



# Real Estate Readiness:

## Organizational, Staff & Board Capacity

- Capacity Worksheet for Real Estate Facility Projects

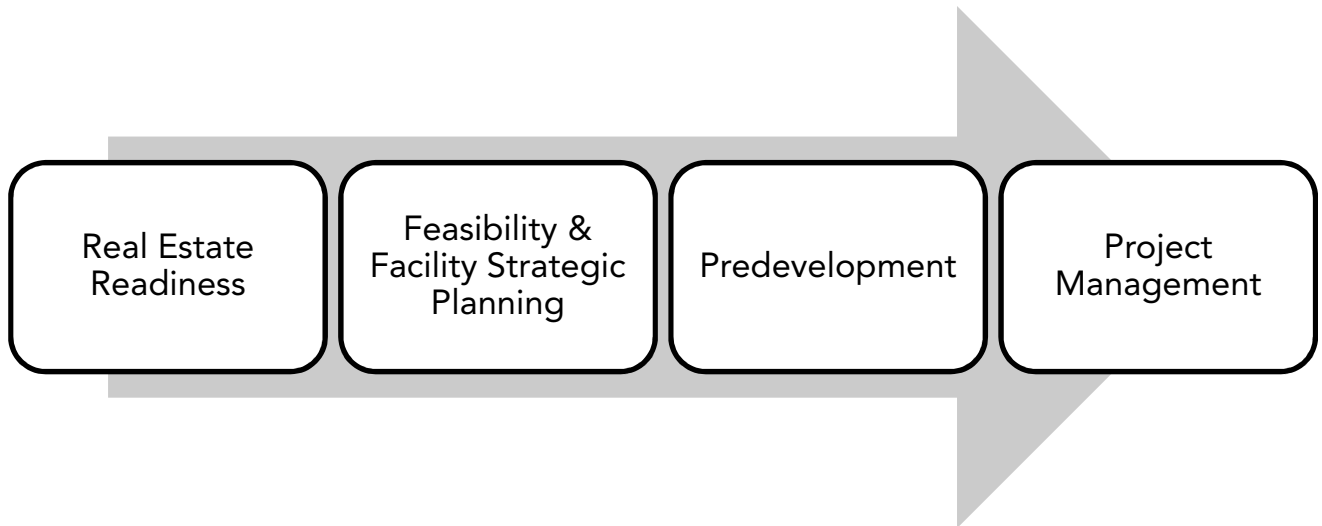
# Capacity Worksheet for Real Estate Facility Projects

Organizations juggle many conflicting priorities. As your organization grows, capacity building becomes increasingly important. If your organization is planning to buy, renovate or build space, additional capacity will be required to undertake a facility project.

This worksheet is designed to help you align your organizational capacity building with the capacity building required for undertaking a facility project. There are limited hours in the day, so it is important to prioritize which areas your organization will have time to focus on.

One way to increase your capacity is to work with capacity building consultants. For each area, we have suggested consultants that you might consider. Using consultants is not necessary if your organization has the required expertise and staff time to do the work in house.

Different capacities are critical at different phases of the facility development process. To assist with prioritizing when this work must be completed, we have indicated the stage before which different projects are ideally completed. These phases are:



After each Real Estate Capacity, the number indicating the stage of the real estate process is indicated. Ideally, your capacity building for each capacity will be addressed before you take on the stage indicated.

Organization Capacity <sup>1</sup>	Capacity Building for Facility Projects	Status & Priority
<b>Mission, Vision, and Strategy</b>		
Organizational Strategic Planning	Board and management staff agreement on goals for new facility. Before #3. (Organizational Consultant)	
Scenario Planning	Facility planning implications of each scenario. Before #3	
Organizational Assessment	Who will manage day to day operations that are otherwise handled by staff who will work on the facility project? Before #2. (Organizational Consultant)	
Organizational Development	What additional staffing skills are needed that can be obtained through hiring for the facility project? Before #3. (Organizational Consultant)	
<b>Governance and Leadership</b>		
Leadership Development	Identify your internal staff project team. Before #2. (Real Estate Development or Organizational Consultant)	
Board Development	<p>Work with your board chair to identify a facility committee chair and build the committee. Before #2. (Real Estate Development or Organizational Consultant)</p> <p>Discuss a capital campaign committee. Before #4. (Capital Campaign Consultant)</p>	
Executive Transition	If anticipated, transition plan is clear and there is a strong project leader. Before #1	

<sup>1</sup> Adapted from *A Funder's Guide to Capacity Building*, Paul Connolly and Carol Lukas (St. Paul: Wilder Publishing, 2002).

<b>Organization Capacity</b>	<b>Capacity Building for Facility Projects</b>	<b>Status &amp; Priority</b>
<b>Program Delivery and Impact</b>		
Program Design and Development	<p>Determine if facility operations will be one of your programs and develop the business plan for it. (Real Estate Development or Organizational Consultant)</p> <p>Where will you operate while the new building is in progress? (Real Estate Development Consultant)</p> <p>If a temporary location is required, how will the change impact programs? (Organizational Consultant)</p>	
Evaluation	Determine the goals that will guide your “go/no go” decision at the critical feasibility assessment points. Before #3. (Real Estate Development or Organizational Consultant)	
<b>Strategic Relationships</b>		
Collaboration and Strategic Restructuring	Identify programmatic strategic partners. Before #4. (Organizational Consultant)	
Marketing and Communications	How are plans for the new facility communicated to your staff, clients, funders, and supporters? Before #4. (Communications Consultant)	
<b>Resource Development</b>		
Fund Development	Is a capital campaign needed? How many additional staff will be needed for Capital fund raising? Before #4. (Fund Development or Organizational Consultant)	
Business Planning for Revenue	Integrate Capital fund raising into	

Generating Activities	Business Planning. Before #4.  Will Capital fundraising reduce revenue for program activities? Before #3.	
<b>Organization Capacity</b>	<b>Capacity Building for Facility Projects</b>	<b>Status &amp; Priority</b>
<b>Internal Operations and Management</b>		
Human Resource Management and Training	Do the individuals responsible for the facility project have the authority to make decisions required?  Does the manager in charge of the project have access to the expertise to manage a facility project?	
Financial Management	Identify all facility expenses in existing budgets. (Accountant or CPA)  Will accounting systems and staff be able to handle increased load from facility project? . (Financial Consultant or CPA)  Fund accounting for each funding source? (Accountant)  Determine the portion of facility expenses that can be passed through to funders.	
Operations	Is additional administrative assistance need during the facility project? Before #3.  Staffing and planning for the move and 1 <sup>st</sup> year of operation.  Planning and staffing for asset management. Before #6.	
Technology and Information Systems	Develop IT plan for new facility.	

