

The Ins and Outs of Real Estate: Tips and Guidelines for Nonprofit Organizations

A ULI Advisory Services Program Report

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ABOUT ULI—THE URBAN LAND INSTITUTE

ULI—the Urban Land Institute is a nonprofit research and education organization that promotes responsible leadership in the use of land in order to enhance the total environment.

The Institute maintains a membership representing a broad spectrum of interests and sponsors a wide variety of educational programs and forums to encourage an open exchange of ideas and sharing of experience. ULI initiates research that anticipates emerging land use trends and issues and proposes creative solutions based on that research; provides advisory services; and publishes a wide variety of materials to disseminate information on land use and development.

Established in 1936, the Institute today has more than 22,000 members and associates from 80 countries, representing the entire spectrum of the land use and development disciplines. Professionals represented include developers, builders, property owners, investors, architects, public officials, planners, real estate brokers, appraisers, attorneys, engineers, financiers, academics, students, and librarians.

ULI relies heavily on the experience of its members. It is through member involvement and information resources that ULI has been able to set standards of excellence in development practice. The Institute has long been recognized as one of America's most respected and widely quoted sources of objective information on urban planning, growth, and development.

This Advisory Services program report is intended to further the objectives of the Institute and to make authoritative information generally available to those seeking knowledge in the field of urban land use.

Richard M. Rosan, *President*

ABOUT ULI ADVISORY SERVICES

The goal of ULI's Advisory Services Program is to bring the finest expertise in the real estate field to bear on complex land use planning and development projects, programs, and policies. Since 1947, this program has assembled well over 400 ULI member teams to help sponsors find creative, practical solutions for such issues as downtown redevelopment, land management strategies, evaluation of development potential, growth management, community revitalization, brownfields redevelopment, military base reuse, provision of low-cost and affordable housing, and asset management strategies, among other matters. A wide variety of public, private, and nonprofit organizations have contracted for ULI's Advisory Services.

Each team is composed of highly qualified professionals who volunteer their time to ULI. They are chosen for their knowledge of the topic and screened to ensure their objectivity. ULI teams are interdisciplinary and are developed based on the specific scope of the assignment. ULI teams

provide a holistic look at development problems. A respected ULI member with previous experience chairs each team.

A key strength of the program is ULI's unique ability to draw upon the knowledge and expertise of its members, including land developers and owners, public officials, academics, representatives of financial institutions, and others. In fulfillment of the Urban Land Institute's mission, this Advisory Services report is intended to provide objective advice that will promote the responsible use of land to enhance our environment.

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ABOUT THE CONRAD N. HILTON FOUNDATION

Established in 1944 by hotel entrepreneur Conrad N. Hilton, the Conrad N. Hilton Foundation remained relatively small until Hilton's death on January 3, 1979, when it received the bulk of his estate. The foundation's offices are located in Los Angeles, California, and Reno, Nevada. The foundation, the Conrad N. Hilton Fund, and related entities have total assets of \$1.6 billion. Since their creation, the foundation and the fund have distributed \$356 million for charitable projects throughout the world. Grand payouts average \$30 million per year, and the combined operating budget for the foundation and the fund is \$7.5 million.

In August 2000, the Conrad N. Hilton Foundation awarded a grant to the ULI Foundation to support, among other things, ULI's Advisory Services Program, particularly its efforts to help inner-city neighborhoods in need of revitalization.

ULI used a portion of the Conrad N. Hilton Foundation grant money to fund this workshop, which aimed to develop real estate guidelines and strategies that nonprofit organizations can use when they plan to relocate their offices, either voluntarily or due to circumstances beyond their control. The Institute will distribute these guidelines to nonprofit membership organizations for their use and for distribution to their constituents as appropriate. As a result of this workshop, nonprofit organizations will have a valuable source of information to which they can turn when faced with office relocation issues.

ABOUT THE ULI FOUNDATION

The ULI Foundation supports the mission of the Urban Land Institute by providing an assured source of funding for ULI's core research, education, and public service activities and for a variety of special initiatives. Through its various giving programs, the Foundation helps to strengthen ULI's ability to provide responsible leadership in the use of land to enhance the total environment. The ULI Foundation funds ULI programs in the following areas:

Research. The ULI Foundation supports activities such as updating and expanding ULI's *Development Handbook* series as well as defining and promoting best practices in inner-city redevelopment and environmentally responsible development.

Public Service. The Foundation also funds Advisory Services panels in distressed inner-city or disaster-affected communities. Since 1986, ULI has held more than 40 inner-city revitalization panels in more than 35 cities and provided panels to Oklahoma City after the tragic 1995 bombing; Grand Forks, North Dakota, after the 1997 flood; and Bound Brook, New Jersey, to help that community rebuild after floods from Hurricane Floyd severely damaged its downtown in 1999.

Education. The Foundation contributes funding to ULI educational programs, including the Institute's Fellows Program, which involves academic leaders in ULI activities; symposiums, which address issues such as inner-city retail development and brownfields redevelopment; and Mayors' Forums, which bring leading ULI members and public officials together to pursue solutions to pressing urban revitalization problems.

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Introduction

Ten years ago, nonprofit organizations (NPOs) generally were able to acquire office space either free of charge or at significantly reduced rates. Although this is still the case in some areas of the United States, many cities began to see this trend change five years ago, as the supply of free and inexpensive space began to dry up. Today, while some markets—like San Francisco—still cater to nonprofit organizations, free and reduced-rate office space is all but nonexistent in many parts of the country. Revitalized neighborhoods and a more competitive real estate market have caused rents—once a small fraction of a typical NPO’s budget—to become a significant portion of many NPO budgets, at the same time that the cost of available space has increased dramatically. This situation has forced some NPOs to look for new office space to rent and caused others to ask whether they should purchase or build their own space to escape rent inflation.

Nonprofit organizations often underestimate the effort involved in leasing, buying, or building office space. Such groups, which naturally focus their energies on furthering their missions, frequently are not experts in the fields of real estate tenant representation and development, and therefore do not fully understand how much time, resources, and energy are required to find, move into, and maintain the right space.

Likewise, many property managers and neighborhood businesses do not fully recognize the advantages of having NPOs in their neighborhoods. These organizations can be an integral part of the community. They are community leaders and—especially today—major economic drivers. The goodwill that NPOs can bring to communities needs to be better understood, both as a marketing tool by NPOs and as an overall benefit by property managers.

