Planning a Real Estate Project

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Introduction

This guideline is designed to assist organizations with defining their space needs and whether they are well-poised to undertake a real estate development or relocation project. The key theme through-out this document will emphasize the importance of due diligence.

About the Author

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Career includes several awards for Leadership and Energy Conservation, 1982 U.S. Patent, and has received several regional awards for Technology, Leadership, Energy Conservation and two Federal Government prestigious service awards. Achievements include 2012 Copyright – Velocity of Risk (VoR) 3D modeling software and 2014 Copyright – Integrated Strategic Maturity Model (ISMM), which is further explained in eBook, Building a EPMO guide.

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Section 1 – Assessing Program Requirements

Project Requirements:

Programs should drive facilities needs, not the other way around. Too many organizations get excited about a building for sale down the street without evaluating if it is the right space for their programs. Therefore, the first step in assessing your organization's facilities needs is to clearly define your organization's **program goals** over the next three to five years and develop a facilities plan that will best enable you to achieve those objectives.

Assessing Program and Facilities Needs

The list below provides broad categories with questions for your organization to consider before you begin to consider a real estate project.

Program Goals

- Do you anticipate program growth or decline, or other program changes in the next three to five years?
- What is the demand for your services? Evaluate trends in economy, demographics and public policy affecting program demand.
- What is your organization's current ability to meet this demand? What would you need to change to meet this demand?
- What is your organization's short-, medium- and long-term goals?

Space and Growth Needs

- Does your current space meet your organization's present needs? How much space do you currently use?
- How much space do you need?
- Can you consolidate programs from multiple sites into one location? Would this save costs and enhance programs?
- If you determined that your organization's programs will change in the next three to five years, what space will the program shifts require?
- Can your current space accommodate these future needs?
- Do your programs require specialized space (e.g., for privacy, flexibility, traffic flow, circulation)?

Board Commitment

- Does your Board participate in the long-term strategic planning process?
- Is the Board committed to the organization's short-, medium- and long-term goals defined above?
- Is there consensus to undertake a real estate development project?
- Are Board members willing to provide leadership and support to achieve facilities goals?
- Are they willing to serve on a facilities planning committee?
- Does the Board have experience undertaking a capital campaign?
- Are they prepared to commit additional time and resources for training, planning and funds solicitation?

Does it make sense?

How well your organization answers the project questions will determine if it makes sense to consider a real estate project.

Revenue Stream and Financial Stability

- Does your organization have secure revenues that would allow you to cover long-term debt payments (e.g., program fees, government grants and contracts)?
- Does the Board support taking on debt to finance the project?
- Are you running large deficits or surpluses at the end of the year?
- Are you able to meet expenses on a regular basis?
- Are you dipping into unrestricted net assets at the end of the year?
- Do you have a source of cash, line of credit or cash reserve to meet timing and cash flow issues?

It is critical for your organization to be in a stable financial position and to have a strategic vision about future programs before moving ahead with a real estate project.

For instance, if your organization's current space cannot accommodate program objectives and you have clearly defined programmatic goals, Board commitment and ample revenue support, then you are well-positioned to proceed with additional analysis for a real estate project.

Section 2 – Financial Analysis

Cash Flow Analysis:

Conducting a Cash Flow analysis is essential in assist the organization with budgeting for operations in contemplating a new real estate project.

Projecting New Operations and Monthly Cash Flow

When planning a real estate project, it is critical to project monthly revenues and expenses for the first year of operations to determine if the proposed site is affordable and makes sense for your organization. Because many projects are driven by growth, planning for the sources, amounts and timing of new revenues and expenses are critical to launching and operating a successful program.

Use the following questions to estimate the impact the project will have on your current revenues and expenses. Test the assumptions you are using. Then, consider timing of cash revenues and expenses throughout the year and complete a monthly cash flow statement. This planning tool will indicate if your proposed program revenues can cover expenses each month, which is critical to determining if you should move forward with the proposed project.

Operating Budget upon Completion of the Project

Revenues:

- Will your organization be able to access new revenue sources as the number of clients served increases?
- Or as services change?
- Can government contract amounts or foundation grants increase if you provide more services, or do they have a maximum cap?
- Will you be able to access new fundraising sources due to the changed programs?
- How long will it take to get the new programs running at full capacity? What is a realistic rate of growth?
- If your organization is running deficits, what are your plans to increase revenues?
- Will this project bring in revenues or reduce costs to help your organization's financial condition?

Expenses:

- Are your program costs tied one for one to the number of clients served or can savings be realized by spreading overhead and other related expenses over service increases?

Cash Flow:

Conducting a Cash Flow analysis will assist your organization in projecting your monthly cash position once the real estate project is finished and you are fully operational in your new space.

Only with these projections can you accurately evaluate if the facility proposal makes sense for your organization.

- Do your government contracts have restrictions on the types of costs that can be covered (e.g., mortgage interest, principal, general overhead or administrative expenses)?
- Are cost savings anticipated in other areas such as operating efficiencies?
- What are the one-time startup costs of launching operations in the new facility?
- Will the improvements to your facility result in more energy-efficient systems that will save on utilities?
- Reduced maintenance expenses?
- Will the consolidation of your operations result in reduced lease payments?

Ensuring the accuracy of projections requires continued oversight and review. Make sure your systems produce timely and accurate monthly financial reports and your CFO, CEO and Board of Directors provide strong financial oversight.

Monthly Cash Flow upon Completion of the Project

When estimating on a monthly basis, be sure to take into account how the following factors will have an impact on your revenues and expenses:

Ramp Up:

- What are realistic growth projections for gradually achieving full client service levels and corresponding receipt of revenues?
- What expenses will need to be incurred before revenues are received?

Seasonality:

- How do issues like the school year and season impact your ramp up, ongoing service levels and ability to meet the needs?
- When is it most appropriate to expect contributions and special events to be realized?
- Is there a cyclical pattern to the timing of reimbursements that you can expect every year?

Timing of Reimbursements:

- How much of a delay do you currently experience?
- Will that change as a result of this project? If you have upfront costs and more delays in payments, you will need to set up reserves or a line of credit until funds are in hand.

Section 3 – Cash Flow Statement

Important:

It is of concern to see a negative ending cash amount in any month. If you get a negative number for ending cash, that indicates a need for additional financing. One option for covering shortfalls is securing a line of credit.

Use the Line of Credit Draws line in the Cash Revenues section of this template to account for draws the organization will make to cover cash shortfalls. Use the Line of Credit Repayment line in the Cash Expenses section to account for monthly payments on outstanding line of credit draws. Plan the line of credit draws appropriately so the organization is not drawing funds each month.

Instructions for Completing the Cash Flow Statement

The following guidelines correspond to developing a typical cash flow template. (Refer to Cash Flow Statement Example).

Months 1-12 are the first 12 months of program operations at your new facility project site only, once the project is complete. Estimate when during the year it is likely you will be in operation (Month 1).

Beginning Cash:

The beginning cash is the amount of money the organization has on hand for program operations at the site upon completion of the project.

- Enter that amount in Beginning Cash, Month 1 and Beginning Cash, Total.
- Leave Beginning Cash, Months 2-12 blank for now.

Cash Revenues:

Estimate the cash that will come into your organization from various sources once the project is complete. These sources should be based on existing and/or projected revenues that will result from the project. Revenues should accurately reflect actual cash receipts taking into account delays in reimbursements and service fees, monthly draws on contracts or contributions during a specific month from fundraising activities. It is unlikely that cash receipts are identical every month. In the early months, be sure to plan for startup delays and additional reimbursement lags.

Cash Expenses:

Base monthly expenses on previous operating experience and be sure to include projected expenses that result from the project and/or new facility. Expenses should take into account fixed monthly costs (e.g., rent, salary) as well as seasonal variations (e.g., heat, snow removal).

Cash Surplus/Deficit:

The cash surplus or deficit is the amount of cash revenues above or below cash expenses. Calculate this number for each month by subtracting Total Cash Expenses from Total Cash Revenues for each month. It is acceptable to see monthly cash deficits in the early months. However, continuing cash deficits indicate that the programs at the site are not self-supporting and cash revenues and cash expenses should be revised.

Assumptions:

Keep track of and explain how you arrived at the figures for each line item. Include a list of assumptions that explain the basis for all expense and revenue items. For example, break down grant funds by source and utilities by water, electricity or gas.

Ending Cash:

The ending cash is the remaining money for program operations at the project site at the end of each month.

- Calculate for Month 1 by adding Month 1 Cash Surplus/Deficit to Month 1 Beginning Cash. This equals Month 1 Ending Cash.

- Then enter that amount in Month 2 Beginning Cash (Month 1 Ending Cash = Month 2 Beginning Cash).

- Continue calculating each month's Ending Cash and enter it as Beginning Cash for the next month.

Final Instructions:

Complete the Total column for the year by adding across the monthly totals from the Cash Revenues and Cash Expenses sections.

Calculate Total Cash Surplus/Deficit by subtracting Total Cash Expenses from Total Cash Revenues.

Finally, calculate Total Ending Cash by adding Total Cash Surplus/Deficit to Total Beginning Cash.

Cash Flow Statement Example

Annual Cash Flow Statement

All items in millions except per-share data.

	06/30/04	06/30/03	06/30/02	06/30/01
Cash Flow From Operations, Investments & Financial Activities				
Net Income (Loss)	8,168	9,993	7,829	7,346
Depreciation/Amortization & Depletion	1,186	1,439	1,084	1,536
Net Change from Assets/Liabilities	0	1,046	-231	0
Net Cash from Discontinued Operations	0	0	0	375
Other Operating Activities	5,272	3,319	5,827	4,165
Net Cash From Operating Activities	14,626	15,797	14,509	13,422
Property & Equipment	-1,109	-891	-770	-1,103
Acquisition/ Disposition of Subsidiaries	-4	-1,063	0	0
Investments	-1,632	-5,259	-10,075	-7,631
Other Investing Activities	0	0	0	0
Net Cash from Investing Activities	-2,745	-7,213	-10,845	-8,734
Uses of Funds				
Issuance (Repurchase) of Capital Stock	-635	-4,366	-4,572	-5,821
Issuance (Repayment) of Debt	0	0	0	0
Increase (Decrease) Short-Term Debt	0	0	0	0
Payment of Dividends & Other Distributions	-1,729	-857	0	0
Other Financing Activities	0	0	0	235
Net Cash from Financing Activities	-2,364	-5,223	-4,572	-5,586
Effect of Exchange Rate Changes	27	61	2	-26
Net Change In Cash & Equivalents	9,544	3,422	-906	-924
Cash at Beginning of Period	6,438	3,016	3,922	4,846
Cash at End of Period	15,982	6,438	3,016	3,922

Section 4 – Fundamentals of Purchasing Real Estate

Purchasing Real Estate:

This section provides a brief overview of the process for purchasing real estate and to help organizations make an informed evaluation of a property's suitability to meet their needs.