<b>Organization Capacity</b>	<b>Capacity Building for Facility Projects</b>	<b>Status &amp; Priority</b>
Legal Issues	<p>Will separate corporate entity be needed for the new facility? Before #5. (Attorney familiar with the funding sources anticipated.)</p> <p>Is a separate nonprofit needed to address liability issues?</p> <p>What is the additional property tax expense related to taking on your project? (Attorney familiar with city &amp; state property tax exemptions.) Before #5.</p>	
Volunteer Recruitment and Management	Is there a plan to recruit and manage volunteers at the new facility?	
Conflict Resolution	<p>Is there a plan for conflict resolution between partners?</p> <p>Is there a clear delineation of roles &amp; responsibilities?</p>	

# Real Estate Readiness: Financial Capacity

- Determining the right amount of reserves for your organization
- The Five C's of Lending
- Capital Campaign Components & Checklist



## DETERMINING THE RIGHT AMOUNT OF RESERVES FOR YOUR NONPROFIT

The right amount of reserves that should be set aside by a nonprofit differ from one organization to the next. Reserves are unrestricted funds that are used to smooth out the normal flows of money, help to meet unexpected financial challenges, take advantage of unexpected opportunities, and fulfill strategic plans. The most common variables used in calculating the right amount of reserves for your nonprofit include:

- cash flow or timing of income and expenses
- stability of funding sources
- stability of expenses
- known threats, instability, deferred maintenance/investments, or capital needs
- strategic plans to start new programs
- strategic plans to grow existing programs
- strategic plans to make a capital investment

Attached is a three page description, written several years ago by the Support Centers of America that describes the process for determining how much cash to set aside in reserves.





*The FAQs (Frequently Asked Questions) listed on this site (<http://www.allianceonline.org/FAQ>) were inherited from Support Centers of America (SCA), following a merger between SCA and Nonprofit Management Association (NMA), and are now made available to the nonprofit community by the Alliance for Nonprofit Management.*

*The Alliance greatly appreciates the support of American Express in making these FAQ's possible.*

### **How much cash should we hold in reserve?**

#### **Answer:**

For the sake of long-term organizational and operating stability it is often desirable to build a reserve of cash to accommodate the following situations:

- **Cash flow shortages which arise when expenses fall due before the income to pay for them is received.**

Factors which contribute to cash flow shortages in a balanced budget include seasonal or irregular cash flows (e.g., a summer camp or a theater company which receives most of its cash in a few months of the year, but have to pay bills year round), delays in collecting fees for service, and delays in grant payments or contract reimbursements.

This type of cash flow shortage can usually be uncovered by realistic and careful cash flow budgeting. Questions frequently asked during this process include:

- How much do you usually need to borrow to meet payroll and other ongoing expenses during the course of the year?
  - How often do you have to delay payments to vendors? How much are those bills?
  - How late is your government reimbursement each month? What is the average outstanding amount at any given time?
- **Cash flow shortages which are caused by the unpredictability of delivering services which are part of the organization's basic mission.**

For example, the Red Cross, which is in the disaster business, needs an enormous reserve to accommodate years when earthquakes, floods, and fires all hit at the same time. Money saved for unexpected

problems is sometimes called a Contingency fund, and can be calculated either as a percentage of annual expenses or as a percentage of a key fundraising event if you have one. The more past experience you have to rely on when making contingency calculations, the more accurate they are likely to be

- **Cash flow shortages which are caused by unexpected emergencies, such as the withdrawal of a key funder or the loss of a key asset.**

Examples of unexpected emergencies include a fire destroys your site, your heating system needs to be replaced, etc. There is no easy or sure way to predict these kind of cash needs. Factors which contribute to these kinds of emergencies include the stability of funding sources (in general, fees for service or from sale of products and membership dues are considered more predictable and stable than grants and contributions) and the predictability of expenditures (if you have old equipment or other fixed assets there is a higher probability that something will go wrong unexpectedly).

The more thought you give to anticipating these kinds of emergencies, the easier it will be to cope with them. The types of questions asked to anticipate these situations vary from organization to organization. Some examples include:

- If the fall fundraiser is rained out, how much do you need to tide you over until you can try it again in the spring?
- If a fire destroys your theater and you want to move the play to another venue how much will it take to keep the staff and actors on payroll during the transition? How much will additional rent and publicity costs amount to?
- How many months would it take your organization to get back on its feet in case of disaster? What are your monthly core operating expenses?

- **Cash is needed to start a new program or take advantage of an unexpected opportunity which will significantly contribute to your mission.**

You might want to determine what it would cost to implement a pilot project, allowing you to test the concept and show some preliminary results to potential funders.

In addition to a reserve for operating expenses, some organizations may build a reserve for an endowment fund or save money towards a large capital purchase (such as a building or computer equipment.)

Each of these areas should be considered by your board and senior staff to determine how much of a cash reserve is desirable for your organization. There is no one answer to how much of a reserve is right

for nonprofits because the answers to the questions noted above will vary from agency to agency. You might consider each of the points raised above and determine how much of a reserve is needed for your organization.

The following example illustrates how to establish an operating reserve goal:

**Example 1 - The Helpful Organization**

The Helpful Organization has had to borrow \$5,000 from the board president for the past two years in order to meet cash flow shortages over the summer. In addition, its current government funder has been predicting cuts of 5-16 percent sometime in the next two years. Its current grant is \$35,000.

The Helpful Organization also hopes to start a family literacy program on the weekends which will complement its after-school tutoring program for high school students. One semester of the program is likely to increase its expenses by \$7,000. Given these factors, the Helpful Organization might set the following reserve goal:

Cash flow	\$ 5,000
Guard against reduced funding - 16% x \$35,000	\$ 5,600
Investing in new program	\$ 7,000
Operating reserve goal	\$17,600

Another organization might include in its calculation some percentage of its annual operating expenses. Recommendations on how much is enough vary from source to source, ranging from no reserve (from some funders) to up to two years worth of expenses (the maximum acceptable to the National Charities Information Bureau.). You want to balance prudent management, taking into account the factors noted above, with putting your assets to work to serve the community. If you perform the calculations above and your reserves significantly exceed your anticipated needs, it is probably time to discuss how to invest more of those funds into programs serving the community.

Building a reserve requires an operating surplus, or profit from unrestricted sources during the year to provide extra, or reserve cash. Even nonprofit organizations are legally entitled to show an operating surplus. They may not use that surplus to benefit any member or officer of the corporation, but must use the surplus for their designated mission to the community. Cash reserves do not need to be held in separate accounts. To indicate that the board has set aside money as a cash reserve for operations, the unrestricted net assets on the balance sheet might be divided as follows:

Assets	\$35,429
Liabilities	\$12,226
Unrestricted Net Assets	\$23,203
Board designated reserve	\$15,000
Undesignated portion	\$ 8,203

An operating reserve, whether it is designated as shown above or simply an accumulated fund balance, is likely to have some impact on your fundraising. Some funders may question your need for their contribution if you have had surpluses from previous years. You will need to explain your policies regarding your cash reserve(s), what factors you considered and why the reserve is there. This will often alleviate a funder's concern that you are accumulating cash at the expense of the people you serve.