As with most businesses, financial considerations drive many NPO decisions. Donors and board members typically feel that an NPO should obtain the least-expensive space available and avoid spending extra money on office space, so that more of the organization’s dollars can go toward furthering its mission. This ideal, while altruistic, is not necessarily realistic,

given the cost of space in some markets. This perception must change so that NPOs can obtain space that will meet their needs and their budgets. However, NPOs need to have a valid argument when they appeal to their boards and funders to allocate a greater percentage of the budget for rent or mortgage expenses. Therefore, this change in perception must be supported by an appropriate real estate strategy and good advice on how to proceed.



In an effort to address these issues, the Urban Land Institute—with financial support from the Conrad N. Hilton Foundation—conducted an Advisory Services workshop at which a select group of real estate experts and representatives of NPOs gathered in Washington, D.C., in February 2003 to discuss the real estate challenges faced by both large and small NPOs. The result of this workshop is a set of real estate guidelines supported by case studies of several NPOs.

This report is intended to help NPOs evaluate the amount of planning required when they consider their real estate needs. Although physical space is often one of the last considerations in the moving process, it is a very important one, because the location, type, and size of the space chosen define the organization and affect how efficiently the organization is able to operate. These guidelines begin by recommending that every NPO develop a business plan—including a real estate strategy—that takes into account where the organization is today as well as where it plans to be in the future. The guidelines go on to offer advice about how an NPO can determine whether leasing or buying is best for the organization and to help NPOs understand the leasing and buying processes.

Developing a Strategy

Every NPO, like every for-profit organization, needs a business plan. A real estate strategy that addresses the organization's growth and expansion should be an integral part of this business plan. Traditionally, growth in the nonprofit sector has tended to be reactionary; however, in order to best understand their organizations' office space needs, NPO decision makers also need to know what their organizations will look like in the future.

A Three-Step Process

Nonprofit organization decision makers should take into account the following steps when you are either forming or reassessing your organization's business plan and real estate strategy.

Step One: Define Your Organization

Every NPO, regardless of size, should begin by defining itself and its expectations for the future. While most organizations have a mission statement, every NPO also needs a business plan that will enable the NPO to fulfill its mission. The time and resources that you invest in this strategic planning process will be well spent and will allow your organization to make decisions more efficiently in the future.

Step Two: Define Your Needs

The second step is to define the NPO's needs for fulfilling its business plan and creating a real estate strategy. This step includes determining sources of funding both for furthering your mission and for paying for office space. It also involves determining which employees play an active role in raising funds and executing the organization's mission, since any potential office relocation must take these key employees into consideration. You also must consider how your organization operates most efficiently. This detailed examination of your organization is necessary not only for the business plan, but also for determining what type of space will best suit the NPO. By defining your organization's needs, you will be able to



determine how much space you can afford, where you should locate in order to keep key employees on staff, and what kind of space you need.

Step Three: Define Your Office Space Priorities

The third step involves creating a set of priorities for your office space. Although this should be a team process, your organization should designate someone within the organization to be in charge of all real estate issues. That person will be the NPO's representative to all outside parties as well as the internal key contact.

Your organization also should make a list of the amenities that are important to it. These amenities could include access to public transportation, proximity to a mission-related entity, the image associated with being located in a particular neighborhood, easy access for members or funders, or even the view from the office windows. List everything that is important to your organization—in decreasing order of importance—and then be prepared to scale back, if necessary.

Budgeting Information

Nonprofit organizations frequently misunderstand how to allocate rent. Regardless of what you pay for your organization's space—whether it is free, subsidized, or market rate—you should allocate the market rate of the space as a program cost. If you are paying less than market rate, you should put the additional money in a reserve account. This reserve will be extremely helpful if you suddenly have to begin paying market rates; the resultant need for additional funds will be a shock neither to your board nor to your account. The reserve fund also will be important if at some point you decide to buy space and are required to have operating costs in reserve.

The Decision to Relocate

An NPO must consider many things when deciding to relocate. NPO decision makers must determine how far away from your current location you should move, what type of space your organization needs, whether you should lease or buy this space, and whether you will need to hire consultants to help your organization through the relocation process.

Nonprofit organizations that move more than ten miles from their current location typically do so for one of the following four reasons:

- A new executive director lives outside of the area in which the NPO currently is located;
- The cost of operating is substantially less in a new area;
- Funding sources have dried up, so the NPO must move to a new area in order to target a new market for fundraising; or
- Because of the NPO's mission, it makes more sense to be in a different area.

Impacts on the Organization

Regardless of the reason for the move, it is important to consider the ramifications that relocating will have on your organization. First, you must understand how the move is going to affect your mission. If your organization has no ties to the community and can easily move elsewhere, relocating presumably will not have a negative impact on your mission. Many NPOs' missions, however, are integrally connected to the communities in which they are located. If your organization has ties to the community, you can move only so far before the NPO will begin to suffer negative effects. A move also could cause the perception of your organization to change.

Impacts on the Staff

You also need to consider how the move will affect the organization's staff. Regardless of how near or far the new location is from your current one, some staff members may not agree to move with the organization. Even if the new office is within the same region, some employees may decide that their new commute is just too long. Given the predominance of dual-income families today, an office move that necessitates a residence move may cause you to lose employees whose spouses have higher-paying jobs and are unable or unwilling to move.



If some employees chose not to make the move, you will need to allocate time and resources toward hiring replacement staff. You should either budget for this likelihood or determine what it will take to avoid this situation. Providing moving incentives that make the move income positive for employees is one possibility.

Rather than moving an entire organization, NPOs sometimes decide to split the organization between two or more locations. Although this solution has been known to work, the decision to move only some employees can cause more problems than moving the entire organization, as the example on the following page illustrates.

Case Study Front and Back Offices

A well-established and growing NPO faced a difficult real estate decision that involved balancing financial considerations with organizational culture and unity. For all of its existence, the entire organization had been located in a single building. Roughly two thirds of the organization's program was essentially "front office" in nature, involving a large number of visitors, including funders and "customers." The remaining third consisted of "back-office" administrative functions such as data entry and processing, mailings, and so forth.