Once your agency has determined its program goals, facilities needs and financial means, you are ready to begin the process of identifying suitable real estate. It is critical for your organization's Board and staff to clearly define and agree on what target areas, neighborhoods and other geographic requirements will meet your organization's needs for the long term. Well before acquiring property or starting construction, you will incur costs for inspections, legal professionals and earnest money. Remember to set aside cash from your operating budget or special grants funds to help pay for these costs.

Identify and Visit Available Properties

Once you have defined your property criteria (*e.g., target area, size of building, special features*) you can begin a search for the new facility. The property search and identification can be completed by a designated staff person, a project manager (*if you have one secured at this point* or a real estate broker. Base the decision to hire a broker on the amount of time staff has to dedicate to a property search. For a fee, which is paid for by the seller of the property, a good broker can save time by narrowing the field to your pre-set criteria. Whether you have hired a broker or are accessing available listings yourself, a property's initial suitability can be determined from the information typically contained on a standard Real Estate Listing Sheet. The broker or the broker representing the properties for sale can provide you with such listings, which include the following information:

- Address
- Lot Dimensions
- Building Dimensions (Gross Square Footage)
- Room Dimensions (Net Square Footage or Usable Space)
- Selling Price (Total and Cost per Square Foot)
- *Zoning Restrictions:* Zoning is established by local government and designates a building's type and how it may be used, such as residential, commercial and industrial. Determine what classification of use your agency falls into and which zoning designations allow this type of activity. To make this determination, you can contact your local zoning office, reference the local zoning ordinance, or work with a zoning attorney.
- *Taxes:* In addition to the most recent tax information, inquire when the last tax assessment was made and if there are any special assessments regarding roads, streets, sewers, electrical or other public works improvements.
- *Utility Costs:* Recent data on previous expenditures for water, gas and electricity.

If several buildings meet your criteria from the listing sheet, visit potential sites for further investigation.

Purchasing Real Estate:

Have or hire an attorney to draft and review your purchase agreement.

Selection and Purchase Agreement

When you have identified a property and determined that it meets initial suitability requirements, you will need to learn more about the condition of the property. Additional research and/or tests usually require access to the property. The seller will typically require you to enter into a purchase agreement before you have access to the building to perform the tests. A purchase agreement, usually secured with earnest money, expresses your interest in purchasing a property, subject to the information you gather during the due diligence period. Earnest money is credited against the final purchase price if the transaction occurs, or is refunded to the purchaser if the deal falls through, or is kept by the seller if the purchaser defaults under the terms of the purchase agreement.

The earnest money deposit typically does not exceed 10% of the purchase price; you should offer enough of an earnest money deposit to let the seller know you are serious but keep it affordable for your organization. Your attorney and Broker will advise you accordingly to this matter.

Typically a “letter of intent to purchase,” expresses your interest in purchasing, should establish the terms for the contract; price, due diligence period and closing date are spelled out in such letters of intent. Letters of intent are not contracts, but let the seller know that you are interested in the property when you don’t have time to wait for your attorney to draft a purchase agreement.

Purchase agreements are created with contingency clauses to allow for time to obtain additional information or perform due diligence. Negotiate at least a 30-day due diligence period; 60 to 90 days is preferable, and 120 days is ideal. Due diligence usually includes building inspections (including roof, structural and systems review), a zoning and parking requirement review, building code review, environmental assessments, and an appraisal. The information gathered during the due diligence period will enable you to make a more informed decision about the property. While the costs of these inspections can add up, the information they reveal can often result in tremendous savings in the long run.

Due Diligence

Layout Suitability: An architect or space planner should look at the current configuration of a building to make an assessment of how easy or difficult it will be to renovate to meet your organization’s space needs. Common problems are: load-bearing walls that are not easily moved; plumbing and HVAC (Heating Venting and Air Conditioning) piping that are not easily modified; and stair, door and hallway configurations that are not readily ADA (Americans with Disabilities Act) accessible.

Condition of Property: Inspections of the major components of the building should be performed by qualified professionals.

Purchasing Real Estate:

Conducting a due diligence is critical to ensure that there are no costly major physical building conditions and or potential code violations and or code upgrades. Make sure your consultants provide a "cost estimate" for any deficiencies.

Red Flags: If the due diligence produces numerous or costly deficiencies and or the property has been vacant for more than 12 months could be a sign off potential landlord financial distress.

It is recommended to have a PM firm and or GC provide cost estimates for any deficiencies identified as well, and then add 25% to 35% to that cost.

Keep in mind, it's only a preliminary assessment and cannot qualify all potential latent impacts.

Structural: Look for potentially expensive flaws in the structural integrity of the building. These are typically indicated by bowing, sagging or rotting structural elements. Other common indications of problems are cracks in concrete, evidence of termites, drainage problems, and eroded masonry mortar joints.

Electrical: Assess whether the current electrical power is sufficient for the proposed work and if it is installed in compliance with current local building codes.

Mechanical: A general inspection of the age and condition of the plumbing, heating and air conditioning systems should be performed.

Roofing: Determine the type, age and condition of the roof and drainage system and review applicable warranties.

Environmental Audit: A Phase I audit conducted by a professional environmental inspector consists of a preliminary site analysis, including examination of public records and surrounding properties, to determine if there is evidence of hazardous waste, underground storage tanks and possible leaks.

Lenders are concerned that the security for their loan may be at risk if the property is found to contain hazardous substances. Since lenders could potentially own the property through foreclosure, they will generally require extensive documentation on environmental concerns and how they have been addressed.

Establish a Budget

Once you have obtained considerable additional information on the selected property, your findings need to be factored into the decision of whether to move ahead with the purchase agreement. Often, the due diligence period inspections reveal significant costs that should be incorporated into the purchase price negotiations.

If you may decide to abandon a property after inspections reveal too many cost-prohibitive problems, don't be discouraged: it's better to keep looking for the right property than to sink money into a building that's not right for your organization.

Keep in mind, whatever property that is considered, there are building components and systems "life cycle" standards, so the age of building and how well it has been maintained will establish a baseline for the property.

For example: Elevator cabs typically require renovation every ten years and complete overhaul or replacement after 30 years.

Purchasing Real Estate:

Establish a development budget based on the probable opinion of cost that your architect, project manager or estimator has provided you, and add other soft costs to the budget to get a better understanding of the project's total costs.

Have your architect, project manager or estimator provide you with a probable estimation of costs for the renovation of the property, including the results from the due diligence inspections. This is another cost item that you will incur before you ultimately decide to purchase the property, although you may be able to secure pro bono architectural or other professional services for the estimating expense.

Secure Financing Commitment

During your due diligence, you will need to secure a mortgage commitment. Lenders will want to see a development budget, as well as your organization's financial statements and an operating budget showing how their loan would be repaid. Lenders will also want to see your other committed sources of funds for the project.

Lenders typically require the following items before a closing on a purchase can occur. It is critical to secure professional assistance in reviewing these requirements, for they often contain critical information that can significantly delay, complicate or prevent a deal from moving forward.

Appraisal: This is a written analysis of the estimated value of real estate prepared by a licensed appraiser. If obtaining a loan, most lenders will require an appraisal to determine the value of their loan. An appraisal will also determine whether you are paying too much for the property. For a preliminary informal evaluation of a building's value, research recent sales of comparable properties.

Survey: An ALTA (American Land Title Association) survey is the industry standard. The survey is a drawing of the precise legal boundaries of the real estate (land lines), the location of improvements, easements, rights of way, and encroachments. Title insurance companies and lenders generally require a recent survey; the seller usually provides this.

Restrictive Covenants: These are private agreements that limit the use and occupancy of real estate. For example, the purpose of the structure being built, architectural requirements, setbacks, size of structure and aesthetics may be governed by a restrictive covenant. Contact the Recorder of Deeds in your county to learn whether any restrictive covenants have been recorded in connection with your property.

Condition of Title: A Title Report is a search of public records of all recorded interests in and/or encumbrances on the property. Have your real estate attorney involved during the review process to investigate any unforeseen encumbrances on the conveyance of title.

Easements: This means a right or privilege one party has to the use of another's land for a special purpose consistent with the general use of the land. Easements are commonly given to telephone and electric companies to erect poles and run lines on the property, as well as gas and water companies to lay pipes or run lines on the property. Contact the Recorder of Deeds to find out what easements exist on the property. They are usually included on the survey.

Purchasing Real Estate:

If you haven't done so already, hire an attorney (or secure pro bono legal services) to coordinate the closing for your purchase of the building.

Property Closing

If you still want to buy the building after performing the inspections and revising the budget, then schedule a closing.

Your attorney should make sure that all outstanding issues (e.g., condition of title, tax liens) regarding the property are resolved before you take ownership.

Once you have closed on the building you will begin to incur holding costs (insurance, property taxes, security, board-up if vacant, etc.). It is critical to keep the development process moving in order to minimize holding costs and other expenses associated with delays.

Section 5 – Risk Assessment

The section will assist with identifying the issues that lead to deciding to relocate from the current space and whether to lease or buy a property.

The Decision:

Once your organization's program goals are clearly defined and you know what you can afford to spend on a real estate project the time is right to determine what type of real estate project makes the most sense for your organization. The following questions will help you evaluate the costs and benefits associated with improving on your existing space, leasing another space or purchasing a facility. When answering the following questions, it is often helpful to list out the pros and cons of each choice to help make a decision.