In summary, you will need to develop a policy which articulates how much is enough to guard against emergency, invest in new programs, replace or improve capital assets, smooth out cash flows, and put the rest of your cash to work for the community

## The Five C's of Lending

The most common criteria used by Northern California Community Loan Fund, and most other lenders – whether commercial or nonprofit – are referred to as the Five C's of Credit. With some minor variations, the Five C's are capacity, capital, collateral, conditions, and character.

**Capacity** is an assessment, based on prior year income statements, of the cash flow available to the nonprofit for the purpose of making payments to repay a loan. An organization's rent payment history is a good indication of its capacity to service debt. This is generally the most important of the five C's.

**Capital** is an assessment of the nonprofit's resources including fixed assets and savings. Most lenders will have a threshold for the percentages of a project that can be financed with debt, the rest must be paid with the nonprofit's own resources. A lender uses a debt-to-equity ratio (dollars-of-debt to dollars-of-the-nonprofit's-savings) to limit the risk of the loan. For example, if the debt-to-equity ratio is 90% and the organization's project will cost \$2 million, then the organization would need to have \$200,000 up-front to qualify for that loan. Note that debt adds an interest burden to the organization and it is beneficial to an organization to have as little debt as possible.

Another risk-lowering criterion for the lender is **Collateral**. Collateral is what the nonprofit will use to pay-off the value of the loan if it cannot pay the loan from regular operating income. Collateral could include the land and building being financed as well as the organization's other assets and (less commonly) personal guarantees from board members or other supporters. The maximum loan amount is set by the Loan-To-Value Ratio. This is the ratio of the loan to the projected appraised market value of the facility upon completion. For example, if an organization is building a facility with a projected appraised value of its development cost of \$1.3 million in 2009, then the organization would need to have at least \$130,000 up-front to qualify for that loan. (Note that it is possible for a facility's appraised value to be less than its development costs, if for instance, the building includes components that were necessary to the organization's programs but do not add value in the general market.)

Outside factors and trends affecting similar organizations are referred to as Conditions. These include market forces and trends, changes in the funding environment (including government programs), and construction costs. In an effort to mitigate any risks created by these conditions, lenders may create specific loan requirements for your project.

Finally, all lenders will look closely at Character of the management and board of the nonprofit. Character refers to the general impression you make on the lender, and it can go a long way toward mitigating historic shortcomings. Factors that contribute to a lender's impressions of an organization include:

- Responsiveness,
- The accuracy and clarity of responses,
- Adaptability to changes in the deal,
- Forthrightness, and
- Ability to work closely with the lender.

<sup>1</sup> While Five C's are widely used, they are variably referred to as the Five C's of Credit, the Five C's of Lending, the Five C's of Borrowing, and sometimes the Four C's. The titles that comprise the five C's may also vary somewhat, but they generally measure the same quantitative and qualitative areas. At NCCLF we use the titles most commonly found in the credit union and commercial banking sectors; capacity, capital, collateral, conditions, and character.



# CAPITAL CAMPAIGN COMPONENTS

## Components of a Successful Capital Campaign by Deborah Urban

### ORGANIZATIONAL READINESS

- Mission/Programs
- Board
- Staff
- Finances
- Fundraising

### CLEAR AND COMPELLING CASE

- What is the significance of your project?
- How is it unique?
- Who will benefit from the project and how?
- What difference will the money you are asking for make?

### LEADERSHIP

- Staff *and* Board
- Experienced
- Articulate
- Tireless
- Can motivate others
- Ability to make leadership gift

### PROSPECTS

- People who *have* given
- People who *will* give
- System for prospecting
- System for tracking prospects and solicitations

### SOLICITORS

- Well trained solicitors
- System for tracking solicitor/prospect information
- System for *communicating* solicitor/prospect information

### ADMINISTRATIVE SUPPORT

- Computer system that can manage pledges
- Pledge forms/pledge tracking reminders, etc
- System for acknowledging pledges, as well as gifts
- Donor fulfillment



# CAPITAL CAMPAIGN CHECKLIST

## Do you know the shape of your triangle?

### 1. Assess Your Resources

- Have you done your feasibility study? If not, do it now.
- Do the Board of Directors and the staff support the plan? Has everyone made a commitment to make it happen?
- Identify leadership; who is the best person to spearhead the campaign?
- Review current donor histories and identify lead gifts. Where will the major gifts come from? Who will give how much? What will be the likely impact of these gifts on your annual campaign? Can you identify enough lead gifts to make the goal seem do-able?
- Determine who will help; what are skills of Board members? What other solicitors can be recruited from former Board members, volunteers, other supporters?
- Prepare campaign budget; what's your campaign goal? What will you need to spend to achieve it?
- Hire campaign consultant; how much outside help of what kind will your campaign require? What will the time impact of overseeing the campaign and the project be on the Executive Director and the artistic leadership? Will this affect ongoing programming?
- Clarify Board, staff and volunteer roles; what specific activities will be expected of staff? Board? Volunteers?
- Will there be a campaign committee? Who will be on it? How often will it meet? What will be its role in the campaign?
- Write job description for campaign chair that clearly describe *expectations, responsibilities, and authority*; will subcommittees be required? Write job descriptions for those chairs as well.
- Create a clear decision-making path; who has what authority? Who reports to whom? Create a reporting chart for the campaign that depicts these decisions.
- What communication channels will be needed within the campaign? To solicitors, staff, Board, campaign prospects and donors? Newsletters? Telephone tree?
- What haven't you thought of?



# CAPITAL CAMPAIGN CHECKLIST

## 2. Prospect Identification and Research

- Research each prospect (individuals, foundations, City government, other) to learn everything you can about them, their interests and circumstances – any information that will help solicitors.
- Prepare profiles for every prospect. Rate prospects (what size gift should be requested?) based on relationship to your organization, history of giving, interest in your work and likely giving level.
- Strategize the best approach to each prospect; who should do the cultivating? Who should do the asking? When?
- Recruit your solicitors
- What haven't you thought of?

