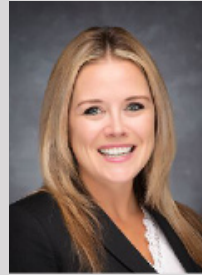




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Industrial Property Investments

MAY 2024

If you haven't considered industrial properties as an investment vehicle, it may be time to take a look. Warehouse and distribution (W&D) properties are of interest because their standard layout suits a wide range of users, in contrast to specialized manufacturing facilities. Industrial properties look good for the following reasons:

- The market for industrial property is doing well with vacancy rates nationwide below those of other commercial buildings.
- There is a shift in the location and nature of demand, caused by changing technology and trade patterns, that will present investment opportunities.
- Institutional investors who have portfolios that are light in industrial assets are acquiring warehouse and distribution

properties for diversification.

With any kind of investment, of course, there are always risks. The most significant is the potential for rapid functional or geographic obsolescence. Because of this, investors must carefully analyze factors such as location, construction, ceiling height, and the number and location of docks, as well as other factors.

The Healthy Property

The turndown in real estate did not affect industrial property as much as other properties because this property did not encourage speculative building; as much as 30% of the cost of W&D properties is in non-depreciable land, so they held limited appeal for tax-motivated investors. Foreign investors have largely avoided the warehouse and distribution sector because it lacks the "trophy quality" that makes offices, hotels, and resorts attractive. As a result,

warehouse development was driven more by demand than by capital seeking an outlet. Also the size of the properties discouraged many institutional investors who prefer to invest in larger properties than the typical \$1 million to \$10 million W&D property.

Choosing The Investment

Choosing the right property may be a little more difficult. Certain factors may be driving the warehouse and distribution market toward greater efficiency, changing how and where business will be done:

- **Inventory control systems.** Computerization and techniques such as bar coding can insure faster and more reliable deliveries from shipper to destination. Combined with just-in-time systems, it reduces inventory and space requirements.
- **Automated space.** Using robots in W&D facilities will grow



(continued)

over time, encouraging more efficient use of space.

- **Regulations.** With the trend toward deregulation during the past decades, there has been a reduction in delivery costs by trucks and planes, causing a shift away from rail and water. This widens the possible locations for warehouse and

distribution facilities. Since trucks and planes speed deliveries, the amount of inventory stored and the space needed can be reduced.

Investment in warehouse and distribution facilities must be very carefully thought out because of the conflicting needs for greater demand for space while using existing space more efficiently. □

Relocating An Existing Tenant

A landlord's standard lease usually contains a clause requiring a tenant to move to another space in a commercial building or shopping center. A new tenant that is negotiating for space in the building might be surprised to see the clause before signing the lease, wondering about the reasons for it.

The owner or manager will seldom require any tenant to move to another space because it can be expensive for both the owner and the tenant. The clause must be in the lease, however, as the owner has to be able to manage space efficiently.

This clause can require the tenant to move to other space in a building (or even to another adjacent one) on appropriate notice from the landlord at any time during the lease term. The usual reason to relocate a tenant is to consolidate scattered vacant space in a building to provide a large block of space for an existing or single incoming tenant.

If the commercial building is a shopping center, a first class tenant (in the sense of its ability to generate shopping traffic) might choose a certain location. The landlord might relocate existing tenants because that relocation will benefit every tenant in the center.

Objection To Relocation

The objections by a tenant can be obvious. The proposed new space is not as desirable. Goodwill might be lost by the tenant. The move will cause confusion within the business. A retail business can lose sales during the move. However, only the largest and strongest tenants will be able to eliminate the clause in the lease. These are the tenants least likely to be relocated anyway.

For the smaller tenant, the goal should be to ensure that the clause, if exercised, can not be done arbitrarily or at any cost to the tenant.

Conditions In The Lease

Here are some conditions that would normally be in the relocation provision:

- **Advance notice.** A tenant should get notice of the relocation with a right to access the new space in plenty of time before the moving date to get the new location ready for his occupancy.

- **Reason for the move.** The relocation should be for a definite cause and only in cases specified in the lease. **Example:** The incoming tenant that will be using the tenant's old space will occupy a certain percentage of the property or a certain square footage. In this negotiation, the landlord may object to specific statements as this could limit his options.

- **The new location.** The proposed new location should be specified, when possible. **Example:** Same building or another specified building, specific floors. The square footage should be the same with minor variation and the space should be comparable in location, improvements and amenities.

