right Kind Of Investment

A prospective investor may have many questions about what kind of investment is right for them. The answer to these problems can be an interview with an interested professional real estate broker who can act as a real estate investment counselor. A prospective investor can be interviewed in depth to find out their specific needs and wants in an investment property. At the same time their needs are being evaluated, the broker will also communicate what benefits are available in various properties and how to identify them.

Some considerations should be given to the risk of loss for each age bracket of investor. Should an older investor purchase a property with the smallest down payment and highest leverage position? This will limit cash flow and may cause the property to have a "negative" cash flow. Is this what they want–or do they want cash flow from the property?

How about the younger couple? Are their objectives for long-range estate building or for current cash flow? Would they be more willing to take chances with a marginal investment that might bring big returns later?

These answers must be decided by each investor for himself or herself. But, only after enough information has been furnished so that an intelligent decision can be made.

When a new investor has a better idea of the type of property that will do the right job for him/her, then and only then should they be exposed to the market place and shown specific properties. Now the investor or investors can evaluate the various benefits and risks for the information shown on each property and apply the information to their own situation.

What is right for you? A new rental unit? A strip center? A one-hundred unit apartment property? An Outlet Center? Perhaps you should have five or six apartments or commercial properties in scattered locations. Real estate counseling can show you that you can choose which is right for you and know the reasons why it is right! ❏

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Commercial Real Estate's Global Standard for Professional Achievement

A CCIM is a professional real estate practitioner with proven technical expertise in commercial property. A CCIM is a person truly committed to the fundamentals of effective commercial-investment brokerage. The CCIM has completed a full schedule of Post Graduate Level Courses in investments, taxation, development and marketing all types of commercial-investment properties. The designation of Certified Commercial-Investment Member is unquestionably the highest degree awarded in the commercial-investment real estate practice.