The Decision to Stay or Move

The first step in determining what facility makes the most sense for your organization is to evaluate your current site and how it meets your organization's current and future program needs. The following questions identify the issues that will help your organization decide if it makes sense to stay in your current space:

- Are there external factors that will force you to relocate (e.g., rising rents, redevelopment, and sale of property)?
- Are you strategically located with respect to your client base?
- Is your Board committed to staying in the community?
- Are there adequate funding sources available for projects like the one you are contemplating for the space?
- Do you have sufficient control of your property to meet your organization's needs for the next five years?
- Do you have a good relationship with your landlord?
- Can you obtain a long-term lease with options to renew?
- Can you reduce the uncertainty around rent increases and other building costs?
- Are the costs of improving your current space affordable?
- Refer back to the assessment of your organization's facilities needs to determine if your present facility has the potential to meet these goals.
- Is improving on your current space cost-effective financially and organizationally?
- What will the ongoing maintenance costs be?
- Do you need specialized space (e.g., offices vs. cubicles, soundproofing, and outdoor space)?

How your organization answers the above questions will determine if it makes sense to stay or move. For instance, if your organization is feeling pressure from outside forces to relocate, does not have substantial control over its current property, or cannot improve on its existing space at a reasonable cost, then it may be the right time for your organization to consider moving to another location.

Making the Decisions:

Every scenario is different and involves many factors but here are some good guidelines to assist you in making those decisions:

1. If your organization has been experiencing rapid growth or expects to grow significantly over the next five years, you should lease space until operations and the associated facilities needs have stabilized.

2. Conversely, if your organization has stable programs, has occupied the same space for the past 15 years, and has a good idea of what kind of facility would satisfy its goals and budget; then consider buying.

The Decision to Buy or Lease

In t**ables 1: Cost** and **2: Benefits** below identify the costs and benefits your organization should compare when deciding to rent or own property. It is not necessary for your organization to decide whether to lease or own a facility before beginning the site selection process; assessing possible rental and ownership options may actually help your organization make the lease versus buy decision. You should quantify each item to determine which structure makes sense for your organization. In addition to the numbers, it is also important to ensure that your Board of Directors will support the organization in becoming property owners and taking on debt, as well as the costs associated with ownership.

Table 1: Cost

BUY	LEASE

Upfront
• Acquisition costs and down payment
• Appraisal and inspection fees
• Environmental report
• Renovations
  ○ *Hard construction costs*
  ○ *Soft costs (contingency, insurance, architect fee)*
• Financing fees
• Legal/closing fees
• Title insurance
• Survey
• Furnishings
	Upfront
	• Renovations
	  ○ *Hard construction costs*
	  ○ *Soft costs (contingency, insurance, architect fee)*
	• Financing fees (if borrowing funds to pay for improvements)
	• Legal/closing fees
	• Furnishings

Ongoing • Mortgage payments • Utilities • Maintenance • *Janitorial/engineer payroll* • *Repairs & Capital improvements* • *Extermination, Garbage/snow removal* • *Security system/fire alarm* • *Landscaping* • Property insurance • Property management • Property taxes	**Ongoing** • Rent payments • Utilities – • Common area maintenance (CAM) • Property insurance - This may be included in your lease rate or your landlord may require you to pay separately. • Property taxes - Unless you will be renting from a nonprofit, you will likely pay property taxes.

Making the Decisions:

3. The availability of a building in and of itself is NOT a good reason to start thinking about buying or moving. Real estate projects should be well planned and not entered into without considering the program and financial implications on your organization.

4. The final decision to lease or purchase cannot be made until specific property, size, location, operating costs and numerous other factors are identified.

5. Remember; always find out what is included in your lease terms. Landlords use terms such as gross or net leases - they can vary significantly. Make sure you take into account all the costs that you will be responsible for.

Table 2: Benefits

BUY	LEASE
• Building equity and assets for your organization • Long-term strategy for property control • Potential for property value appreciation • Potential for control of occupancy costs by eliminating rent increases • Asset can be pledged as collateral (for line of credit, equipment purchases, other facilities) • Possible savings from real estate tax exemption (in lease situations, for-profit landlords can pass real	• Flexibility to accommodate future growth - Can walk away within specified time and for lower costs • Less responsibility for property management • Short-term obligations • More budget certainty • Potential for lower occupancy costs due to fewer costs for property management • Does not require as much upfront capital

Section 6 – The Development Process

Development Process:

While every real estate project is different, there are elements that most successful projects have in common.

This development process defines a general sequence of how to approach a real estate development project, but keep in mind that many of the components can be worked on simultaneously.

Another helpful tip is to use the expertise of professionals.

A project manager, for example, will see the bigger picture and be aware of how the individual project team members and components work together. Finally, as your project moves further along, pay close attention as more specific information becomes available: it is critical to continuously refine your numbers.

This section is designed to help an organization approach and plan a real estate project. It serves as a general overview to the entire real estate development project. Other sections provide more detail on the steps outlined below; these sections are referenced when appropriate. This section is useful once you have assessed your organization's project readiness.

Determine Project Parameters

It is important to define your space needs before you begin searching for property. Assuming your organization has already defined its program goals, assessed its need for a new facility and its financial means, your next steps should be:

Determine the location of the project—every organization has a target area within which to provide its services. The organization should establish, through a formal decision making process, the search boundaries for your new facility's location;

Determine the size of the project *(range of square feet)*—facilitate a process to determine how much space you will need in your new facility. Many organizations use consultants or architects to help determine appropriate space requirements;

Determine your price range—if you have projected new operating revenues for your new site, you should be able to determine how much debt you can take on;

Make a lease vs. purchase decision—your organization may decide that you want to look for both leasable space and space you can purchase;

Determine other requirements of your facility that will have an impact on your search criteria. For example, you may decide your facility must be close to public transportation or that it must be on the first floor. Knowing these criteria will help make your search more efficient.

Once your organization has defined these project parameters, you can begin looking for new space, whether it's vacant land, an existing building or leasable space.

Designate Project Leaders

Designate an internal point person or committee who will provide leadership and make decisions throughout the course of the project. Determine whether you need to hire a project manager. Many organizations use a project manager so that key program staff is not pulled away from their regular responsibilities. If you choose to use a project manager, that individual/firm is responsible for keeping the project moving and should coordinate the remaining steps.

However, your organization still must designate an internal person or committee to make decisions or give feedback to the project manager in a timely manner.

Budget & Funding:

As your organization moves forward with a real estate project, be sure to identify sources of predevelopment and project funding.

It is important to bring in a competent team that will be responsible for all components of your real estate project. The development team will include a project manager (if you choose to use one), an architect and a general contractor. Typically an architect and a contractor are hired later in the real estate development process.

Plan for Project Funding

Begin discussions with foundations and/or capital campaign consultants to raise money, and with financial institutions for debt financing.

Cash from your budget or special grant funds are needed for inspections, fees and other predevelopment items.

Be sure to keep careful track of the costs: it should be clearly stated that these expenses will later be repaid from capital campaign or debt.

Develop a Space Plan

Management, staff, Board and your project manager (if you hire one) should review the space requirements of your programs and determine the building specifications that will best meet the needs of the organization. This “program” will serve as a guide for the architect.

Conduct Site Search and Selection Process

Hire a broker or independently look for space that meets the project parameters. Base the broker decision on the amount of time staff has to dedicate to a property search; a good broker can save time by narrowing the field to your preset criteria. Broker fees are typically paid by the seller or landlord, not the buyer or tenant. Visit buildings that meet your criteria and determine appropriateness of the space. Can you move into the space as-is?

or;

Do renovations or cosmetic improvements need to be done? If so, how extensively?

Don’t let raw space discourage you. If the building meets your criteria and it needs renovating, then hire an architect or contractor to walk through it and provide you with a rough estimate of renovation costs that also includes an potential code upgrades to the space.

If you’re renting, the landlord may be able to do the renovation work needed. Check with him or her and negotiate this as part of your lease. Choose two or three spaces to look at with the same architect or contractor *(see below: Select an Architect).*

Retain a contractor or architect that has experience with your type of project and program and make him or her aware of your proposed program and budget *(see below: Select a Contractor).*

Making an Offer:

Determining which building, space and/or land meets your needs for the best value, *(refer to section: "Fundamentals of Purchasing Real Estate")*.

When hiring a broker, have a market analysis conducted to determine comparable sales prices or lease rates for similar property and/or land before making the offer.

Create an Initial Development Budget

For each property that you are seriously considering, develop an initial budget of applicable development costs including purchase price, construction costs and other soft costs (legal, accounting, appraisal, etc.). This will be a preliminary budget and will not necessarily represent final project costs.

Determine Preliminary Sources of Funding

Determine how you will finance the purchase of your new facility:

- How much cash do you have on hand?
- How much can you borrow?

Enter Into a Lease or Purchase Agreement

Hire an attorney to review and/or negotiate the lease contract or purchase agreement. If purchasing, be sure to include in the contract a "due diligence" period during which you can conduct thorough building inspections and secure financing. A due diligence period should be at least 30 days, but preferably 60-90 days; 120 days is ideal.

Select an Architect

Refer to section *"**Selecting an Architect**"* for guidance on how to choose the right architect for your project.

Some organizations hire an architect to help them select the right building or land for their real estate project. The architect you use to design your new facility may or may not be the same one who helped you determine your space plan.

The architect can help with your decision to select a contractor and play's an active role in the construction phase of the project.

Finalize Program Space Plan

Even if you have already developed a space plan, when you have selected a facility to purchase, you, your staff and/or Board should review the space requirements of the building with your architect and determine the final program. This program will guide the architect in his or her design development. The program plan includes the number of clients you propose to serve, number and type of staffing required, and revenue sources.

Budget:

Be sure that you have sufficient funding to cover your total project costs before you start construction on your project.

1. Purchase/Lease
2. Broker
3. Attorney
4. Design Fees
5. Project Manager
6. Construction
7. Permits & Fees
8. Relocation
9. FF&E

Select a General Contractor

Refer to section *"**Selecting a General Contractor**"* for guidance on how to secure bids from general contractors and choose the right contractor for your project.

Some organizations (during the "due diligence" period) hire a contractor to help them estimate the costs of building or renovating a facility before they purchase a property. The contractor you use to build your new facility may or may not be the same one who helped you estimate the costs of the facility.

Your architect and project manager should assist you in the process of selecting a general contractor.

Enter Into a Contract with Your General Contractor

Finalize your contract price and pay special attention to exclusions within the contract. Be clear as to what is or is not included in the price. For any exclusion, develop allowances and always include a "contingency" budget line item of 3% to 7% of the total construction budget.