## 3. Preparation

- Prepare your case statement. Why is your project necessary? Who will benefit?
- What will donor benefits be? What's involved in fulfillment? What will cost be in staff time/energy, in dollars? What can you do that will be relatively low-cost, low-impact on staff and Board, yet be uniquely appealing and specific to you?
- Plan special events and public relations activities to kick off the campaign and keep interest alive; do budgets for each activity.
- Prepare campaign timeline
- Revise your campaign budget if necessary; set or revise campaign goal.
- Establish pledge policy. Will you encourage multi-year pledges? If so, design pledge card/form for solicitation package.
- Design donor packet; what should be in it? How spiffy should it be/can you afford? Do you need special stationery?
- Set up record-keeping system; should you computerize? How will this capital campaign information interface with your annual giving record-keeping system?
- Set up the financial management system to keep the income and expenses for the campaign segregated from the annual operating finances.
- If you've decided to accept pledges, set up tickler system for annual billing and pledge management.
- Train your solicitors and assign them prospects.
- What haven't you thought of?





# CAPITAL CAMPAIGN CHECKLIST

## 4. Cultivation

- Solicit the solicitors and the Board of Directors
- Solicit lead gifts you have identified
- With lead gifts secured, kick-off public part of your campaign with a party or press conference.
- Provide whatever information prospects require, promptly and courteously.
- What haven't you thought of?

## 5. Ask

- Make sure each prospect understands the capital gift is a one-time gift that shouldn't detract from their annual support for the ongoing work of the organization.
- Make sure everyone is actually asked; if solicitors are not doing their jobs, take back their assignments and reassign the prospects.
- Prepare regular status reports on campaign progress for solicitors and the Board.
- Keep in touch with donors about campaign process.
- What haven't you thought of?

## 6. Acknowledge and Clean-Up

- Assure prompt thank you notes from solicitor, as well as official thank you letter from the organization.
- Fulfill donor benefits in a timely manner.
- Keep in touch with all donors.
- Thank solicitors and campaign workers (a victory party, or personal notes from Campaign Chair and/or President of the Board).
- Conduct a campaign evaluation in written form for future reference.
- Prepare final accounting of campaign income and expenses to accompany the campaign evaluation.
- Provide closure by making some form of public statement about the results of the campaign (press conference, press release).
- Continue to collect pledges for as many years as necessary.
- What haven't you thought of?



# GUIDE TO OFFICE LEASING TERMS

## Office Building Terms & Classes

Office buildings range from small, owner-occupied properties to multi-building office parks. Office suites may also be an important portion of “mixed-use” developments, both in new construction or historic rehabilitation properties. Consider carefully what type of space would be most suitable to your business. If you make a mistake, you could end up paying too much for a lot of years.

Office space is loosely classified based on the quality of construction, features and the status of location. Consider what “class” of office property is most appropriate for you.

- **Class A.** Building has excellent location and access to attract the highest quality tenants. Buildings must be superior construction and finish, relatively new or competitive with new buildings, and providing professional on-site management.
- **Class B.** Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area and systems are adequate. Can compete with low end of Class A.
- **Class C.** Buildings are generally older with growing functional land or economic obsolescence. Buildings competing for tenants requiring functional space at rents below the area average.
- **Class D.** Buildings are older and in need of extensive renovation as a result of functional obsolescence or deterioration.

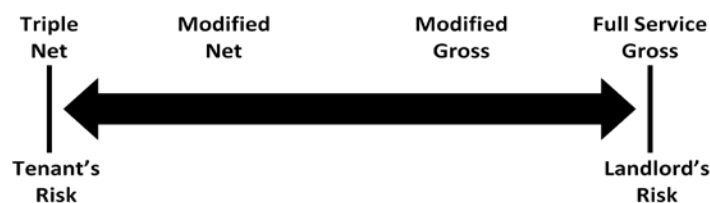
## Triple Net vs. Gross Leases

Commercial leases range from “net-net-net” (also known as “triple net” or “NNN”) to “gross”. What makes a lease more of one or the other is how the terms of the lease are negotiated, and what costs the landlord passes through to the tenant. So it’s important to understand this concept first.

**Base rent** (charged at a certain rate, such as \$2.25/s.f./mo) is “net of” certain costs that the landlord passes on to the tenant. The more of those costs there are, the more “net” the lease is. A **Triple Net** lease requires the tenant to pay all *operating expenses*, such as taxes, insurance, maintenance, utilities, cleaning, etc. But **Absolute Net** is the most “net” of all. The tenant is also responsible for maintenance and repair of the building structure, including the roof and the parking lot/driveways. The tenant may be responsible, not just for paying for these things, but for getting them done. These leases are more common with industrial properties.

Conversely, in a **Gross Lease**, the landlord covers all building operating expenses and there are no pass through costs. In a **Full Service Gross Lease**, the landlord covers all building operating expenses **and** direct utilities and janitorial costs used by the tenant. There are no additions and no surprises. Class A and B office buildings tend to lease on this basis.

*It is helpful to think of leases as falling somewhere in continuum between NNN and gross.*



## Examples of Common Area Maintenance , Operating Expense, and Taxes

Tenant 2016 Expense By Lease

<u>Description</u>	<u>2015 Expense</u>	<u>2016 Expense</u>	<u>NNN Lease</u>	<u>Fully Serviced</u>
General Repair	15,000	16,500	16,500	1,500
HVAC	7,500	8,250	8,250	750
Electrical	12,000	13,200	13,200	1,200
Common Area Utilities	7,000	7,700	7,700	700
Common Area Cleaning	8,000	8,800	8,800	800
Pest Control	1,500	1,650	1,650	150
Management Fee	30,000	33,000	33,000	3,000
Administrative Support	25,000	27,500	27,500	2,500
Property Insurance	10,000	11,000	11,000	1,000
Property Tax	32,000	35,200	35,200	3,200
			\$162,800	\$14,800

NOTE: ASSUME BASE YEAR IS 2015

## **Questions to Ask a Real Estate Broker Prior to Engagement**

1. Describe your specific experience with projects of this type (commercial, residential, mixed-use, etc.) Include similarities of size and scope (in square footage and number of residential or commercial units).
2. Describe your experience working in the neighborhood of the proposed project.
3. What is your estimate of a fee for this project?
4. How do you work in such a way as to limit a client's financial risk?
5. From what you know about this project, what are the issues of greatest concern?
6. Do you believe that a site can be found that makes sense for our organization within our price range?
7. How do you obtain information and leads on new sites that would be of value to us?
8. What is your normal routine for working with a new client? How many walkthroughs would we go through? How long does it usually take to find a site?
9. What makes you better than other realtors or better than us looking for sites on our own?



# SAMPLE LETTER OF INTENT

April 3, 2015

Mr. Joe Smith  
Leasing Manager  
ABC Realty  
7500 Bancroft Avenue  
Oakland, CA 94605

**RE: Proposal to Lease Office Space: 7500 Bancroft Avenue – 9,800 sq. ft. on the 1st Floor**

Dear Mr. Smith:

Social Equity Services Organization (“Social Equity”) is interested in entering into a lease with ABC, Realty LLC (“Landlord”) for approximately 9,800 rentable square feet on the 1<sup>st</sup> floor (the “**Premises**”) in the building located at 7500 Bancroft Avenue in Oakland (the “**Building**”). Social Equity is willing to enter in the Lease on the following terms and conditions:

Landlord: ABC Realty (“Owner” or “Landlord”).