Faced with a need for more space, the organization's leaders realized that growing in place would require paying very high rents for additional space in its existing building, thanks to a tight real estate market and the fact that their building featured many amenities in a high-profile location. Focusing on the financial considerations, they decided to lease additional space in a less expensive—but also less convenient—location to house the organization's back-office functions. After about two years of operation split between the two locations, the organization faced serious internal issues, including low staff morale as well as unity and coordination problems. The back-office staff felt that they had been demoted to "second-class citizens." As a result, the organization essentially reversed its decision and began the difficult process of rejoining all its operations at the original location. This double move obviously was extremely expensive and disruptive to the NPO. ■

Space Considerations

An office is more than just space; it also says a lot about your organization. The location and type of space you occupy embodies your attitude, creates a perception, and plays a role in helping you accomplish your mission.

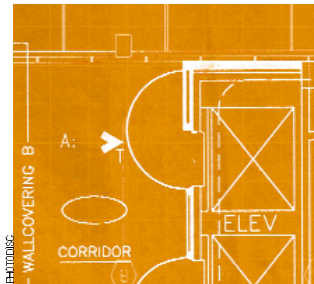
As mentioned earlier, it is important for NPO decision makers to start with a “wish list” of amenities. You then can use this list to create a set of priorities for your space. It also is important to understand that you are unlikely to find office space that meets all of your requirements. You therefore must be ready to scale back these requirements by focusing on those that are most important to your organization.

Many organizations think in terms of the relationship of their dollars to available square footage. When assessing available space, however, you should first consider how the space fits your needs and program rather than focusing on the total amount of square footage. The amount of *usable* square footage available to meet your organization’s goals is more important than the *total* square footage.

Consider whether you want individual offices, a large room where you could put cubicles, or an open space that could be used in a variety of ways. You also should consider what you want your reception area to look like. Decide whether you need a supply room, a copy room/ mailroom, and/or a kitchen. Think about what kinds of space you need for meetings or conferences. Determine how often you hold meetings and how many people typically attend. Some organizations have found that holding all meetings outside the office makes more economic sense than having their own meeting space, because they hold too few meetings to warrant paying for the extra space. Going back to your business plan will help you to think in terms of your long-term needs. If your goal is to expand and you want to stay in the same office for the long term, you must plan for that additional space now.

As you begin to identify potential office spaces, you should “test fit” the space. Property managers or consultants can help you create a footprint to show how your office functions

will fit into the space. Make sure that the space actually accommodates that footprint and that the footprint is not just jammed into the available space. By test fitting, you put aside total square footage and focus on usable square feet. How your footprint fits within the space is much more important than how many square feet you are getting for the dollar. Do not become obsessed with numbers; focus on the *value* that you are getting for your dollar. Most brokers and landlords will help you test fit your space.



Subleasing

When you create the footprint, take into consideration your organization’s growth potential, as determined by your business plan. If you expect your organization to grow significantly, you may want to consider leasing or buying more space than you currently need, to accommodate future growth. One benefit of doing so is that you could avoid paying an inflated price in the future, when you will need the extra space. You must, however, plan carefully and understand what you are going to do with the extra space in the interim.

If you lease or purchase additional space, it is imperative that you know in advance who will sublease the space from you. Test the market first, to make sure that you will be able to identify one or more appropriate tenants who could sublease the space. Do not assume that you will be able to find sublessees later. You do not want to end up paying more than you currently can afford because you do not have sublessees to help cover the margin.

Shared Space

“Shared space”—in which several organizations lease or buy space together and run separate organizations out of the same office—has become a buzzword recently. Before your organization commits to such an office setup, however, it is imperative that you understand what sharing space entails on a day-to-day basis.

Case Study Subleasing

A well-established NPO serving a specific community in New York City received a sizable grant from a donor. Like every other organization in the city, the NPO was concerned about real estate issues, specifically the cost of supporting its home as well as its ability to remain in a single location for an extended period of time. The NPO's broker proffered what sounded like an ideal solution. Although the NPO needed only about 50,000 square feet of space, the broker encouraged the organization to take over an entire building—with more than 100,000 square feet of vacant space—as a way to accommodate long-term growth, legitimately invest the money it had received, and leverage its reputation to secure solid subtenants and generate “excess revenue.”

The idea sounded good to the NPO, so it leased the entire building and spent several million dollars—most of the donor's contribution—to improve its own premises and the additional floors that it planned to sublease to other tenants. Then, it waited.

Unfortunately, the NPO had leased the space at the height of the market. Even though it had improved the vacant floors, it was unable to attract interest in the premises from anyone willing to pay what it needed to bring in to make a profit or even break even. Although the NPO did not sublease any space, it continued to pay rent to the building owner for the entire building for several years. The loss on the space contributed to the organization's financial woes. The NPO eventually sublet the premises, but the loss to the organization was both significant and unrecoverable. ■

Case Study Shared Space

The Theater, a small, New York City-based not-for-profit arts membership organization, spent its first years of existence as a member of a space-sharing consortium, in which all decisions—from major lease negotiation issues to cleaning out the communal refrigerator—were determined by a democratic “one member, one vote” committee process. As the organization grew in size and profile, its need for autonomy began to outweigh the cost savings from sharing space. Ultimately, the consortium disintegrated under the pressure of its landlord's aggressive lease renewal terms and a lack of consensus among consortium members. The Theater subsequently leased office space on its own, a situation that has worked out well. Interestingly, several years later, the Theater sponsored two shared-space initiatives for its constituents. That project has succeeded largely because the Theater took a strong leading role in structuring and directing the development process, rather than relying on an unwieldy “committee” approach.

The Theater's shared-space initiatives are successful because a single lead organization sets the rules and manages the space. Other shared-space agreements among tenants of equal status have been problematic because clear expectations were not spelled out at the outset. In order for a shared-space structure to work, one organization needs to be in charge to set expectations, take care of day-to-day management issues, see that rents are paid, and ensure that the building remains well maintained. ■

Leasing or Buying Office Space

If and when your organization is faced with the decision to either lease or buy office space, you should consider a number of elements. An internal assessment of the NPO's future should be a key factor in this decision. The decision to purchase space sends a strong message internally—to staff members, the board, customers, and constituents—that the organization expects to be around awhile and can be relied on to continue to serve its constituents and offer career opportunities for its staff. It also sends a strong message, and presents a challenge, to external constituents—including funders, public agencies, and political leaders—that the organization expects their continuing support and that it is time for them to invest in the long-term future of the organization. At such a moment in the organization's development, funders and other external constituents have the opportunity to advise for or against the NPO's purchase of space. In doing so, they are casting a vote that implies a certain obligation or commitment for future support.