Apply for a Permit

Construction cannot begin without a permit. In some cases, the permitting process can take several months and if land is purchased and not zoned for commercial use, rezoning can take 12 months or longer. Permit expeditors are available for a fee to handle the permit process. In many State jurisdictions typically charge 1% to 3% or more of the project construction cost, so make sure your team professionals advise early in the planning phase.

Finalize Development Budget Based on Contractor Pricing

Once you have a final construction price from your general contractor, revise your development budget. Your total project costs should be very close to final at this point.

Confirm Sources of Funding and Financing

Once you have a final development budget, reconfirm where your sources of project financing are coming from.

- How much agency cash are you using?
- How much will come from foundation and corporate grants?
- How much from government?
- How much from debt?

The Move:

If your relocating to a new building/facility, select and invite your office mover and IT contractor six months prior to the projects move-in date to the design team meetings as necessary to review the project schedule, moving logistics, filing systems and IT network coordination.

Be sure that you have sufficient funding to cover your total project costs before you start construction on your project.

Schedule Closing on Construction Financing

If debt is a source of your project financing, you will need to "close" on the construction financing. Your attorney and project manager should help you coordinate the closing.

Begin Construction

Once you have closed, you should be able to start construction. The architect and project manger should manage the construction process on your behalf.

Close-out Project

When construction is coming to an end, the architect should determine the date of substantial completion. This is when you may secure your occupancy permit and business license.

Your architect and project manager will develop a "punchlist" of items that must be completed by the general contractor before the project is closed-out. You should not pay your contractor the final five to ten percent (retainage) of the contract price until the architect and the Project Manger have agreed that all punchlist items have been completed.

Section 7 – The Development Budget

The Development Budget:

This section is intended to assist organizations estimate the total costs of their real estate project.

Creating a Project Development Budget

In the "Development Tools" section, a Budget template link is provided to use as a starting point, which is intended to encourage organizations to think through all the expenses associated with a real estate development project—from acquiring a building or vacant land through renovation or new construction of a facility—and to estimate all the costs associated with their project. With a comprehensive understanding of all the costs of a development project, your organization can determine the true feasibility and affordability of the project. (*Refer to **Budget Example***)

Adjustments can be made to the project scope to bring the budget in line with your organization's means. A development budget is an ever-changing document until you have final bids from a contractor. It is critical to continuously update the budget as estimates become actual costs and to balance the total project costs with the total funds you have available to complete the project. The tendency is for all parties to low-ball estimates. Always, always include a contingency (*see definition below*)!

Explanation of Development Budget Line Item Terms

A: Acquisition

Building/Land

Enter the acquisition price of the land or building.

Building Inspections

Enter an estimate of the total costs of your due diligence inspections. It is recommended that the following inspections be conducted to determine the condition and potential cost to repair the following items before the acquisition of any building:

- Electrical
- Plumbing
- Mechanical
- Roofing
- Structural
- Exterior Skin/Windows

B: Construction (also known as Hard Costs)

Renovation Costs

Enter the cost per square foot for renovating an existing building as estimated by an architect, project manager, estimator or general contractor.

New Construction Costs

Enter the cost per square foot for new construction of a building as estimated by an architect, engineer or general contractor.

Construction Contingency Allowance (CCA):

In most construction budgets, there is an allowance for contingencies or unexpected costs occurring during construction, known as CCA.

The CCA is a predetermined sum of money designated for a yet to be determined issue that can change the scope of the work during the actual construction of a project. It has been stated often that construction is more an art than a science.

Therefore it is impossible to know in advance every issue or challenge that will be encountered once "dirt is turned." The guarantee that you have before beginning construction is that you will discover unplanned items during the process.

Construction Contingency

No project is ever designed perfectly—there will always be unforeseen conditions or mistakes in your drawings that will require a construction "change order". A contingency budgets for these unknown additions to your project.

The best pre-construction planning will greatly reduce the number and complexity of the unplanned items, but eliminating them is impossible. Anyone who tells you otherwise would lie to you about other things as well. The CCA is a great tool for at least preparing for the financial challenges of discovering the unknowns during construction.

What is an appropriate amount for a CCA? Historically, the CCA dedicated prior to construction ranges from five to 10 percent of the anticipated construction cost. CCAs for new construction on Greenfield sites are typically at the lower end of that range, while renovations and additions to older facilities are at the higher levels.

Experience shows that during the construction phase there are four major categories of potential change of scope issues that benefit from having an appropriate CCA.

- Unknown Conditions
- Building Inspector's Modifications
- Project Owner Requested Changes
- Design Clarifications or Modifications

Unknown Conditions: One of the most prominent sources of unknown conditions for new construction is what lies beneath the ground surface. Rock, unsuitable soils, contaminated materials, unexpected ground water, etc. are just a few of the surprises potentially awaiting you subsurface. Pre-design/pre-construction environmental reports and geotechnical explorations will paint an important and informative picture of what will be found once grading commences, but it is only a broad picture. The more exhaustive the reports and explorations that you commission will result in a more thorough understanding of the subsurface conditions. Every additional soil boring or exploration procedure adds more pre-construction expense. Most project owners try to strike a happy medium by performing "standard" explorations and then dedicating an appropriate CCA.

Renovations and additions to older facilities, as implied above, have greater potential for revealing unknown conditions once selective demolition begins. Are the "blueprints" for the original facility available? Did the original builder actually construct the facility as it was designed? Have there been unknown or undocumented modifications during the life of the facility? What's really behind that wall or under that slab? Renovations to older facilities can bring one surprise after another — many which can delay the new construction and change the anticipated scope of the work. This is why it is advisable to dedicate a CCA that is higher than that for new construction.

The CCA is intended to be the source of funds necessary for these requested modifications.

Building Inspection Modifications: While a plans reviewer for the local building jurisdiction has reviewed the construction documents prior to issuing a building permit, there remains the likelihood that the building inspector will request modifications to the plans during the actual construction based upon what they actually see on the project and their interpretation of the applicable building code. And if you hope to get a Certificate of Occupancy from this same authority at construction's end, you will have to make the requested modifications or successfully appeal the inspector's request. Whether it is adding an extra exit sign, smoke detector or fire extinguisher, or whether it is something more significant, it will require more work from the building contractor, thus added expense.

Project Owner Requested Changes: No matter how informed or experienced you are as a project owner, it is nearly impossible to express your every desire during the design phase. You will always see something during construction that you would like to change. There is nothing necessarily wrong with that. It may be shifting a wall to make a room bigger, or adding some more electrical receptacles along a wall, or upgrading a construction material. Whatever the change, it can potentially require additional construction costs. The later during construction that the change is requested, the more it will likely cost to perform. The CCA is intended to be the source of funds necessary for these requested changes.

Design Clarifications or Modifications: There has only been one perfect designer, and He rested after six days of work. No designer since then has ever developed the perfect set of construction documents. There are always items that can be detailed better or more clearly. The design intent should be adequately reflected in the drawings and specifications so that the building contractor can bid and build the facility to meet the design intent. However, there will be times during construction when the builder will not be readily able to identify the exact intent of particular details or systems. At that time the builder will submit a Request for Information (RFI) to the designer for clarification or more information. The designer will issue clarifications or directives so that the builder can continue to meet the design intent. On occasion, the RFI will reveal that something more than was shown in the construction documents is necessary to fulfill the design intent. The clarification or modification may impact the scope of the work to a degree that additional construction costs become necessary. As long as the design omission is not negligent, the CCA is intended to be the source of funds necessary for these design clarifications or modifications.

Should the CCA be included in the building contractor's contract or not? Most public projects make the CCA part of the contract. For instance, the bidding contractor is required to include in his bid a sum equal to a percent of the base bid for a CCA. Using this example, a construction bid of $1 million would designate an additional $50,000 as the CCA. Occasionally, a project owner will elect not to make a CCA part of the general construction contract, but may designate some arbitrary sum of money away from the construction contract to cover any increases in the work.

Environmental Site Assessment (ESA):

A complete ESA can involve three Phases, depending upon the size, type, construction and location of the property; the past and present intended use(s) of the property; and availability and access to complete records.

Phase I Elements

A Phase 1 Environmental Site Assessment should be an integral step in acquiring a property.

A Phase 1 ESA is a report that summarizes a site visit and records review of a property and its surrounding area to determine if any additional environmental investigation is warranted to understand the liability risks associated with the identified property.

One advantage to including the CCA in the construction contract is that it is part of the contract sum. Therefore, the builder has included all potential work performed with the CCA in his original bonding of the project. The builder will then not have to mark up each requested change with a "bond mark-up."

Another advantage is that any additional work performed with the CCA will not increase the total contract sum. A change in total contract sum often requires approval from the project owner's controlling authority. Most departments don't want to have to go to the city council each time a slight change in work is necessary or desired. While some procurement departments may require a change order for changes in work, the work performed under a CCA is not a true change order because it utilizes funds already approved in the construction contract.

Keep your 'plans' off of your CCA: Occasionally, a project owner will start construction with big, non-construction plans for the CCA. Some may not budget separate funds for new furnishings — fixtures — equipment (FFE), but will presume that the CCA will go unused during construction, thus being available for FFE at the project conclusion. While it is very uncommon that all CCA funds will be used during construction, you should assume that they will be mostly consumed by project's end. If any CCA is left unused by the end of construction, it will be a nice bonus.

Environmental Clean-up

If a Phase 2 (*see definition below under Section*) environmental report indicates the need for environmental remediation of your building or land, enter the estimate from your environmental consultant or contractor.

Permit Fees, Tap Fees, Utility Charges

Contact your local building department and utility companies to inquire about these charges. Some municipalities waive permit fees for nonprofits.

C: Professional Fees

Architecture and Engineering

This cost covers the design of the building, preparation of construction documents and construction oversight, and is based on a percentage of the construction costs. You should negotiate a fee with your architect.

Architecture and Engineering Reimbursable

An estimate for direct non-personnel costs incurred by the architects and engineers during the project for expenses such as travel and printing, so set a limit on these costs with your architect.

Phase 1 Environmental Consultant

Conducting a Phase 1 environmental site assessment (ESA) report is an initial evaluation of a property or vacant land to determine the potential for environmental concerns such as underground storage tanks, soil contamination, lead paint or asbestos and usually required by lenders for commercial or industrial properties.