Tenant: Social Equity Services Organization.

Building: 7500 Bancroft Avenue, San Francisco, CA 94102.

Premises: Approximately 9,800 rentable square feet located on the fourth floor (Suite 400) of the Building.

Term: Five (5) years.

Option Term: One (1) two (2) year option with annual Base Rent continuing to increase at \$1.00 per sq. ft. per year.

Commencement Date: On or around July 1, 2015.

Base Rent: Annual rent shall be calculated at a rate of \$20.55 per sq. ft. per year.

Base Rent Adjustment: Base Rent shall be increased annually by \$.45 per sq. ft. per year on each anniversary date of the Term.

Base Rent Abatement: Base Rent shall be abated for the first (1st) month of the Term.

Base Year: 2015.

Utilities: Landlord shall furnish heating, air conditioning, ventilation, elevator service, electricity, and water services to the Premises in accordance with Section 9.1 of the Original Lease. Social Equity shall reimburse Landlord for its actual utility usage within the Premises on a monthly basis along with its payment of Base Rent.

Janitorial: Landlord shall provide janitorial services to the Premises at its sole cost in accordance with the services to be described in the Lease.

Common Area Services and Insurance: Social Equity shall pay its pro-rata share of annual increases in common area maintenance expenses and insurance within the Building over Base Year tax expenses. Tax expenses in excess of Base Year shall exclude increases in property taxes due to sale.

Maintenance & Repair: At all times, Landlord agrees to maintain the Premises and Building in its current First Class condition.

Taxes: Social Equity shall pay its pro-rata share of annual increases in equitably adjusted taxes over Base Year tax expenses. Tax expenses in excess of Base Year shall exclude increases in property taxes due to sale if the Building is sold to another party within the first two years of the Term.

Tenant Improvements: None

Parking: Landlord shall grant to Social Equity the right to lease five (5) reserved parking spaces at a rate of \$250 per space per month.

Additional Rent: All monies due Landlord shall be paid as Additional Rent. This includes the prorata share of increases in tax expenses above the Base Year and reimbursement for City's utility usage.

Additional Services: Social Equity reserves the right to request that Landlord, at City's cost, perform lease related services, improvements or incur additional expenses that Social Equity may require from time to time as requested by City. Social Equity shall reimburse Landlord for such expenses, at rates agreed-upon in advance, and as they are incurred.

Hold Over: Any holding over of some or all of the spaces shall be on the same terms and conditions except the rent during of such holdover shall be 110% of the then Base Rent.

Sublease/Assignment: Social Equity shall have the right to sublease all or part of the Premises during the term with Landlord's prior written consent, which shall not be unreasonably withheld or delayed. Landlord shall be entitled to retain 50% of any net subleasing or assignment profits after Social Equity has recaptured all costs.

Commissions: Landlord shall be solely responsible for any and all real estate commissions.



Landlord Representations: Landlord represents and warrants that (i) it has good and marketable title to the Premises, (ii) there are no property defects or conditions which would affect City's intended use of the Premises, (iii) Landlord has no knowledge of any hazardous materials or contamination in or about the Premises except for those to be disclosed in writing prior to submittal of authorizing legislation; and (iv) as of the commencement date of the Second Extension, the Building and the building systems will comply with all applicable local, state and federal laws and regulations.

Social Equity Lease Form: The Social Equity shall provide the initial draft of the Lease.

*[SIGNATURES ON FOLLOWING PAGE]*

**The above expresses Social Equity’s interest to lease space at 7500 Bancroft Avenue in Oakland. This letter is not intended to be a legal document and no party shall be obligated until a lease document has been fully executed. Nothing in this proposal shall be deemed to impose on either party any obligation to continue negotiations and either party shall have the right to discontinue negotiations without incurring any obligation or liability to the other.**

This proposal shall expire unless acceptance is delivered to my attention on or before Friday April 17, 2015 at 4:00 p.m. If the terms of this letter are acceptable, please sign and return one copy and we will prepare a draft lease extension. If you have any questions regarding this proposal, please contact Broker Rep. of ABC Realty at 555-555-1212.

Respectfully,

Social Equity  
Services  
Organization,  
Executive  
Director

Agreed,

\_\_\_\_\_  
ABC Realty, LLC

\_\_\_\_\_  
Date



Cushman & Wakefield of  
California, Inc. – Lic #616335  
1111 Broadway, Suite 1600  
Oakland, CA 94607  
(510) 763-4900 Tel  
(510) 834-4119 Fax  
gregory.hunter@cushwake.com

February 4, 2016

Lisa Lancaster  
One World Organization  
1234 Broadway  
Oakland, CA 94607

Re: **Offer to Lease Office Space – 2400 Telegraph Avenue – 2<sup>nd</sup> Floor, 7,500 SF**

Dear Ms. Lancaster:

On behalf of A-1 Property Owner, I want to thank you for your interest in the subject building. This letter will outline the terms and conditions under which the ownership would enter into the contemplated agreement.

**Premises:** 2400 Telegraph Avenue, 2<sup>nd</sup> Floor, Oakland, CA

**Lessee:** One World Organization

**Lessor:** A-1 Property Owner

**Use:** General Office and Community Space

**Lease Commencement:** April 4, 2016

**Lease Term:** The lease term shall be for sixty (60) months.

**Security Deposit:** A security deposit in the amount of **one month** rent shall be due at Lease execution. In addition, subject to review of Lessee's financial statements, and additional security deposit and/or other guaranty may be required.

**Rent:** Rent shall be paid on monthly basis with Lessee responsible for \$3.00/sf plus pro-rata share of operating expenses (maintenance, taxes and insurance).

**Tenant Improvements:** \$35.00/sf

**Operating Expenses:** \$0.50/sf

**Signage:** To be negotiated

**Other Terms and Conditions:** All other terms and conditions of the lease are subject to mutual agreement between Lessor and Lessee, if not specifically covered herein.

**Confidentiality:** The material contained herein is confidential. It is intended for the use of Lessee and Lessor solely in determining whether they desire to enter into a lease and is not to be copied nor disclosed to any other person. In the event Lessee or Lessor does not enter into the contemplated transaction, they will continue to keep such information and material confidential.