Making the Decision

The decision to lease or buy will depend on the nature, mission, and core competencies of your organization. While owning office space sends a message of stability, the actual experience of owning space may be anything *but* stabilizing. The first thing to keep in mind is that if your organization purchases space, you will be entering the real estate management world. Your organization must be able to allocate the resources—including staff or consultants—necessary to manage its own space without diverting too much time and resources from the organization's mission.

Your organization has to be stable enough to be comfortable having cash tied up in a down-payment for the property. If your NPO is going through a lot of changes, your energies may be better spent focusing on your mission and stabilizing the organization. If your NPO is continually growing, buying a building or office will make moving harder when you outgrow it.

If your organization feels it has the resources and stability to purchase office space, there are numerous benefits to purchasing space, including tax benefits associated with purchasing real estate. Your organization will avoid being subject to certain rent escalations. If your organization previously rented space in a privately owned building, the owner was paying taxes on the space that he or she then passed on in higher rents. If your organization owns its own space, its tax-exempt status will free it from these costs.

Remember that the decision to purchase carries with it a strong message to internal and external constituents. The NPO can send this message in a manner that supports its growth and strategic plans and is reinforced by its communications efforts.

Leasing

If you decide to lease office space, you will want to bear in mind a number of factors when entering into a lease, including the length of the lease and rent escalation clauses. The best strategy typically is to lock

into the longest-term lease at the lowest rent possible. Notwithstanding that generalization, you must consider your organization's business plan before you lock into any decision to lease space.

Although a stable organization with little anticipation of significant growth definitely should opt for a longer-term lease, a smaller startup organization that may not have the financial credentials to receive approval for a long-term lease likely will have to accept a short-term lease or sublease. If the property manager will not cover the complete cost of buildout, the remaining construction costs should be amortized over the life of the lease and you will need to enter into a long-term lease to justify and fund construction.

While a long-term lease is generally preferable, short-term leases do offer some benefits. If your organization is small but growing, you will want to avoid being tied down by a lease to



a space that will be too small for your future needs. The flexibility to move year after year may be very valuable. Smaller organizations also are advised to pay attention to the real estate market. It may be possible to sublease office space from an organization that is locked into a long-term lease, has recently downsized and, consequently, now has extra space available. Look for vacant space; it tends to lead to better deals.

Landlords seeking tenants look for an organization with financial stability, one that shows commitment to its continued existence and that has funders who also have demonstrated their financial commitment. Going into the leasing process, you need to be aware that landlords will look at your balance sheet. You must be familiar with your balance sheet and accept the realities of what it says about your organization.

When you compare and consider rents and leases for different office spaces, it is important to look at rent escalation clauses in the lease. What may seem a good deal in year one could become a highly escalated rent five years later. Take into consideration the total value of the lease, not just the rate the landlord quotes at the outset.

You also should determine, as part of the lease negotiation process, how much of a buildout allowance the property manager will give your organization for any needed improvements. This allowance typically is negotiable and should be considered along with the monthly rent when making leasing decisions.

Buying

When looking for space to purchase, you should research any potential space fully before signing a sales contract. Remember, when you own property you become responsible for its maintenance. Your organization can turn to consultants for help in this realm, but whoever is investigating the history of the property needs to do so before you settle. Check the local zoning to make sure that the property is properly zoned for your use and that your office is not grandfathered in as a nonconforming use, which could restrict future expansion and redevelopment on the site. Hire an inspector to determine the condition of the infrastructure. When you close, you will be responsible for all—or at least your pro rata portion of—the property's electrical, plumbing, and roofing expenses. If the price per square foot of a certain space seems like a bargain, that may be because the infrastructure needs to be upgraded. Determine how much it will cost to prepare the space for occupancy, and use that figure to help negotiate the sales price.

Case Study Making the Decision

The U.S. arm of a large, international NPO had been leasing space for more than 30 years when a board member announced that it seemed to him it would make sense for the NPO to save on real estate taxes and get better control over its future operating expenses by purchasing a building. The NPO's management team then undertook a study to compare buying and leasing options. The team determined that after a certain point—around 15 years—the organization would be indifferent to the costs of renting or purchasing property, and thereafter the purchase option became financially much more attractive. In exchange for a large upfront expense, the organization would benefit from a fixed debt service and increases in only its building operating expenses. This eventually would create a valuable, debt-free asset.

The board concluded, however, that if the NPO purchased property, the equity value of that property would become its largest asset and would be, essentially, illiquid. Whereas an endowment comprising cash and securities can spin off cash each year and can be made liquid with little risk, borrowing against a fixed asset presents significant risk (loss of total value in the case of a default) and ties up vast resources that otherwise could be used for the NPO's program. In addition, a single asset deprives the organization of the ability to diversify its portfolio. Although its cash flow likely would have benefited from the long-term financial impact of the purchase, the NPO elected to continue leasing space because doing so enabled it to pursue its mission of providing programs to its community more efficiently. ■

Financing

The most critical hurdle that businesses have to clear before buying space is obtaining financing to purchase the property. Whether your organization launches a capital campaign, turns to a bank for a loan, gets a commitment from a sustaining donor, or uses a combination of all three, you should keep in mind the following key aspects of these financing methods.

A Capital Campaign. Raising the funds for a downpayment by means of a capital campaign may be easier than you anticipate. Donors may be eager to contribute to a capital campaign

if you convince them that by helping the NPO buy a building, they are creating a sense of permanence for the organization. They also may be relieved that their donations will no longer be going toward lease payments.

Institutional Financing. To secure institutional financing for a real estate purchase, you will need to go to the bank with a plan. Banks take into consideration three main factors when determining whether they will lend you money:

- *An Organization's Financial Ability to Pay.* Keep in mind that your organization's budget does not equate to cash flow and that banks will not consider still-outstanding pledges as cash. To obtain financing, you will need to show hard numbers and your financial history.
- *The Current Real Estate Market.* While NPOs obviously have no control over this factor, they need to recognize that the state of the market will affect their ability to get a loan and the terms of that loan.
- *An Organization's Property Management Expertise.* When deciding whether to approve a loan, financial institutions most heavily scrutinize an NPO's real estate expertise. The prevailing attitude is that NPOs are very good at furthering their mission, but often lack the internal expertise needed to execute a real estate deal and manage property. You will need to prove that your organization is in a position to responsibly manage the property, either by showing the bank that you do have real estate expertise or by convincing it that

you have hired appropriate consultants. You must create a compelling story that explains why you need the financing and the benefit that the bank's financing will bring, not only to it but also to the community as a whole.