Phase II Elements:

Based on a properly executed Phase I report advising a Phase II report, a Phase II shall consist of:

1. The physical sampling of the site, using the recommendations of the Phase I report as a minimum guideline.

2. A comprehensive written report detailing the rationale for the sampling that took place, the sampling protocols and procedures employed, an explanation of the analytical results, and, if necessary, a description of the recommended remedial action needed to restore the site to the appropriate condition for its intended use.

Non-scope Phase I Environmental Site Assessments can include visual inspections or records review searches for:

- Asbestos Containing Building Materials (ACBM)
- Lead-Based Paint
- Lead in Drinking Water
- Mold
- Radon
- Wetlands
- Threatened and Endangered Species
- Mercury Poisoning
- Debris Blow & Compaction (High level back fill)
- Earthquake Hazard
- Vapor Intrusion

Phase 2 Environmental Consultant

If the Phase 1 report raises environmental concerns, a Phase 2 environmental report must be performed. The work usually entails additional sampling and testing, and the report offers recommendations for removal and corrective actions of any environmental concerns. Fees for such reports depend on the number of tests and the type of analysis performed.

Geotechnical Exploration

For new construction projects—Geotechnical work is conducted by engineers to examine the foundation and soil conditions of your site. This helps determine if your site can support the design and construction of your project. Fees for such services depend on the number of soil borings performed.

Testing and Inspection Services

These are services employed during construction by specialized engineering firms to test materials that support the overall structure of the building. Fees for such services depend on the type and number of tests called for by your architect.

Legal Fees

Enter an estimate of fees for your organization's legal services for the project. These may include review of loan documents, an escrow agreement, and contracts between your organization and a project manager, architect and contractor.

Project Management Services

Enter the cost of an independent project manager or firm (client representative) that contractually assumes responsibility for the coordination, management and oversight of the project.

Phase III Elements:

Based on a properly executed Phase II report, a Phase III shall consist of:

1. The design and implementation of the remediation of the site.

2. All necessary reports and permits to achieve cleanup of the site to agreed upon site specific standards.

Construction Estimator

The cost of hiring a general contractor or estimator to provide a detailed estimate of your project's construction costs prior to bidding the project. Using an estimator helps you budget more efficiently and prevents surprises when construction bids are received. Fees depend on the size of the project and the number of estimates provided.

D: Project Financing Fees and Costs

Property Survey

A document provided by a surveying company with the legal description of a property, actual dimensions of a building or vacant land, topographical information, and utility and easement information. Lenders and title companies require surveys. Fees vary depending on the size of the land or building and the level of detail of the survey.

Appraisal

An opinion of a property's value provided by an appraisal company and usually required by lenders before financing is approved. Fees can range from $2,000 to $5,000.

Title and Recording Costs

Services provided by a title company to record mortgages and provide title insurance to you and your lender, which protects you from liens. Fees vary depending on the number of documents that must be recorded and the number of title "endorsements" required by your attorney and your lender.

Development Budget Example

Section 1000 Category

Master Project Budget

XYZ Project
Land Purchase

Date: 8/18/2012
RSF: 501,000
GSF: 501,000

1000 Real Estate/Land Costs		Total $	$/RSF	$/GSF	% of Total Cost	Comments
1110 Real Estate Broker	$	-				Included in 1190
1120 Real Estate Advisor	$	-				Included in 1190
1130 Municipal Incentives Consultant	$	-				Included in 1190
1140 Transaction Attorney	$	-				Included in 1190
1150 Land Use and Zoning Council	$	-				Included in 1190
1160 Title Insurance	$	-				Included in 1190
1170 Settlement Attorney	$	-				Included in 1190
1180 Title Search	$	-				Included in 1190
1190 Land Purchase	$	8,000,000.00	15.97	15.97	57.16%	
1200 Proffers & Covenants	$	-				Included in 1190
1210 Deed	$	-				Included in 1190
1220 Title Commitment	$	-				Included in 1190
1230 Transfer Fees	$	-				Included in 1190
1240 Real Estate Taxes	$	-				Not in this Budget
1250 Property Owner's Insurance	$	-				Not in this Budget
1260 Other	$	-				
1270 Other	$	-				
1280 Other	$	-				
1290 Other	$	-				
1000 Real Estate/Lease Subtotal	**$**	**8,000,000.00**	**$ 15.97**	**$ 15.97**	**57.16%**	

Development Budget Example

Section 2000 Category

Master Project Budget

XYZ Project
Land Purchase

Date: 8/18/2012
RSF: 501,000
GSF: 501,000

2000 Soft Costs (Through Land Closing)						
2110 Architect Contract (Design Only, No CM)	$	4,000,000.00	7.98	7.98	28.58%	No Const Admin.
2120 Architect (Reimbursables)	$	85,000.00	0.17	0.17	0.61%	
2130 Structural Engineer	$	-				Included in 2110
2140 MEP Engineer (Design Only, No CM)	$	800,000.00	1.60	1.60	5.72%	
2150 MEP (Reimbursables)	$	25,000.00	0.05	0.05	0.18%	
2160 Lighting Consultant	$	-				Not Required
2170 Signage Consultant	$	-				Not Required
2180 IT Consultant	$	-				Not Required
2190 Security Consultant	$	-				By Covance
2200 Water Usage Consultant	$	10,000.00	0.02	0.02	0.07%	
2210 Civil Engineer	$	500,000.00	1.00	1.00	3.57%	
2215 Civil Engineer (Reimbursables)	$	35,000.00	0.07	0.07	0.25%	
2220 Landscape Architect	$	-				Included in 2210
2230 Environmental Engineer (Phase 1 and 2)	$	35,000.00	0.07	0.07	0.25%	
2240 Geotechnical Engineer	$	50,000.00	0.10	0.10	0.36%	
2250 Traffic Engineer	$	20,000.00	0.04	0.04	0.14%	
2260 Environmental Engineer	$	35,000.00	0.07	0.07	0.25%	
2270 Surveyor	$	35,000.00	0.07	0.07	0.25%	
2280 Specialty Consultants	$	-				Not Required
2290 Project Manager	$	250,000.00	0.50	0.50	1.79%	
2300 Pre-Construction Pricing	$	50,000.00	0.10	0.10	0.36%	
2310 PreTechnical Submission/Review Fees	$	5,000.00	0.01	0.01	0.04%	
2320 PAD Submission Review Fees	$	5,000.00	0.01	0.01	0.04%	
2330 PDP Submission/Review Fees	$	5,000.00	0.01	0.01	0.04%	
2340 Site and Foundation Permit Fees	$	10,000.00	0.02	0.02	0.07%	
2240 Geotechnical Engineer	$	50,000.00	0.10	0.10	0.36%	
2250 Traffic Engineer	$	20,000.00	0.04	0.04	0.14%	
2260 Environmental Engineer	$	35,000.00	0.07	0.07	0.25%	
2270 Surveyor	$	35,000.00	0.07	0.07	0.25%	
2280 Specialty Consultants	$	-				Not Required
2290 Project Manager	$	250,000.00	0.50	0.50	1.79%	
2300 Pre-Construction Pricing	$	50,000.00	0.10	0.10	0.36%	
2310 PreTechnical Submission/Review Fees	$	5,000.00	0.01	0.01	0.04%	
2320 PAD Submission Review Fees	$	5,000.00	0.01	0.01	0.04%	
2330 PDP Submission/Review Fees	$	5,000.00	0.01	0.01	0.04%	
2340 Site and Foundation Permit Fees	$	10,000.00	0.02	0.02	0.07%	
2350 Shell Building Permit Fees	$	10,000.00	0.02	0.02	0.07%	
2360 Building Permit Fees	$	30,000.00	0.06	0.06	0.21%	
2370 Utility/Tap Fees	$	-				Not in this Budget
2380	$	-				
2390	$	-				
2000 Soft Costs Subtotal	**$**	**5,995,000.00**	**$ 11.97**	**$ 11.97**	**42.84%**	

Development Budget Example

Section 6000 & 700 Category

Master Project Budget

XYZ Project
Land Purchase

Date: 8/18/2012
RSF: 501,000
GSF: 501,000

6000 Financing						
6110 Letter of Credit	$	-				
6120 Construction/Interim Financing	$	-				
6130 Carry Costs	$	-				
6140 Permanent Financing	$	-				
6150 Mortgage Broker	$	-				
6000 Financing Subtotal	**$**	-	**$** -	**$** -	0.00%	
Project Cost Subtotal (1000 to 6000 Accts)	**$**	13,995,000.00	**$** 27.93	**$** 27.93	100%	
7000 Seller Allowances/Contributions						
7110 Rebates	$	-				Not in this Budget
7120 Municipal Incentives	$	-				Not in this Budget
7130 Seller Contributions	$	-				Not in this Budget
7140 Other	$	-				Not in this Budget
7150 Other	$	-				Not in this Budget
7160 Other	$	-				Not in this Budget
7000 Credits Subtotal		($.00)	($.00)	($.00)	0.00%	
Total Budget Costs	**$**	13,995,000.00	**$** 27.93	**$** 27.93	100%	

Development Budget: Click here to download PDF version or Click here to download the Excel file.

Aside from the Development budget, included are two additional templates for your use.

Renovation Budget: Click here to download PDF version or Click here to download the Excel file.

Commercial Mixed-Use Pro Forma: Click here to download PDF version or Click here to download the Excel file.

Section 8 – The Real Estate Attorney

Real Estate Attorney Guidelines:

This section is designed to help organizations understand the importance with hiring an Real Estate Attorney.

Hiring a Real Estate Attorney

Would you hire a residential real estate broker to find you commercial office space? Probably not! Therefore, you should hire a real estate attorney to handle your commercial office lease, not your business attorney.

Many tenants believe their business attorney can negotiate a commercial real estate lease. Business attorneys are generalists whereas real estate attorneys are specialists and that is the only type of legal work they handle.

Commercial real estate law focuses on contracts that can be complex and lengthy by nature and covers a broad range of activities that governs retail centers, office buildings, hotels, apartment complexes, or vacant property slated for development.

Commercial real estate contracts cover, among other things:

- Price
- Time frame for the lease or sale.
- Conditions that each party must satisfy to avoid breach; damages for breach.
- Warranties from each party ensuring performance; and any other issue the parties find important to the deal.
- Construction and Tenant Improvements.
- Space rental.
- Sale of commercial property.