**Financial Review:** This proposal is made subject to Lessor's review and approval of Lessee's financial condition.

**Subject to Lease Execution:** This letter is only a proposal to negotiate and is neither an offer nor a contract. This proposal is only a list of the above terms and conditions that may or may not become a part of the final Lease. This proposal is not intended to be binding or to impose any obligations whatsoever on either party, including any obligation to bargain in good faith. No covenants are implied. The parties do not intend to be bound by an agreement until both agree to sign a formal written contract.

In addition, this letter is submitted subject to review and acceptance of the final terms and conditions of the Lease and related documents. Nothing contained herein shall be binding on either party unless and until such documents are approved, fully executed and exchanged by both parties. Either party is free to terminate the negotiations at any time, and will not by doing so incur any additional obligations or liability.

**Time is of the Essence:** This Letter of Intent shall expire at 5:00 p.m. on February 12, 2016.

If you have any questions, please do not hesitate to call.

Sincerely,

**CUSHMAN & WAKEFIELD OF CALIFORNIA, INC.**

Gregory Hunter - Lic.1958872  
Director

**Agreed and Accepted by:**

**LESSEE:**

**LESSOR:**

By: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

Its: \_\_\_\_\_

On: \_\_\_\_\_

On: \_\_\_\_\_

DRAFT

## OPTIONS

**Rent:** Rent shall be paid on a Net basis with Lessee responsible its prorata share of taxes, insurance and operating expenses, estimated at \$0.50 per square foot per month. Rent shall be paid on the following schedule:

<u>Months:</u>	<u>Rent Per Month (Per SF)</u>
01-12	\$22,500.00
13-24	\$23,175.00
25-36	\$23,870.25
37-48	\$24,586.36
49-60	\$25,323.95

On the one-year anniversary date of the lease and each year thereafter, rent shall be increased by the Consumer Price Index (CPI), said interest to be not less than three percent (3%) per annum, and not more than seven percent (7%).

**Tenant Improvements:** Lessor to provide tenant improvement allowance in the amount of \$30.00 per square foot (\$225,000.00), which shall be used for all direct and indirect costs of procuring, constructing and installing tenant improvements in the Premises.

**Security Deposit:** A security deposit equivalent to one (1) month's rent (\$25,323.95) shall be due at lease execution. One month's base rent shall be credited to Lessee at the end of each year until the end of the lease term, resulting in a security deposit approximating one month's rent at the end of the term. This request is based on the fact that tenant is a "start-up" company.

**Expansion:** Suite 201 is approximately 2,500 square feet. The lease expires in June 2018. Lessee shall have the right to expand into this space by providing written notice to Lessor no later than December 31, 2017. Rent shall be at the same per square foot rate then in effect for the Premises.

**Operating Expenses:** Lessee shall be responsible for its own utilities and janitorial expenses.

**Disclosure:** The owners of the property and Gregory Hunter hold real estate salesperson and/or broker licenses in the State of California.

**Personal Guarantee:** The principal(s) of One World Organization shall personally guarantee the lease.

**Option to Extend:** Lessee shall have two (2) five (5) year options to extend at then Fair Market Rent, as long as Lessee is not then and has not been in default of its Lease.

- Right to First Refusal:** Lessee shall have a Right of First Refusal to lease directly contiguous space in the building as it becomes vacant, subject to the rights of existing tenants.
- Brokerage:** Both Buyer and Seller acknowledge that Cushman & Wakefield of California is acting as agent to both parties in this transaction. A dual agency exists.
- Broker Commission:** Both Lessor and Lessee acknowledge that \_\_\_\_\_ is Lessee's exclusive broker and Cushman & Wakefield of California, Inc. is Lessor's exclusive broker and that no other real estate broker or agent is entitled to or can claim a commission in connection with this lease. Lessor shall pay \_\_\_\_\_ a commission equal to five percent (5%) of the gross lease value and C&W a commission equal to two and one half percent (2.5%) for the first five years of the term. One-half of the commission shall be paid upon a fully executed lease and one-half upon occupancy of the Premises by Lessee.
- Option Payment:** Upon lease execution, Lessee shall place the sum of \$10,000.00 on deposit with Lessor. In the event Lessee proceeds to purchase the building, this amount shall be credited against the sale price. In the event that Lessee elects not to proceed with the sale, this amount shall be forfeited to Lessor.





# Real Estate Readiness: Facility Strategic Plan

- Architectural Space Programming
- Building: Basic Calculations
- Minimum & Ideal Space Needs
- Example Space Needs Assessment
- Minimum & Ideal Space Needs: Final Calculations
- Current, Ideal & Minimum Space Needs

## Architectural **SPACE PROGRAMMING**

### **WHAT DOES AN ARCHITECT MEAN BY “PROGRAMMING”?**

To an architect or space planner, a “program” is the description of your space needs. This includes:

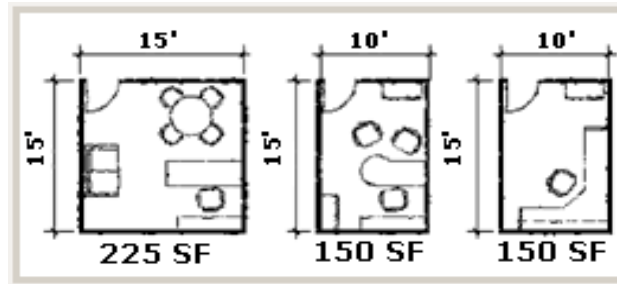
- What you do, (your mission and how you address it),
- How many people work for you, (full and part time employees, in the office and in the field),
- What type of space they need (private offices, work stations in a large room, desk for reporting),
- How different departments interact (do they need to be adjacent to each other, or can they function apart?),
- How much and what type of common area you need (conference rooms, copy area, storage, computer server space).
- How common areas can be shared by different groups

This information allows the architect/space planner to determine how much space you need, and how your space might be reconfigured.

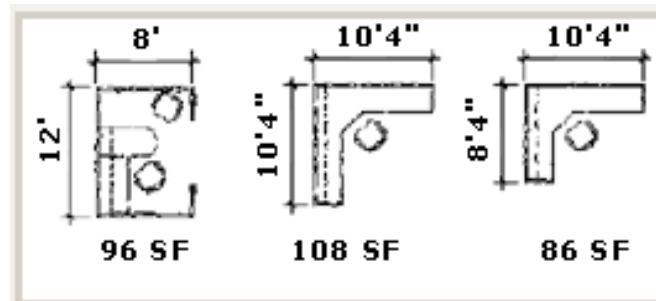
The architect/space planner will take the employee and common space square footage requirement and add a factor for circulation to determine the total square footage necessary to accommodate your agency. The information you supply will allow them to determine how your space might be configured. As you look for space, they can do schematic (preliminary) space plans to see how each space might accommodate your needs. This allows you to access which space might be right for your organization.