A Sustaining Donor. When an NPO needs to purchase a particular space but simply does not have enough capital for a downpayment—or when it can afford the downpayment but not the necessary improvements—a sustaining donor can prove useful. After the donor purchases the building in his or her name, the NPO exercises an option to buy the property within a certain period of time. In the interim, the NPO moves into the space and leases it from the donor.

Building New Space

After you have determined that owning is the best option for your organization, you may decide to explore the option of building new space as an alternative to purchasing and renovating existing space. Building generally is recommended only for NPOs that have special niche requirements. If your organization needs a particular type of facility that is not readily available in the local real estate market—for example, a humane society that needs an animal shelter or a performing arts group that needs a theater—building may be your only option.

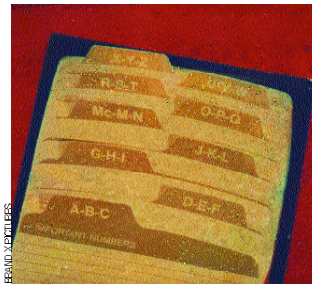
Getting Advice from the Experts

Hiring a consultant or a group of consultants usually proves to be worth the expense in the long term. Although it may be difficult for an NPO to justify investing in real estate advice, time and money spent at the outset often will prove its value early on in the consultant's involvement and can save the NPO many times that investment over time.

The larger the NPO, the more outside advice it may need from brokers, attorneys, and other consultants. Regardless of your organization's size, you should hire someone who has experience working with NPOs and who will be willing to give you his or her full attention.

Many NPOs seek out and rely on pro bono real estate advice. If your organization is short on funds, that can be a good path to take; however, you still must make sure that the advice is coming from someone with a relevant background who is willing to dedicate sufficient time to giving you the attention you need. For example, it is not necessarily advisable

to accept pro bono advice on real estate issues from a family-law attorney. Some NPOs are able to turn to members of their own boards of directors for pro bono assistance; these members may be able to work as a committee to provide the advice and services that the NPO needs. An NPO also can seek out an advisory board of professionals with specific areas of expertise or recommendations about where to get needed advice.



Consultants can help you define your needs and determine how to meet those needs in the most cost-effective manner. Brokers can help you to identify appropriate spaces as well as to understand the value of each space. Brokers and attorneys can help you negotiate your lease or sales contract in order to ensure that your organization obtains the best terms available. Whomever you hire should provide you with the expertise necessary to take care of your space needs so that you can focus on your organization's mission.

Making the Move

A realistic time frame will give your organization the best opportunity to find, secure, and move into appropriate space. The last thing an NPO wants is to be in a position where it is forced to settle on an expensive and/or inappropriate space simply because it did not have enough time to search for and find the *right* space. It is much better to be ahead of the game than to have to rush the process and make compromises. Although the timing will depend in part on the square footage and location of the space sought, your organization should begin the search process at least a year before you expect to move.

The Multiphase Process

An office move is an extremely individualized, multiphase process that requires many decisions and actions, and the amount of time needed for each phase will vary depending on the NPO's circumstances. Almost invariably, as the following examples illustrate, a larger NPO will take longer to accomplish each of these ten phases than a smaller NPO.

Phase I: Retain a Commercial Office Space Broker

An NPO that needs 10,000 square feet may want to interview three brokers to determine which is most qualified and to ensure that it selects a candidate with sufficient experience who understands and is responsive to the NPO's needs. The NPO must review the representation agreements and debate the merits of each particular broker. This process could take two to four weeks. A smaller NPO needing only 3,000 square feet may choose to interview only one or two brokers and might make its decision in a few days.

Phase II: Develop an Office Space Program

The NPO then must develop an office space program, possibly in conjunction with an interior architect, that describes its space needs. This program will enumerate the number of private offices and workstations, the number and size of conference rooms, and the size

of each workroom and other common areas such as a pantry and a reception area. The 10,000-square-foot NPO may need two weeks to accomplish this task, whereas the 3,000-square-foot NPO could create its program in two days.

Phase III: Identify Appropriate Locations

The NPO must identify appropriate office locations, taking into consideration factors such as accessibility for constituents, commuting time for employees, and proximity to mass transit. The 10,000-square-foot NPO may need one to two weeks to accomplish this task, while the 3,000-square-foot NPO could decide in just one day.

Phase IV: Select a Site

This phase will take approximately the same amount of time for a 10,000-square-foot NPO as for a 3,000-square-foot NPO, although coordination among the various individuals involved can add a few days or weeks for the larger NPO, depending on its organizational structure and efficiency. Phase IV includes the following steps:

- Preparing and evaluating an office space survey;
- Prioritizing the most appropriate sites;
- Touring and discussing three to ten buildings;
- Soliciting proposals for several of the best sites from the landlords' brokers;
- Responding to the most appealing proposals;
- Preparing "test-fit" plans to determine the optimal layout for the best few spaces; and
- Evaluating and negotiating business terms for the best site.

These steps will take two to six weeks for either a 3,000-square-foot NPO or a 10,000-square-foot NPO, but can take longer depending on workloads and vacation schedules.



Phase V: Design

After an NPO has found the space it needs, some construction likely will be needed before the space is ready for occupancy. This can range from simple repainting and carpeting to much more extensive tenant improvements such as adding new walls, upgraded wiring and telecommunications equipment, lighting, and so forth. The design of any proposed construction will take somewhat longer for the larger tenant, perhaps two to four weeks, while for a smaller NPO it might take one to two weeks. This phase can be accomplished before, during, or after the lease negotiations, depending on whether the landlord is willing to bear the costs of design without an executed lease or whether the NPO's relocation schedule requires it to move quickly and, possibly, bear these costs pending reimbursement by the landlord after a lease is negotiated. This phase eventually will move into the preparation of construction documents for the selected site. (See Phase VII.)

Phase VI: Lease Negotiations

Lease negotiation generally will take significantly longer for a 10,000-square-foot NPO than a 3,000-square-foot NPO, because landlords typically are willing to be more accommodating to a larger tenant—allowing for more office space alterations—and the larger NPO is prepared to allocate more funds for attorney's fees, both of which can lead to more protracted negotiating. This phase can take from two to eight weeks.