Commercial real estate lawyers are experienced at negotiating, drafting, and interpreting a commercial real estate contract, and are a valuable resource for both parties. If you are planning on entering into a commercial real estate lease, you should have a commercial real estate attorney help you with the negotiations and review of the lease to make sure you are legally protected. A commercial real estate attorney understands commercial real estate and landlord tenant laws, and can explain them to you.

The attorney can also help you with renewals, subleases and assignments and represent you in court in landlord/tenant disputes.

Other common reasons to hire a real estate attorney:

Renting/Purchasing: If you plan to rent office space, or purchase a commercial building or property, a real estate attorney can assist you in complying with landlord/tenant law; develop a lease or land or building sale agreement.

New Construction: Handle construction defects and mechanic's liens, including disputes that owners, builders and contractors may have in regard to construction disputes, construction defects and claims.

Real Estate Attorney Guidelines:

Hey, we all make mistakes – but when it comes to leasing office space for your business, mistakes equal dollars – sometimes big dollars.

Zoning and Permits: Help resolve disputes over zoning, land use and permits matters, including representation of property owners before governmental entities (cities, counties, zoning boards, design review boards) relating to land use applications, permits variances, zoning exceptions, design review approvals, and special use permits, as well as interpretation and enforcement of Covenants and Conditions & Restrictions (CC&R's).

Taxes: Real estate attorneys can offer advice on minimizing tax issues.

Real Estate Broker Issues: Including claims against and defense of real estate brokers and agents including negligence, fraud/misrepresentation, breach of fiduciary duty, disclosure obligations.

When Do You Hire A Commercial Real Estate Attorney?

Complexity: First, look at the **complexity of the transaction.** If you are issuing a standard Letter of Intent (LOI) it is unnecessary to incur the costs to engage an attorney. However, when you are getting ready to go to a purchase contract you should definitely engage a commercial real estate attorney, because it is critical that your contract covers all the stipulations of your due diligence and closing requirements.

Risk: Next, look at **how much risk is associated with the transaction.** On an apartment lease, it is unnecessary to have an attorney draw up each lease for each new tenant that you get. In this case, you can use a standard lease that is drawn up one time by the attorney. When you are negotiating a ten year lease with a national tenant, it is important to dot your "I's" and cross your "T's", so an attorney needs to be involved.

Legal Documents: If you are initiating a standardized procedure which will be utilized over multiple projects, it makes sense to invest the money one time. This way you know legally you have it properly documented. I have done this to **standardize my leases, my Letters of Intent and my construction contracts**.

Negotiations: If you feel that your **negotiations are becoming emotional,** a commercial real estate attorney needs to be involved. An attorney can make it more mutual between the parties involved because they are looking at each point with no emotions. This is not only helpful when trying to resolve a dispute but it is also helpful when negotiating a lease or purchase contract.

Deadlines: Last, when **timing is critical and deadlines need to be met**, an attorney can make sure a seller is staying on course. We have experienced this when a seller drags their feet and we need something from them in order to present to a zoning committee. The attorney can legally force them to get it done. They can also make sure that you do not lose a deal or your earnest money. If you miss a closing date but are working toward the closing, the attorney can buy you some time so that you get the deal closed.

Real Estate Attorney Guidelines:

Tenants have a tendency to think that the landlord is all-powerful, but that's not the case.

Mistakes Tenants Make When Leasing Office Space

Here are nine most common mistakes tenants make when renting office space, as well as an insider's take on how to avoid making them.

1. **Not Hiring a Project Manager:** Companies often find that handling construction and move management along with their daily job responsibilities can be overwhelming. Tenant project manager's shoulder the responsibilities of site selection, hiring a broker, overseeing the space plan and build out; leveling furniture and telecom bids while directing installations and mitigating costly change orders. Most importantly, they collaborate with the tenant's staff on a detailed phased move plan that ensures minimal disruption to the employees. Project Managers catch problems architects unwittingly miss; contractors unintentionally cause and issues vendors, movers and the tenant may overlook.

2. **Lack of Planning**: Believe it or not, many tenants are not clear on what exactly they need. If you're out looking for ten thousand feet but you actually need twelve thousand, you've got problems. Have a project manager and architect do a space program and figure out what size you need. A lot of architects will do this for free as a favor to your tenant rep PM or broker. Between a good project manager, architect and a good broker you can get clear on things you might not be thinking about, like floor load capacity – do you have a safe or a lot of equipment – then you need re-enforced floors. Do you need extra electric to your space? Have special telecom needs? Knowing these details up front will save you time, money and aggravation down the road.

3. **Lack of Tenant Representation:** There's really nothing better than hiring a tenant rep broker to be on your side. A broker understands the ins and outs of the market; they can negotiate for you, and best of all, can narrow down the buildings that would be best for your particular business. Their know-how and advice are indispensable, and they can prevent you from leasing a space that you'll just end up leaving a few months down the road. Such is also the case with an attorney. Many tenants hire lawyers that don't specialize in commercial real estate – this is a mistake.

4. **Lack of Document Inspection:** Leasing an office space means a whole lot of paperwork. One of the most common mistakes tenants make is that they're not careful enough with what they sign. Landlords think long and hard about how to make as much money as legally possible on their buildings. The long lease they give you is not designed to be fair. It is explicitly constructed to make them money. Further, the ownership documents need to be vetted too. Make sure your space is legally zoned for commercial purposes and for your use in particular, and that it conforms to various safety codes and is built in accordance with the prevailing rules and regulations. Have the HVAC (air and heat) unit in your space inspected before you sign the lease. Landlords will routinely say in the lease that the unit is in good working order. But they often presume this to be true but don't actually check. If you take possession and the HVAC unit needs to be replaced, it will cost you a big chunk of change.

Real Estate Attorney Guidelines:

Always let your hired professionals speak for you when negotiating with the Seller/Landlord.

5. **Rent and Security Deposit:** Before agreeing to the monthly rental, many people do not benchmark similar properties, and end up paying rent through their nose. It is important to compare similar office properties and find out the going market rent in that area before entering into negotiations with the owner. This is Real Estate 101 for tenant rep brokers. Hire them – they know what they're doing. The security deposit must also be based on demand, supply and the regular market norms. However, if the owner of the office space seems to be in a tearing hurry to rent out his place, you can always negotiate with him and save yourself some money. Again, this is where a tenant representative comes in handy; he/she will do all of this dirty work for you! Landlords typically want the security deposit as a letter of credit ("LC") from a bank as opposed to cash or a check. The reason for this is that if a tenant goes bankrupt, the court takes control of cash and it goes to all sorts of creditors before the landlord gets paid. An LC, on the other hand, remains with the landlord through bankruptcy proceedings. Note: it takes a long time to get an LC. Don't think it will happen overnight. 2–3 weeks is common.

6. **Not Checking Lease Terms:** A tenant must read and understand the lease terms carefully. Are you comfortable with the notice period? Let's say the landlord has the right to relocate you to another floor or space in the building (something that is common for smaller deals) – how much notice do they need to give you? What if the lease says 30 days…can you really pack up and execute a move of both your physical stuff and your technology in 30 days? Probably not! Do you have a sublet and assignment provision? Is it fair?

7. **Underestimation of Negotiating Leverage:** Tenants have a tendency to think that the landlord is all-powerful, but that's not the case. Ultimately, a landlord is in a service business, and his business is to keep his building full. If this means he has to negotiate with his tenants to fill his spaces, he will.

   This is especially true for small tenants – even if you're a five person firm in a million square foot building – you have more value than you think. 90% of the tenants in New York are small tenants. There are only so many big corporations out there.

8. **Working with a Biased Broker:** Tenants sometimes feel that if they're hiring a big real estate company, they'll be better represented. The big firms that represent both tenants and landlords will argue that they know all the angles. While this is true, the reality is that their loyalties always lie with the landlords. When it comes down to it, a big firm will side with the landlord over the tenant.

9. **Too Little Time:** Tenants drastically underestimate how long it takes to either renew a lease or to move. Depending on how much space you have and how complex your technology is, it could easily take 6–12 months to negotiate your deal – double or triple that if you're really big.

Real Estate Attorney Guidelines:

Liens - You may not be buying everything you thought you were buying, because someone else may have a prior claim that you didn't know about.

Commercial Real Estate FAQ

What exactly is commercial real estate?

Broadly defined, the term "**commercial real estate**" can be used to refer to any dealing with real property in a business context. It could involve leasing out office space, owning an apartment complex or selling real property along with and as part of the sale of a business. It might be industrial or agricultural property. It could even involve residential properties like apartment complexes or rental houses being held for business or income-producing purposes.

What are some of the common pitfalls involving a real estate business deal?

Regardless of whether you're buying a home or a piece of investment property, there will always be risks involved. Your goal should be to lessen these risks as much as you can. Examples of potential problems that oftentimes lead to legal disputes include:

- Defects in title
- Debt service and lender requirements
- Mechanics liens
- Zoning and land use problems
- Market fluctuations
- Hazardous waste and environmental contamination

Real property interests are usually conveyed by a **deed**. In order to track how property changes hands, every state has a public record system where real property deeds are recorded, becoming a part of the public record system for everyone to see. In theory, this is a great system for keeping track of who owns what, but deeds are sometimes not recorded. Sometimes people sell or transfer partial interests in property. Lenders make loans against properties and record mortgages or deeds of trust that become liens that are of public record. Easements given to cross over or use property may or may not be of record. A judgment against a person can be recorded and become a lien against any real property that person owns, even without his consent. All these things can become a lien against title.

If you're borrowing money to acquire a piece of real property, the lender is no doubt going to want security for the loan. While a personal guarantee may work if your net worth is substantial, a lender will usually want a mortgage or deed of trust against the property. This will give the lender the right to foreclose if you fail to comply with the terms and conditions of the loan. Beyond the repayment requirements, these terms and conditions can give rise to other concerns that could become a problem. For example, some lenders prohibit borrowers from taking out more loans on their property, which could stop you from getting more financing that your business may need down the road.

Real Estate Attorney Guidelines:

Often times a commercial loan will also require that a business maintain a certain "**net equity**."

Pre-payment penalties are also common on real property loans. Also, many lenders on a big commercial real estate deal require that their legal fees and costs be paid by the borrower(s).

In a business context, contractors who do work on real property have a process called a "**mechanics lien**" that they can use to make sure that they get paid. This is a statutory lien that contractors, laborers and materialmen place on property when they've performed work or furnished materials in the erection or repair of a building or an improvement. They must generally give advance notice that they're going to file the lien, and must then take action to enforce the lien within strict timelines if they aren't paid. Ultimately a mechanic's lien could be used to foreclose on property, so it can be a very powerful tool for a contractor, a laborer or a materialman.