## Building: Basic Calculations

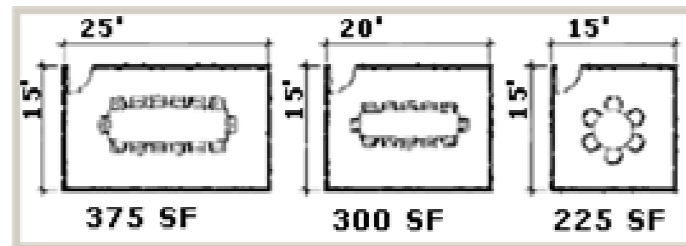
- Private Offices:



- Cubicle:



- Conference Room:



- Classroom/ Workshop range: 20-60 sq. ft. per person



## Current, Ideal & Minimum Space Needs

Uses: (Program 1)	Current	Minimum	Ideal
Office			
Conference/ Meeting Rooms			
Classroom/Rehearsal			
Other			
Other			
Total			
Uses: (Program 2)	Current	Minimum	Ideal
Office			
Conference/ Meeting Rooms			
Classroom/Rehearsal			
Other			
Other			
Total			



## Current, Ideal & Minimum Space Needs

Uses: (Program 3)	Current	Minimum	Ideal
Office			
Conference/ Meeting Rooms			
Classroom/Rehearsal			
Other			
Other			
Total			
Uses: (Program 4)	Current	Minimum	Ideal
Office			
Conference/ Meeting Rooms			
Classroom/Rehearsal			
Other			
Other			
Total			



## Minimum & Ideal Space Needs

Uses:	Program 1: Minimum	Program 1: Ideal
Office: Desk Space	3 @ 50 sf each	4 @100 sf each
Rehearsal & Classroom	1 @ 400 sf each	1 @ 600 sf each
Parking	10 stalls- 4pm-7pm	20 stalls- 4pm-7pm
Other	-	120 sf sound booth
<b>Totals</b>	<b>550 sf +10 parking stalls</b>	<b>1,120 sf + 20 parking stalls</b>



## Example Space Needs Assessment

Uses:	Program 1	Program 2	Program 3
Office	3-4 desks 150-400 sf	1 desk 64-100sf	3 offices@ 192-300 sf 500 sf for 8 cubicles
Classroom	400-600 sf	-	-
Theater	-	800-1,000 sf	-
Parking	10-20 stalls- 4pm-7pm	0-2 stalls 9am-5pm	10 stalls 9am-noon
Other	Sound Booth @ 120 sf	Loading dock	Server room @ 50 sf
Totals	550 sf - 1,120 sf	864 sf - 1,100 sf	742 sf – 850 sf



## Minimum & Ideal Space Needs: Final Calculations

Uses:	Program 1	Program 2	Program 3
Totals	550 sf - 1,120 sf	864 sf - 1,100 sf	742 sf – 850 sf
Parking	10-20 stalls- 4pm-7pm	0-2 stalls 9am-5pm	10 stalls
Other	Sound Booth?	Loading dock?	Server room?

Rough guess of space required 2,156 - 3,070 sf

With 25% common area 2,700 – 3,850 sf

+ 10 – 22 parking stalls (Programs 2 & 3 share parking)





# Decision Making Tool: Example Survey

## Board Priority for Space

Do you want to remain in current space or move to another location ? ( 1 being highest priority)	1	2										Number of Responses	Weighted average
<b>Remain in current space</b>	12	1										13	1.08
Move to another location	1	11										12	1.92
What is the preferred transportation for audience? (1 being highest priority)	1	2	3	4	5								
<b>BART</b>	6	2	3	1	1							13	2.15
Pedestrian Traffic	3	5	1	2	2							13	2.62
<b>MUNI</b>	3	2	4	3	1							13	2.77
On site Parking/ staff parking	3	4	1	3	2							13	2.77
Public Parking		3	3	2	5							13	3.69
What are preferred neighborhoods? (1 being highest priority)	1	2	3	4	5	6							
<b>Mission District</b>	6	2	1	2		1						12	2.25
Central Market (between 5th and Van Ness)	5	3	1		2	1						12	2.50
Civic Center/Hays Valley	1	5	3	3	1							13	2.85
Fort Mason		1	3	2	3	2						11	4.18
SOMA			2	2	5	2						11	4.64
Polk Street Corridor		1	2	1	1	5						10	4.70
What are the preferred sources of revenue? (1 being highest priority)	1	2	3	4	5	6							
<b>Performances</b>	5	3	1	1	1	2						13	2.69
Classes	3	2	3	4	1							13	2.85
Rehearsals	3	2	1	2		2						10	3.00
Administration	3	2	3	2	2	1						13	3.08
Rentals	1	6	1		4	1						13	3.23
Concessions	1	2	2	2	2	4						13	4.08

## Decision Making Tool: Board Survey

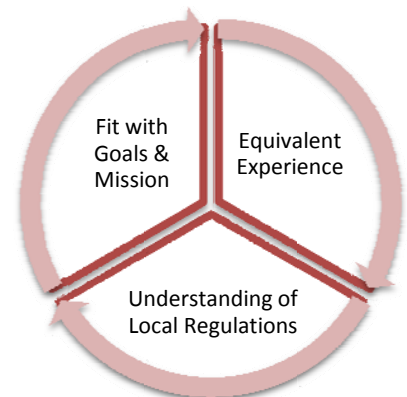
<b>Board Priority for Space</b>								
<b>Question #1:</b> (1 being highest preference)	1	2	3	4				
<b>Question #2</b> (1 being highest preference)	1	2	3	4	5	6		
<b>Question #3</b> (1 being highest preference)	1	2	3	4	5	6		
<b>Question #4</b> (1 being highest preference)	1	2	3	4	5	6	7	
<b>Question #5</b> (1 being highest preference)	1	2	3	4	5			

## Selecting an Architect

Performance facilities are specialized facilities with unique requirements. Selecting an architect who has experience designing for your types of uses can save time and money. It is also helpful to have an architect who is familiar with the building and planning codes that apply to your use at your site. Building and planning codes are different from city to city.

To prepare for selection, a staff and/or board selection committee will meet to agree on the organization's goals for the project. The committee will seek out potential architects and solicit responses. This can be done with a Request for Proposal (RFP) or a Request for Qualifications (RFQ). The most promising candidates will then be interviewed.

Before finalizing the selection, be sure to check references, negotiate the contract, and have an attorney review the contract. The American Institute of Architects (AIA) has form contracts that are often used. AIA and other standard form contracts should not be used without review by a real estate attorney with relevant experience.