- **Rent adjustment.** The landlord will want the tenant to pay the same rent per square foot. The tenant may argue that the rent should be based on square footage only with lesser rent for a smaller space.

- **Moving costs.** The landlord should agree to pay for all costs of the move, including moving expenses, painting and remodeling, so the space is comparable to the original space.

- **Frequency of relocation.** Only one relocation should be allowed in one lease term. In a long lease, no more than once in a specified number of years. If the relocation occurs in a specified number of months before the expiration of the lease, either or both of the parties can have the option to terminate the lease. If the landlord terminates, he may agree to pay the tenant a specified cash payment. □

Changes In The Workplace

Working from home is now becoming a trend. The growing popularity is remaking how we work, the tools we use for that work, how we communicate at work, and even the hours we work.

A major benefit to the employer is being able to downsize on square footage of space for the company. A major benefit to the worker is that they can buy a home outside of the business area in a suburb or at an ocean resort with the great locations that they desire and not have to think about what the daily commute will be.

Employees who work from home have changed some sectors of commercial real estate, both in terms of how spaces are designed, how many square feet the company needs for workers and where the company is located.

Many companies have downsized their office space to save money by allowing or even encouraging employees to work from home. What was born from necessity during the last recession has turned out to have greater benefits than lower rent on the commercial office.

It has been reported that employees that work from home are just as, if not more productive, with less distractions, have their output increased and seem more satisfied in general.

If the same employees were in the office, there are coffee breaks, socializing and interruptions

through out the day, that is not happening at the home office. The employee can work in any kind of clothes that they desire, no longer have to spend money on lunches, gasoline, parking and the day to day expenses that occur when commuting to an office.

This type of work has also been a boon for parents who need more flexibility in their schedule to accommodate child care, school events and sick kids. Sometimes it can be a problem to work at home with small children. But these are small problems that can be solved by balancing work and personal lives.

It has been reported that in recruiting the best talent, employers find that the work at home concept is a major perk.

Remote work does have its share of problems. Some people dislike working in the same place where they live and relax, and it can be difficult to create and maintain a company environment without co-workers being in the same room. But the concept of not commuting on a crowded bus or slow and go in early morning traffic is a major benefit.

Above all, buying a home in a more desirable location is a great plus for the employee and being able to downsize on square footage is a major plus for the company. □

The Future Of Commercial Investments

Which way is the right way in real estate investments in 2024? What is the future in these investments? An answer to these questions can be an interview with an interested professional real estate broker who can act as a real estate investment counselor. Each prospective investor can be interviewed in depth to find out specific needs in an income 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 investors? 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?

Each investor must decide these answers 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, or them, 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? . Real estate counseling can show you that you can choose which is right for you and know the reasons why it is right! □

Building Standards For Any Tenant Improvements

A building owner wants to be sure that improvements made by or for a tenant be of equal quality to the building itself. That's because tenant improvements, upon completion, become a permanent part of the building. The goal is to establish building standards that will permit a suite of office space to be fully developed to a tenant's specifications with no extras involved, while also ensuring that the improvements are of satisfactory quality, commensurate with the improvements in other tenants' space and with the building itself.

A copy of the building standards should be included with the lease and will identify the specific materials that are to be used for such components as doors, partitions, and fixtures. And the standards will also specify the type of carpeting, floor covering, or wall finishes that the landlord will provide or allow.

Throughout the entire office building, for example, the ceilings, doors, hardware, light fixtures, area floor coverings should be standard and not subject to tenant choice.

Window coverings are almost always standard so that a uniform appearance is achieved both from the exterior of the building as well as in the interior office areas. Draperies or window blinds (horizontal and vertical) are the predominant choice, and tenants are cautioned not to change them.

What Variations Are Allowed

Wall finishes are very important to most office tenants. Many such tenants may desire reception area and key executive offices be covered with a wall fabric, wallpaper or paneling rather than paint. The building standards should allow this variation, provided that the wall is reconverted to a paintable surface at the end of that tenant's lease term.

Within each tenant's space, however, moveable or fixed partitions or carpeting of a particular color may be allowed to personalize the office and to accommodate the tenant's preference.

Electrical and Communications Requirements

The electrical and telecommunications standards are a major concern of today's office building managers. These standards quickly become obsolete by technological advances. So, for example, the number of electrical and telephone outlets per square foot of occupied space must increase to meet the new needs of tenants in the "information age". A modern office building now must provide capability for computers and internet, fax machines, copy machines, video teleconferencing, electronic mail, interoffice and traditional telephone service, energy management and security. □



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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.