A big concern for a business is to make sure not only that property used in the business is properly zoned, but also that the zoning of nearby or adjacent properties is not going to be a problem. Believe it or not, many people fail in new businesses because they don't investigate the land use and zoning issues carefully enough. Even if you do your homework, issues can come up down the road if governmental agencies or neighbors try to change the zoning on your property to limit your use of it.

If you're in the real estate business, changes in property values and other market fluctuations can have a profound effect on your operations. Rents can go up or down; tenancy rates can increase and decrease. Changing property values and market fluctuations can also affect any other type of business that owns property. With retail space, for example, a company that owns rather than leases a store location may decide to change locations to follow their customer base, only to find out that they can't afford to move because of property values having dropped to the point that their business premises can't be sold at the price they need. (In contrast, a lease may provide more flexibility because, at the end of the term, the business could simply pack up and move without having to worry about selling the premises.)

The biggest potential concerns to owning business property, though, are hazardous waste or environmental cleanup problems. Property owners are the ones who have primary responsibility for fixing such problems, even if the current property owner didn't cause them. These problems may not be obvious or apparent to the naked eye, and could arise from anything ranging from an underground storage tank to an old garbage dump. If you're in the chain of title to contaminated property (meaning that a some point you held an ownership interest in that property), you're potentially responsible for paying for the cleanup. The costs for an environmental cleanup operation can run into the millions of dollars.

Is an escrow always necessary?

Strictly speaking, no! Unless the parties contractually agree to it as part of their deal, there's seldom a legal requirement that there be an escrow. Inevitably, though, an escrow is almost always a good idea. The escrow company ends up being an intermediary and a facilitator to the transaction. They can also handle most of the details and the paperwork, including escrow instructions, title reports, title insurance, recording deeds and other instruments, and disbursing funds.

Real Estate Attorney Guidelines:

Titles: Sometimes, there may be other alternatives such as forming a limited liability company that you would own and control that, in turn, could lease the property to your business entity.

In short, there are no universal rules of thumb with respect to how to take title. It's always advisable to seek professional advice, including your lawyer and CPA, to assist you in making a smart decision.

Does it make any difference how to take title to commercial real property?

There are many issues that can arise with respect to how you take title to property, and especially so in a commercial context. If you take title as an individual, you may be exposing yourself to potential liability exposure that you might want to try to avoid or at least minimize. You take title through a business corporation, but doing this could be disaster from a tax standpoint point.

If joint ownership is involved, you should clearly understand the differences between taking title as joint tenants, as tenants in common, as a partnership or as community property. You should also clearly understand your rights versus the rights of your co-owners. Each and all of these types of ownership have significant ownership implications and rights of survivorship.

What should be in a real estate purchase contract?

Real estate purchase contracts can be extraordinarily simple but usually end up being very complex and lengthy documents, in order to try to address all the "what if's" that are typically involved in a commercial real estate transaction. Points that would typically be covered include:

- Parties
- Recitals (background facts as to why the parties are doing the deal)
- Description of the property
- Sales price and terms of payment
- Title and title insurance
- Closing date
- Escrow provisions
- Conditions to closing
- Representations and warranties
- Environmental and hazardous waste provisions
- Zoning and land use issues
- Rights to inspection
- 1031 exchange provisions, if applicable
- Liability insurance requirements
- Indemnification and hold harmless provisions
- Remedies if a party breaches
- Rights to amend and modify
- Term and termination
- Rights to assignment or delegation of rights
- Attorneys' fees and costs
- Arbitration rights, if any
- Governing laws
- Other standard provisions

In many instances, it's possible to use standard form documents prepared by realtor associations that help to facilitate the drafting process. At a minimum, these standard form agreements can serve as effective checklists of issues you may want to address.

Real Estate Attorney Guidelines:

Titles: Sometimes, there may be other alternatives such as forming a limited liability company that you would own and control that, in turn, could lease the property to your business entity.

In short, there are no universal rules of thumb with respect to how to take title. It's always advisable to seek professional advice, including your lawyer and CPA, to assist you in making a smart decision.

Is an environmental site assessment required?

Some lenders may require an environmental site assessment, and there are certain situations where only makes sense to get one (such as when you're buying a service station or a manufacturing business). Otherwise, though, the chance of there being any problem may seem remote and it may be tempting to pass on doing an expensive assessment. But you're probably doing yourself a disservice if you don't get one, as any problem that arises could result in catastrophic liability exposure for you even if you didn't cause the problem.

There are different types of environmental site assessments. A "Phase I," for example, generally involves an inspection of the property and review of various records, but it doesn't actually involve any boring or drilling, or the testing of soil or water samples. These activities are usually done during the course of a Phase II assessment, which can be quite expensive. It's usually an option for a buyer to do a Phase I assessment and consider the results and recommendations of that process before deciding on whether to proceed further.

Are there different types of deeds and why should you care?

The type of deed can make a big difference. In some states, the typical conveyance is a **grant deed**, which basically says the seller has an interest in the property and that it is being conveyed to the buyer, but not necessarily with any representations or warranties as to title. Other states have **warranty deeds** that go a step further to provide a warranty that the seller has good title to the interest being conveyed. All states have something like a **quitclaim deed** where a party is only signing over whatever interest that party has in the property, if any.

The bottom line is that you could take a deed from someone that means nothing. While this may amount to fraud on the part of the seller, who wants to have to sue someone to try to enforce your rights? Also, you may not even have a good case if, for example, you accepted a quit claim deed that says that you got only whatever interest the other party had, which may have been nothing. You can see the need to get competent legal advice.

Section 9 – The Project Manager

Project Manager Selection:

This section is designed to help organizations select a project manager—the person who will oversee the project from start to finish.

Selecting the Project Manager

A real estate project can be a complicated and time consuming venture. If you do not have expertise in real estate or are not able to make a large time commitment to your development project, it may be prudent to hire a project manager. There are many project management firms with varying degrees of capacity and specialization.

It is important to select a project manager that understands your organization, your mission, your budget and the project goals. A project manager may be hired in the planning stages, during the project feasibility stage, during the predevelopment or preconstruction stage or during construction but the earlier will reduce project risk.

Project managers can offer any of the following services:

- Identifying and recommending qualified architects, leasing agents, contractors and other professionals for work on the project.
- Overseeing the development of architectural plans.
- Developing project budgets reflecting the estimated hard and soft costs required to achieve the plan for facility development.
- Developing pro-forma operating projections that integrate program revenues and expenses with the costs of operating the new facility.
- Soliciting construction bids and ensuring receipt of building permits.
- Overseeing all project-related contracts, bids, change orders, lien waiver collection, and payout requests.
- Managing the architect and general contractor.
- Preparing monthly progress reports as to the status of the project, including comparisons of actual expenditures to the project budget, and actual progress to the project timeline.
- Furnishing consultation and advice related to the construction or rehabilitation of the project.

Key PM Selection Steps

Why do I need an independent project manager; can't my architect, general contractor or real estate broker also act as the project manager?

While these project team members sometimes also provide PM services, it is not their core business, and generally architects would rather concentrate on design, general contractors would rather concentrate on construction and real estate brokers would rather focus on real estate transactions. Clients often encourage this dual role scenario because they aren't familiar with project management consulting firms.

Project Manager Selection:

As you can imagine, not all project managers are the same and selecting the right manager for your project is a crucial front-end decision.

You want to ensure that they have worked on similar types of projects.

Over the last several years, with the economy in decline, the process of designing, permitting and constructing a project has become increasingly more complicated. Unfortunately, while the fees paid to architects, engineers and general contractors have been steadily falling, so has the scope of services they provide for those fees. This has left the client exposed and there is now a gaping hole in the management of this complicated and very risky process.

In response, more and more companies are turning to professional construction project managers for assistance with their projects. A professional project manager acts as the client's representative and manages the entire design and construction team from start to finish, ensuring that the project stays on budget and on schedule.

First, although there are exceptions to this rule, you should be looking to **hire a firm and not just an individual** to manage your project. The selection process often comes down to a gut level decision about an individual that the client trusts, which is great, but a company needs to ensure that their project manager has a team of professionals to support the project. Many projects can last six to twenty four months or longer. Choosing an individual with limited or no back-up or support staff is very risky. What happens if that individual ends up having medical or personal issues? You may find your company vulnerable or looking for a new construction manager at a critical phase of the project, and you will have lost the continuity of leadership. By selecting a qualified firm, you will have the option to bring along another project manager from that firm with the same policies, procedures, forms and management philosophy as your original project manager.

Second, you need to evaluate the project manager dedicated to the project by that firm. If you are embarking on the design and construction of a new manufacturing facility, you will want to know that the project manager has experience designing and building that specific type of project. Each project type has its own unique requirements and issues. Choosing, for example, a project manager that has a great deal of retail experience to manage your lab project creates, once again, undue risk, and can set you and the project up for failure. Second, you should expect that you deserve to be assigned a senior project manager as the lead and main point of contact for your project. One of the reasons you are hiring a construction project manager is to benefit from their years of experience. This experience has helped season the project manager and exposed them to all sorts of issues and lessons learned. Some firms will sell you a senior project manager, but then once the project starts, assign a junior project manager as the day to day contact for the project. Without the senior manager's direct involvement – from the initial stages of scheduling, design and budgeting, and continued involvement reviewing issues, walking the project and solving problems – you won't be getting what you need to guarantee the success of your project.

Third, it is essential to **hire a firm that embodies a team approach**. Some project managers seem to think that they add value by pounding on their chest, raising their voice and beating up vendors. Nothing could be further from the truth.

What does a project management consultant / client representative actually do?

A project management consultant / client representative is the client advocate on a construction project, managing the entire project process, from site selection and team selection, through project planning, budgeting and scheduling, to project execution and closeout, managing and resolving all project issues.

The construction project manager should be working to assemble the best team possible for your project and managing them with a firm, but fair approach. This type of working management style will help ensure you get the full cooperation of each team member and get the best value for your money. Team members that are continually berated and ground down to unsustainably low margins will be less likely to perform when needed and will simply be forced to look for ways to cut corners to ensure they make a profit.

