

INDUSTRIAL TENANT REP DUE DILIGENCE: COVERING THE BASES FOR OUR CLIENTS

By Jim Hochman & David Liebman, SIOR

As we negotiate the right lease for our industrial tenant clients, it is critical that we focus on several recurring topics which could impact those tenants economically, logistically, and in other ways. This article also falls under the heading of “the best surprise is no surprise.” Below are topics where we must make especially diligent and thorough inquiries on behalf of our clients, to ensure the right result to the industrial leasing process.

1. Real Estate Taxes and Incentives:

Taxes are a typically significant component of a tenant’s occupancy costs. Key inquiries to be made include:

- What are the current real estate taxes?
- What is the current property’s assessed valuation?
- When will the property next be reassessed?
- Is there a tax incentive in place which has artificially or temporarily reduced taxes?
- If so, when will the incentive expire, and
- Is there a possibility/likelihood of renewing the tax incentive?

Lease transactions can easily go sideways when it becomes evident that existing or promised real estate tax incentives either will expire during the lease term or won’t be renewed. Worse yet, consider the ramifications if the lease were finalized

and your tenant client finds its share of property taxes doubled from year one to year two because a 6B classification expired. While the special classification may not show on the tax bill itself, might it be reflected elsewhere in the public records, i.e. with the village where the property was located?

2. Power Availability and Requirements:

When dealing with manufacturers and light assemblers, their machines and tools often require a variable list of amperage, voltage, and other electrical criteria. During an industrial property sale involving one of the authors, the property was represented as providing 800 amps of power. Well into the transaction, it became clear that only 600 amps power was available. The cost to upgrade the existing power was in the \$80,000 range, a cost that the seller reluctantly absorbed to complete the \$2.4 million property sale. We strongly recommend that an electrical contractor be engaged at an early stage by either party to confirm the property’s existing electric power specifications, and to include those specifications in the lease or purchase and sale contract to avoid such issues.

Again, consider the ramifications if the sale had closed before the problem came to light. Might the listing broker have liability for misrepresentation? Might a tenant’s broker find itself defending a negligence claim for failing to verify the listing broker’s representations?

3. Parking—On Site, Off Site, Car and Truck/Trailer:

One of the most significant factors impacting industrial properties today—especially in e-commerce/distribution warehouse transactions—is the capacity of car, truck, and/or trailer parking, and whether the parking is onsite or offsite. The Amazons of the warehouse distribution world require much greater ratios of car and truck/trailer parking on site than ever before. It therefore falls upon industrial brokerage professionals to determine, at the earliest stage possible, the existing AND potential parking configurations presented by an existing building and land site; or for a vacant land site being considered for construction. Moreover, for urban infill properties used for “last-mile” warehouse or fulfillment centers, where offsite parking is often the norm, the availability and capacity of street parking often will

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make or break the deal. As such, these parking parameters can and should be properly detailed in the final lease/contract document. Don't overlook the issue of employee parking, where a property's use often drives the number of employees and therefore the number of parking spaces needed.

4. Special Assessments, Utility Service Charges and Impact Fees: In the "old days," such costs and charges rarely presented an issue for industrial users/occupiers. Fast forward to today's more complicated industrial tenant requirements—especially for food users and manufacturing processes requiring large water supplies. Availability and access to large quantities of sanitary water, as well as elimination of waste effluence, plus the costs associated with such requirements, could disqualify certain properties and sites from the tenant's consideration. It is therefore critical to understand exactly what the client requires; what is available locally; and what can be installed or created to meet the client's requirements in these areas, and address these issues in the lease/contract document.

This short list of examples is hardly comprehensive, but illustrates critical issues that must be identified and resolved at the earliest stage possible in the transaction process. Consider these and other due diligence issues, and your industrial tenant client will be appreciative and grateful for your attention to the issues—and will be a repeat client instead of a plaintiff. ▼

CHATBOT TECHNOLOGY

Written By: George McCutchen, SIOR

WHAT IT IS

These "chatbots" typically respond to frequently asked questions but give consumers the feel as though they are speaking with a real individual. The system can be custom fit to your interface and needs. This technology is already being used by companies such as Lyft, Sanofi Pharmaceuticals, and Fidelity International Investments. A major initial application is to help qualify leads, etc. such as asking how many dock doors or private offices are needed, or required ceilings heights, etc.?

HOW IT WORKS

Rulai is a technology firm that provides artificially intelligent chatbot technology to companies. It is a basic chatbot framework that consists of a messaging connector, a natural language processing engine, and a dialog manager that takes user intent and outputs chatbot responses. The process goes as follows: A domain expert uses the system to create the chatbots. Once implemented, users interact with the chatbot. When human interaction is required, the user is transferred by chatbot to a live agent. With adaptive learning, the AI uses interaction and data to further understand dialog flow management to continuously

improve and enhance the efficacy of the chatbot. Lastly, multi-channel integration makes the chatbot even smarter—it leverages data from both internal and external services such as other bots, a Contact Center, and a CRM to improve systems.

WHY USE IT

Rulai and other chatbox services save time and money by allowing your workforce to be more productive. Rulai's system also clears confusion for your customers, relieving their frustration and creating a better connection. This system can be implemented into a CRE website to answer questions about your properties and listings, allowing you to focus on more value-added activities. Surely the human connection cannot be replaced, but this tech will allow you to work smarter, not harder. ▼