Phase VII: Construction Documents and Pricing

Preparation of construction documents by an architect and engineer will take two to four weeks; some or all of this work may have been accomplished during Phase V. Pricing of construction will take an additional one or two weeks. If the NPO is moving into space that merely needs to be repainted and carpeted, this phase can be eliminated.

Phase VIII: Construction

Whether an NPO is renovating an existing property or building new space, the key to success is the construction team, which should consist of an architect, a contractor, and a project manager who can interface with the contractor. This team should be pulled together at the beginning of the project, and should be involved in the initial planning phases. The team must work well together and be trusted to make the decisions that the NPO does not have the expertise to make on its own.

After an NPO has determined how much construction is necessary and how much it will cost, it will have to decide how to fund this activity. Extensive construction can be consid-

ered “capital improvements.” While larger NPOs may be able to raise capital easily, smaller organizations with smaller budgets that are less able to raise capital should avoid putting too much money into improvements and focus on simple ones like repainting and carpeting. A rapidly growing NPO that expects to have to move again in a few years may not be able to recoup its initial investment in capital improvements and likewise should focus on less-expensive improvements.

Construction time will vary and is dependent both on the extent of the work required and the size of the space. Merely painting and carpeting an office suite can be accomplished in two to four weeks, while fully rebuilding one can take six to 12 weeks, or even longer if specialty items have to be ordered, fabricated, delivered, and installed. If a building permit is needed, obtaining one might add one to four weeks, although construction generally can begin while the permit is pending.

Phase IX: Equipment

The coordination and installation of data and communications cabling and the purchase of new furniture and equipment will take longer for the larger NPO, but most of this should be accomplished during the design and construction phases, so it will not add to the total time required.

Phase X: Move-In

Move-in also will take somewhat longer for the larger NPO, perhaps one week versus one or two days. Things to consider when planning a move-in include appropriate phasing—who needs to be there first, front office versus back office needs, and timing of equipment and furniture arrival.

Summary

All NPOs, regardless of size, should follow the process described above, with minor variations. If feasible, you should avoid the allure of fast-tracking the project; do not begin any renovation or construction activities until all your drawings are complete and a budget and schedule are set. If you must fast-track a project, be sure that you have a team you can trust, and review your schedule and budget at each phase so that you can take remedial actions to resolve any problems as early as possible.

Conclusion

Although the U.S. real estate market is ever changing and varies greatly from one metropolitan area to another, and although specific issues may change, the fundamentals of real estate choices for NPOs remain the same. Understanding what your organization is and where you want it to be in the future is the key to understanding your real estate needs. Many consultants can help you find answers to your real estate questions; some of these consultants already may be serving on your own board of directors. What is most important is to determine your organization's needs and find space that will meet those needs in the most efficient manner possible, so that you can get back to focusing on your mission.

About the Workshop Participants

Mossik Hacobian

*Workshop Chair
Boston, Massachusetts*

Hacobian is the executive director of Urban Edge Housing Corporation (UEHC) and Urban Edge Property Management (UEPM). As Urban Edge's executive director for the past 16 years, he oversees all operations and concentrates on comprehensive community-based development in partnership or collaboration with local, citywide, regional, and state leaders. Hacobian's interest in community development was sparked during a nine-month design project in East Harlem while he was attending the Columbia Architecture School.

Hacobian currently serves on the board of directors of the Massachusetts Association of Community Development Corporations and as a member of Boston's City to City Leadership Exchange, the CDC Tax Credit Collaborative, the Boston Homeowner Services Collaborative, and the Boston Linkage Commission. He also is an inner-city adviser to the Urban Land Institute.

William F. Craig, Jr.

McLean, Virginia

As senior vice president of Jones Lang LaSalle's Corporate Solutions Group, Craig specializes in the representation of real estate occupiers and the myriad issues that face office space users on a daily basis. He is responsible for developing new business for the group as well as managing existing arrangements.

Craig has extensive work experience with large nonprofit groups in the greater Washington, D.C., area, including buy/lease analysis, tax-exempt bond financing analysis, interaction with employee associations, and negotiations with governmental jurisdictions with regard to real estate tax abatement. During the past eight years, his work has included representing the

CNA Corporation and the Analytic Services Corporation (ANSER) in the relocation of their 300,000+-square-foot headquarters. In 2002, Craig worked with the American College of Cardiology, an educational nonprofit organization, to provide analysis on the alignment of the college's occupancy solutions with its mission statement. In addition to his work with nonprofits, Craig has worked with publicly owned corporations such as EDS, AES, Sybase, United Healthcare, PWC, and General Dynamics. He received a BS in accounting from Villanova University.

Jonathan N. Denham

New York, New York

A principal and co-founder of Denham Wolf Real Estate Services, Inc., Denham has led planning, design, and construction activities in the real estate development industry since 1985. A civil engineer and urban planner by training, he has an outstanding track record in working with community groups and elected officials. Denham brings to his projects comprehensive resources, including extensive contacts with government and private development entities and expertise in complex development structures.

Denham has managed the implementation of an extensive range of urban redevelopment projects in New York City, including planning and feasibility studies, building and facility assessments, and the design and construction of various infrastructure and building projects. In his current position, he has directed design and construction activities for the Roundabout Theatre Company's Selwyn Theatre renovation and for the American-Scandinavian Foundation's Scandinavia House project. He also has provided project management services to the Alliance for Downtown New York, Inc.

Prior to co-founding Denham Wolf, Denham was senior vice president of capital program and planning at the New York City Economic Development Corporation, where he was involved with the completion of the Yankee Stadium Alternative Site Assessment and the Shea

Stadium Redevelopment Feasibility Study. He led a team of planning, design, engineering, and financial consultants in completing comprehensive studies for these projects. Denham also managed the redevelopment of the historic Audubon Ballroom property.

Denham earned a bachelor of science in engineering degree from Princeton University's School of Engineering and Applied Science. He also holds a master of public administration degree with a specialization in public policy analysis from the Robert F. Wagner Graduate School of Public Service at New York University.

Anne Frej

Washington, D.C.

Currently serving as a contractor to ULI, Frej was director of office and industrial development for ULI—the Urban Land Institute. She directed research in the area of office and industrial development policy and for a number of books including *Business Park and Industrial Development Handbook*, *Guide to Classifying Industrial Properties*, and *Just-in-Time Real Estate*. Most recently, she directed research on the upcoming ULI book *Investing in Japan*.