## Questions to Ask an Architect Prior to Engagement

1. List your experience with projects of this type (commercial, residential, mixed-use, etc.) Include similarities of size and scope (in square footage for commercial or number of residential units). For listed projects:
  - a. Who was the project sponsor or owner?
  - b. Who was the contractor?
  - c. What was the final construction cost for each project?
  - d. List aspects of past projects that are similar to our proposed project.
  - e. Identify projects with similar regulatory constraints.
2. Describe your approach to involving the client in the design process.
3. Describe your experience working in the jurisdiction of the proposed project.
4. Provide a resume for the project manager in your firm who will oversee this project:
  - a. Who will be the project manager in your firm for this project?
  - b. What experience do they have with similar facilities?
  - c. How much involvement will the principal have versus the project manager in percentage terms?
5. From what you know about this project, what are the greatest challenge(s) to design? Construction?
6. What special characteristics of this project will require you to hire any special sub-consultants? Which ones? Are there specific ones you are considering?
7. For budgeting purposes, what percentage of the total construction cost should we use to estimate the total design fees, including all design sub-consultants? List the sub-consultants assumed in your estimate. (i.e. architecture, engineering: mechanical, electrical, plumbing, structural, acoustical, etc.)



## **Selecting a Project Manager**

Real Estate projects are a team effort. There many consultants who must work together and coordinate with your program managers to be successful. The team leader for these projects is the Project Manager. Organizations that do not have real estate development as one of their primary programs generally hire a project manager, or project management firm, to coordinate the real estate development team members.

Services that Project Managers provide include feasibility analysis for real estate operations, financial projections, and management of the selection process and contract negotiations for other consultants, such as the architect and general contractor. They also oversee the work to keep it on time and on budget. Ultimately, they must work with staff to ensure that the final product meets your organization's needs.

## **Questions to Ask a Project Manager Prior to Engagement**

1. What projects have you worked on that have similarities to ours. Provide a list of projects that includes:
  - a. Who was the project sponsor or owner?
  - b. Who was the contractor?
  - c. Who was the architect?
  - d. What was the final construction cost for each project?
  - e. List aspects of past projects that are similar to our proposed project.
  - f. Identify projects that used funding mechanisms that might apply to our project.
2. What is your experience with the funding sources that we are considering for our project?
3. What other forms of financing do you have experience with?
4. Have you worked with nonprofit organizations that are similar to ours?
5. From what you know about this project, what are the greatest project management challenges?
6. What is your estimate of a fee or a percentage of construction value for this project?
7. Does your firm also provide construction management? If not, who are the construction managers that you have worked with?
8. What other consultants do you anticipate will be required for this project?
9. Have you been to litigation, arbitration, or mediation with a client? What was the dispute? How was it resolved?
10. How do you work in such a way as to limit a client's financial risk?
11. Does your firm provide asset management services once we move into the new facility? Do you address post-construction and warranty issues? What is your fee structure for these services?
12. From what you know about this project, what are the greatest challenge(s) to design? Construction?
13. Are there Architectural firms that you would recommend for this project?
14. Are there General Contracting firms that you would recommend for this project?



## SIMPLIFIED REAL ESTATE DEVELOPMENT PROCESS

	Feasibility	Pre-Site Control	Pre-Development	Construction	Post-Construction
Funding	<ul style="list-style-type: none"> <li>Develop Business Plan</li> <li>Determine funds used for facility expenses</li> <li>Project future facility funds</li> <li>Capital campaign feasibility</li> <li>Test case statement</li> </ul>	<ul style="list-style-type: none"> <li>Obtain planning grants</li> <li>Identify lead donors</li> <li>Refine case statement</li> <li>Board approval of reserve funds</li> <li>Board commitment for fund raising</li> <li>Feasibility of Structured financing</li> </ul>	<ul style="list-style-type: none"> <li>Shop for lenders</li> <li>Submit documents</li> <li>Underwriting</li> <li>Get a commitment letter</li> <li>Determine closing schedule</li> <li>Make up closing players list</li> <li>Assemble documents</li> <li>Close the loan</li> </ul>	<ul style="list-style-type: none"> <li>Loan servicing</li> <li>Periodic disbursements</li> <li>Project cost monitoring</li> <li>Progress reporting</li> <li>Insurance monitoring</li> </ul>	<ul style="list-style-type: none"> <li>File notice of completion</li> <li>Lien period expires</li> <li>Stabilize occupancy</li> <li>Lender requirements met</li> <li>Permanent loan pays off construction loan</li> </ul>
Architecture	<ul style="list-style-type: none"> <li>Determine space needs.</li> </ul>	<ul style="list-style-type: none"> <li>Identify Architect for Feasibility</li> <li>Conceptual Design</li> </ul>	<ul style="list-style-type: none"> <li>Schematic design</li> <li>Design development</li> <li>Schematic cost estimate/budget</li> <li>Construction drawings/bid package</li> <li>General Contractor bidding</li> <li>Value engineering, if necessary</li> </ul>	<ul style="list-style-type: none"> <li>STOP CHANGING THE DESIGN</li> <li>Construction monitoring</li> <li>Requests for Information /change orders</li> <li>Interpretations &amp; decisions</li> <li>Log decisions</li> <li>Monitor sub-contractor releases</li> <li>Building operations manual</li> </ul>	<ul style="list-style-type: none"> <li>Project close-out</li> <li>Final completion certificate</li> </ul>
Entitlement		<ul style="list-style-type: none"> <li>Use allowed by Zoning?</li> <li>Licenses and regulatory approvals?</li> <li>Gage community support</li> </ul>	<ul style="list-style-type: none"> <li>Develop community support</li> <li>Address neighbor's concerns</li> <li>Start public zoning process</li> <li>Building permits</li> <li>Special approvals needed?</li> <li>Planning for utility up-grades</li> </ul>	<ul style="list-style-type: none"> <li>Certificate of Occupancy</li> <li>Licensing, if required</li> </ul>	<ul style="list-style-type: none"> <li>Plan for regulatory inspections</li> <li>Celebrate</li> </ul>
Construction		<ul style="list-style-type: none"> <li>Identify potential toxics</li> <li>Identify high cost items</li> <li>Determine magnitude of construction cost.</li> </ul>	<ul style="list-style-type: none"> <li>Determine funder's contracting requirements</li> <li>Select contractor: competitive bid or RFQ</li> <li>Start team meetings</li> <li>Finalize scope of work and cost</li> <li>Negotiate construction contract</li> <li>Bonding, insurance</li> </ul>	<ul style="list-style-type: none"> <li>Notice to proceed</li> <li>Project schedule</li> <li>Payment applications</li> <li>Change orders</li> <li>Requests for Information (RFI)</li> <li>Submittals</li> <li>Substantial competition, punch list</li> </ul>	<ul style="list-style-type: none"> <li>Close out documents: warranties, as-builts</li> <li>Final payments, retention</li> <li>Notice of Completion</li> <li>Warranty period</li> <li>Latent defects</li> </ul>