Prior to joining ULI in 2000, Frej spent five years as a real estate consultant in Warsaw, Poland, where she was head of research and professional services for Jones Lang LaSalle and director of the real estate consulting services group at Arthur Andersen. Her consulting activities at these two firms focused on providing location advice to corporate occupiers and market feasibility analysis to developers. She also has worked as a real estate market analyst in Jakarta, Indonesia, as an urban planner at Kaplan/McLaughlin/Diaz Architects in San Francisco, the U.S. National Park Service in Washington, D.C., and other private planning and architecture firms. Frej has a master's degree in urban and regional planning from the George Washington University. She is a member of Lambda Alpha International, the honorary land economics society.

Robert J. Gage

Washington, D.C.

Gage, a partner at the law firm of Covington & Burling in Washington, D.C., is engaged in the practice of real estate law, including real estate acquisitions, finance, and leasing, and general commercial law, including workouts and restructurings. He has been counsel on transactions that include the development of Bridgemarket in New York City; the acquisition and

development of Potomac Electric Power Company's Washington, D.C., headquarters; the acquisition and development of the American Center for Physics in College Park, Maryland; the National Football League's stadium lease for the Cleveland Browns; the acquisition and redevelopment of GOJO Industries, Inc.'s headquarters facility in Akron, Ohio; and the redevelopment of the Brookings Institution's offices and property.

Gage represents numerous not-for-profit organizations in the acquisition, development, or leasing of headquarters or other facilities. Organizations he has assisted include the National Head Start Association; Planned Parenthood of Metropolitan Washington, D.C.; the Meyer Foundation; the Freed Foundation; the American Council of Life Insurers; the American Chemistry Council; the Health Insurance Association of America; the Historic George Town Club, Inc.; the Madeira School; the Protestant Episcopal Cathedral Foundation; the Sidwell Friends School; the Animal Health Institute; the Association of American Railroads; Washington Metropolitan Area Transit Authority; and Union Station Redevelopment Corporation. Gage received his BA, *summa cum laude*, from Kent State University; his MPP in public policy from Harvard University's John F. Kennedy School of Government; and his JD, *cum laude*, from Harvard Law School.

Sean Glynn

Washington, D.C.

Sean Glynn, an attorney with Arent Fox Kintner Plotkin & Kahn, PLLC, specializes in public finance and has significant expertise in complex financings, including the securities, corporate, tax, and real estate issues that arise in such transactions. His experience includes representation of lenders and credit enhancers, nonprofit borrowers and developers, and underwriters and trustees. He has been involved in transactions in the areas of health care, housing, nonprofit, educational, and energy facilities, as well as conventional commercial financings. Glynn's lender representation involves the negotiation and drafting of loan agreements, reimbursement agreements, letters of credit, standby commitments, participations, confirmations, and mortgage and security documents.

Glynn received the 1994 People's Pro Bono Award from the Maryland State Bar Association and is a regular lecturer for the Government Development Finance Association and a panelist on ethics for the National Association of Bond Lawyers. He received his BA from Duke University and his JD from the University of Maryland School of Law, and is a member of the bar in both the District of Columbia and Maryland.

David E. Kaplan

Washington, D.C.

Kaplan, a commercial real estate consultant with Strategic Realty Advisors, Inc., focuses on issues involving tenant representation, relocation, and lease renewal and restructuring. His other areas of expertise include negotiation strategy, legal and accounting reviews, coordination of design and construction, purchase and sale representation, lease and purchase assessment, and matters concerning tax-exempt financing, District of Columbia Enterprise Zone-based acquisitions, and evaluation of rent escalation and control.

Kaplan's tenant representation projects for professional, not-for-profit, association, and governmental clients exceed 2 million square feet. As an attorney and founder of two business enterprises, he also has experience in federal regulatory affairs, litigation, and commercial transactions. For the past 18 years, he has specialized in commercial real estate transactions.

Kaplan is a member of the District of Columbia Bar's Real Estate, Housing, and Land Use Section, which includes its Real Property Transactions Committee; chairs the section's Standard Commercial Lease Project; and is a former member and chair of the section's Steering Committee. He has taught numerous seminars on commercial leasing for the DC Bar and other professional organizations, has published articles in his area of expertise for DC Bar and American Bar Association publications, and has served as an expert witness on commercial leasing matters. Kaplan received a BA in history from Haverford College and a JD from George Washington University.

Christopher W. Kurz

Baltimore, Maryland

Kurz currently is president and CEO of Linden Associates, Inc., a regional real estate services and mortgage banking company engaged in the financing, acquisition, development, and management of commercial property. The firm also consults for corporations on real estate matters. He previously was a co-founder, chairman, and CEO of McGill Development Company, which grew into the fourth-largest commercial real estate development company in the Baltimore metropolitan area. Kurz served as chairman of the board of directors and co-founder of Columbia Bancorp and the Columbia Bank, a \$500 million, publicly traded bank holding company. As a principal at Alex Brown Real Estate Group, Inc., he acquired investments for

pension fund clients. Other companies with which Kurz has been associated include J.G. Smithy Company, Maryland National Corporation, and the Rouse Company.

Kurz holds a master of business administration from the Wharton School at the University of Pennsylvania and a bachelor of arts degree from the University of Pennsylvania. His professional affiliations include membership in the Urban Land Institute—where he has served as a member of the national leadership group, chair of the Baltimore District Council, vice-chair of the Small-Scale Development Council (Blue Flight), and a member of the National Program Committee—and the International Council of Shopping Centers (ICSC). He is a past member of the National Association of Industrial and Office Properties (NAIOP) and the Mortgage Bankers Association, and a past board member of the Denver-based Catherine McAuley Housing Foundation.

Christopher Reutershan

Washington, D.C.

Reutershan, a principal with Concord Partners, LLC, combines a background in real estate development and finance with an active involvement in Washington, D.C.'s civic affairs. His recently completed major assignments include the concept designs for Arena Stage's theatre complex in Southwest Washington, D.C., and a new 800-seat theatre for the Shakespeare Theatre; feasibility studies for a new visitor center at the Washington National Cathedral and a new Museum of Americas; and the Howard University/LeDroit Park Revitalization Initiative for Fannie Mae Foundation. On a day-to-day basis, Reutershan oversees major projects and advises his clients in key areas, including strategic planning, project programming, financial feasibility analyses, zoning/entitlement strategies and implementation, financial and legal structuring, contract negotiations, and project management. He specializes in completing complex predevelopment, development, and financial transactions. Prior to joining Concord, Reutershan was development director at the Oliver Carr Company, after which he spent several years as an independent real estate development consultant.

Reutershan has served on several boards and advisory committees that have participated in the creation of major civic projects and the formulation of the District of Columbia's comprehensive plan, zoning regulations, and related legislation. He is a Washington trustee of the Federal City Council and a member of Lambda Alpha International, the honorary land economics society. Reutershan was a founding member of the steering committee for the Downtown Washington Business Improvement District (BID) and was elected as one of the founding directors on the BID's first board of directors. He is a former president and current

board member of the Cultural Development Corporation of Washington, D.C., a private, autonomous, nonprofit organization that was created as a direct result of recommendations by First Lady Hillary Rodham Clinton and the 150 local leaders who participated in the Arts in a Living Downtown planning process during spring 1998. From 1995 to 2000, Reutershan was chairman of the board of advisers of Washington Project for the Arts/Corcoran; he also has been a member of the Corcoran Museum's board of overseers. Reutershan was a founder of the Wilson Art Center and Projectspace, two not-for-profit art spaces in downtown Washington, D.C.'s Seventh Street Art District.

A licensed real estate salesperson in the District of Columbia, Maryland, and Virginia, Reutershan is a member of the Washington, D.C., Association of Realtors (WDCAR), the National Association of Realtors (NAR), the Washington, D.C., Chamber of Commerce, the DC Building Industry Association, and the DC Board of Trade. He holds an AB degree in economics from Colgate University and an MBA in finance from New York University's Stern School of Business. Reutershan has done postgraduate work in financial theory at the University of Toronto and is an adjunct professor for George Washington University's Graduate School of Business Management and Public Policy, where he teaches graduate courses in finance and real estate development.

Alex J. Rose

El Segundo, California

Rose serves as director of development for Continental Development Corporation. He is responsible for managing all construction and development activities for the suburban office/R&D park developer, whose holdings include 3 million square feet in southern California's South Bay market and the city of San Francisco. Rose oversees planning and execution of all tenant improvement, core and shell renovation, and new construction work; major facilities maintenance and upgrades; project budgeting and cost controls; internal project management; architect, engineer, and contractor management; and acquisitions and new project development.

Over the past eight years, Rose has overseen the development of more than 300,000 square feet of Class A office buildings, together with the physical transformation of more than 1 million square feet of single-tenant R&D facilities into multitenant office space, restaurants, and retail and entertainment uses. Prior to assuming his construction and development responsibilities, Rose served as Continental's director of property management. He also has extensive experience in title insurance and is a licensed attorney in California, with experience in general civil and bankruptcy litigation practices.

Rose received his MBA from the University of Southern California, his law degree from Southwestern University School of Law, and his bachelor of arts in political science from the University of California at Los Angeles (UCLA). He is a trustee of the Urban Land Institute, chair of ULI's Commercial and Retail Development Council, vice chair for concurrent programs for ULI's national Program Committee, and a member of ULI's Los Angeles District Council Executive Committee. Rose also has chaired and served on numerous ULI Advisory Services panel assignments focusing on downtown and transit corridor redevelopment and revitalization and office development issues.

Rose has been a member of numerous other community, legal, industry, and UCLA- and University of Southern California-affiliated groups, including the Los Angeles Conservancy and the Steering Committee of New Schools Better Neighborhoods, a broad-based private and public citizen's advisory board that is researching and developing standards and methodologies for the development of more than 100 new community-asset public schools in the Los Angeles metropolitan area.

Paul G. Wolf

New York, New York

Throughout his career, Wolf, a veteran of the New York City real estate industry since 1988, has provided consulting services on a broad range of financial and transactional matters to nonprofit organizations and public agencies. He has successfully negotiated leases and sales covering several million square feet of commercial, industrial, and retail property throughout New York City. Wolf combines more than a decade of commercial real estate experience with financial and analytical skills honed in business school and put into practice through extensive experience with public and private development projects.

As a principal and co-founder of Denham Wolf Real Estate Services, Inc., Wolf has served as the national real estate consultant on lease-related issues for the United States Fund for UNICEF and has been responsible for financial analysis and transaction consulting for the Roundabout Theatre Company's real estate issues. In addition, he has completed many lease transactions with nonprofit organizations such as the Local Initiatives Managed Asset Corporation, the Nonprofit Coordinating Committee of New York, and the Fund for the City of New York.

Prior to co-founding Denham Wolf, Wolf was a senior vice president at the New York City Economic Development Corporation, where he ran the asset management division and was

responsible for an 11 million-square-foot portfolio. His responsibilities included working with Salomon Smith Barney, Inc., the Depository Trust Company, business improvement districts, and several nonprofits occupying city-owned property. Wolf often served as the real estate expert during corporate retention and recruitment efforts aimed at expanding the city's corporate job base.

Wolf earned a bachelor of arts degree in English from Columbia University and an MBA from Columbia University Graduate School of Business's Executive Program. He has been a licensed real estate broker in New York State since 1988 and serves on the board of directors for the New York City Business Relocation Assistance Corporation.

Alan S. Zimlicki

Cambridge, Massachusetts

Zimlicki, the principal of ASZ Associates, Inc., has extensive planning, redevelopment, and real estate development experience. He was project director of the National Urban Design Award-winning East Cambridge Riverfront Redevelopment Project and has since developed housing, office buildings, R&D buildings, retail facilities, assisted-living residences, and various public facilities such as parks, parking garages, roadways, and community facilities. Zimlicki has a wide range of experience using creative financing techniques, including private and government financing as well as other financing strategies for community economic redevelopment. His varied experience with governmental entities and community organizations has

been useful in obtaining permitting for projects and working with community boards through the planning and development process.

Zimlicki's current ongoing projects include developing a 125,000-square-foot, not-for-profit office building in Boston for Third Sector New England; developing and commencing operations of the 84-unit Concord Park Assisted Living Residence for Volunteers of America; developing the 73-unit, 60 percent low-income Ayer Assisted Living Residence for Volunteers of America; refinancing for a laboratory building for Community Development Corporation of Boston; working with a service corporation for the elderly to create its own 30,000-square-foot office building; and preliminary work with an advocacy organization that has received a major grant to develop its own office space. ASZ also recently completed a four-unit condominium project in the North End of Boston and a reuse study for two U.S. Navy bases in Maine. Zimlicki has a master of science in urban planning.