In closing, it is crucial to **do your research**. You will want to select a firm that has experience with similar types of projects that provides a senior level project manager who approaches every project with the intent to build a strong team focused on meeting or exceeding your goals and expectations.

Incorporating these key components in your selection process will help ensure that you select the right construction project management firm and manager for your specific project.

Decide on a Selection Process

- Determine the process, timeline and criteria for selection. See below for suggested selection criteria.
- Issue a Request for Proposals or a Request for Qualifications to your list of candidates.
- The Request for Proposal and/or Request for Qualifications are typically followed up with interviews.

List of PM Candidates

Pre-qualify project managers according to your criteria, such as:

- The reputation and relevant experience of the PM/firm.
- The track record of the PM candidate as confirmed by referrals.
- Evidence of repeat clients and the candidate's recent project history.

Solicit and Review the Proposals

When reviewing RFP responses, it is important that the committee considers:

- The proposed project team, including the qualifications of specific individuals assigned to the project within the firm.

- The reputation and relevant experience of the project manger and team members.

- The fee proposal.

Interview the Candidates/Firms

When interviewing candidate firms, be sure to ask about:

- The level and type of involvement one can expect from the project's key personnel.
- The firm's approach to ensuring that projects are completed on time and on budget.
- The firm's experience working with nonprofit agencies or relevant projects.

Check References

This final step is critical. Your principal question should be aimed at discerning whether the previous client would use the same project manager again, and why or why not. Other questions to ask references include those listed above under the interview questions.

Feel free to request a tour of facilities projects managed by the project manager.

Negotiate a Contract

Select a firm, and then enter into a contract to outline the firm's services. Review the contract (AIA Industry Standard) carefully with an attorney familiar with the standard practice of construction. Typically, the Firm you will contract with has a licensed AIA software program and can provide the necessary contract vehicle for your project.

What type of experience should project managers have?

Qualified project managers have diversified experience in architecture, engineering, construction, corporate real estate and facilities, information technology, furniture management, site selection and relocation management.

How do PM's charge for Services?

Generally, a fixed-monthly fee plus reimbursable.

If you charge a fixed monthly fee, don't you have an incentive for a project to take longer?

To avoid this, Firms should agree to a project schedule with the client in the beginning, and if the project runs any longer than originally scheduled, the client only pays for additional months of PM services at their sole discretion.

Section 10 – Selecting the Architect

The Architect Selection:

In selecting an architect or architectural firm to design your project, it is important that you consider the overall size, experience, design skills and business approach of each candidate.

Selecting an Architect

Your organization should choose the individual architect or firm that best understands your community mission, and brings to the project the optimum balance of experience, positive references and working chemistry. Architectural design, like the overall process of development, proceeds through a series of distinct phases. These phases, and the particular architectural services that might be provided in each phase, are defined here and or download the detailed Architectural Design Process whitepaper (PDF) to understand the scope of services.

It is worthwhile to begin working with an architect early in the needs assessment process to get a visual representation of how your organization's space plans lay out. The firm hired for the predevelopment drawings does not necessarily have to be selected for the final project. Typically, the architect is responsible for designing a "buildable" building; developing plans, specifications and bidding documents; attending construction meetings; visiting the site; and signing off on work completed and payments to the general contractor.

Designate a Selection Committee

This group should decide how the architect will be chosen (e.g. consensus, majority or executive decision), and should include Board and/or staff and the project's designated project manager. (*This may be a designated staff person or an outside project manager.*)

Outline the Project

The committee should discuss the number and type of rooms needed, as well as project goals, schedule, budget, location and outline. This is called a "program".

- The outline should address priorities such as timeframe, cost and design.
- Establish the evaluation criteria for judging each applicant equally, based on the priorities of your project.

Decide on a Selection Process

Determine the process, timeline and criteria for selection. See below for suggested selection criteria.

- Issue a Request for Proposals or a Request for Qualifications to your list of candidates.
- The RFP and/or RFQ is typically followed up with interviews.

The Architect:

Ask other organizations for recommendations or contact groups that have recently completed projects that involved architects.

Collect a List of Candidates

Ask other organizations for recommendations or contact groups that have recently completed projects that involved architects.

Search the web for architects with experience in your type of real estate project. Pre-qualify architects according to your criteria, such as:

- The reputation and relevant experience of the firm.
- The track record of the candidate as confirmed by referrals.
- Evidence of repeat clients and the candidate's recent project history.
- The design quality and style of the architectural firm's work.

Solicit and Review the Proposals

When reviewing RFP responses, it is important that the committee considers:

- The proposed project team, including the qualifications of specific individuals assigned to the project within the firm.
- The reputation and relevant experience of the architect and team members.
- The budget-and-schedule track record of the candidate.
- The size, area of specialization and length of practice as it corresponds to the size and type of project proposed.
- The individual or firm's familiarity with local building conditions, codes and approval processes.
- The proposed construction monitoring process.
- The fee proposal.

Interview the Candidates

When interviewing candidate firms, be sure to ask about:

- The level and type of involvement one can expect from the project's principal architect and key personnel.

The Architect References:

1. What work has this firm done for you? When?

2. What is your overall impression of their performance? (Strengths/Weaknesses).

3. Where any members of the firm particularly notable?

4. How close were their cost estimates to actual bid prices?

5. Were there many change orders associated with the project? If so, to what do you attribute that?

6. How would you evaluate their interaction with the contractor?

7. How would you rate their dispute resolution skills?

8. Would you hire them again?

- The architect or architectural firm's approach to cost estimating and cost control. Secure evidence that the firm has designed projects that have been on budget; ask about the average number of change orders on projects.

- The firm's experience in getting local approvals. Navigating the building department can be a complicated and challenging process. Individual inspectors interpret the code in a number of different ways.

- What, if any, set procedures the candidate has for solving design problems.

- The firm's approach to the design of the building.

- The firm's experience working with nonprofit agencies or relevant projects.

- Relationships with special technical consultants the project will require.

Check References

This final step is critical. Your principal question should be aimed at discerning whether the previous client would use the same architect again, and why or why not. Other questions to ask references include those listed above under the interview questions.

Feel free to request a tour of facilities designed by the architect.

Negotiate a Contract

Select a firm, and then enter into a contract to outline the firm's services.

- AIA (American Institute of Architects) contracts are the industry standard, but can be viewed as a starting point.

- Review the contract carefully with an attorney familiar with the standard practice of construction.

- The contract with the architect governs the relationship and lays out the responsibilities of both parties, cost of the work, instruments of service, change in services, mediation, arbitration, claims for consequential damages, miscellaneous provisions, termination or suspension, payments to architect, scope of services and compensation.

Section 11 – General Contractor Selection

The GC:

In selecting a general contractor (GC) to meet your organization's expectations and project demands, it is important that you consider the overall size, experience and business approach possessed by each candidate.

Your organization should choose the contractor that has performed well on similar projects, and brings to the project the optimum balance of experience, positive references and working chemistry.

Selecting a General Contractor

In most cases, the contract with the general contractor may be the single largest item in the development budget. A contractor can bring a project in on time and under budget, saving time and money, but can also be responsible for long delays and cost over-runs, costing time and money. In addition to being responsible for the construction of the building, the contractor is responsible for coordinating, supervising; and paying all subcontractors; ordering equipment and materials; submitting paperwork associated with payment requests; and site security.

The success or failure of a project can rest on the skill of the contractor. It is critical to carefully select an experienced contractor and to hire an attorney experienced with construction contracts to negotiate on your behalf.

Decide on the Selection Process and Type of Contract

Your architect or project manager can assist you in prequalifying several contractors by looking at:

- The reputation and relevant experience of the contractor and team members.
- The contractor's experience working with nonprofit organizations.
- The budget-and-schedule track record of the contractor as confirmed by references.
- Evidence of repeat clients as well as the contractor's recent project history.
- The proposed construction monitoring process.
- The quality and durability of the contractor's work.

Contract Vehicles

Competitively bidding usually means securing the best pricing, but not always. The methods for contracting with general contractors are as follows:

A ***Cost Plus Fee*** contract requires a lot of time from the designated staff person or project manager. It is an open-ended agreement that requires a strong relationship and a high level of trust between the project manager and the contractor. The contractor will charge for the actual cost of the work plus a fee. This type of contract transfers most of the project risk to you. If possible, negotiate a cap on the total to remain within the project budget.

The GC Contract:

Decide whether to competitively bid the project or choose a general contractor early to work with your architect or PM to provide a contract. The architect and PM should recommend the type of contract you should enter into with the general contractor and manage the bidding and selection process on your behalf.

A ***Guaranteed Maximum Price (GMAX or GMP)*** does not require a large time commitment from the designated staff person or project manager. The contractor will provide you with a price that will not be exceeded before drawings and specifications are 100% complete. If the cost of the project is exceeded the contractor is responsible for the additional expense. Savings may be negotiated to go back to or be split with the owner. This type of contract transfers most of the project risk to the contractor. The contractor may price the project higher to ensure that his or her expenses are completely covered.

A ***Lump or Stipulated Sum*** may require a substantial time commitment from the designated staff person or project manager. A contractor, upon reviewing completed drawings and specifications, stipulates the sum that he or she will charge to complete the project. The GMP and the lump sum contracts both allow for “change orders”. A change order is a request for additional expenditures and must be approved by both you and your architect. This type of contract transfers most of the risk to the contractor.

A ***Design Build*** contract provides for both architectural and contracting services. The level of paperwork and demands on the designated staff person or project manager’s time can be greatly reduced because there is a single point of contact. It is critical to have developed a scope of work and budget early on in the process in order to communicate the project goals to the contractor. The contractor will design and build the project based on your specifications. The disadvantage to the design build contract is that you have less control over the finished product. This type of contract shifts most of the risk to the contractor.

Incorporate Project Goals into the Construction Documents

Be sure that your architect and project manger understand your project goals and incorporate them into your bidding documents and construction contract. For example:

- ***Construction start date:*** If the project involves new construction or extensive interior work, consider the potential costs and delays associated with construction in winter.

- ***Design priorities:*** Determine items that cannot be eliminated or substantially changed through the value-engineering process.

- ***Community priorities:*** Determine the level, if any, of community participation (such as hiring local residents) the organization desires on the construction project.

- ***Organizational priorities:*** A construction contract can represent a substantial investment in a community. Set goals at or above funding requirements for MBE/ WBE (minority/woman-owned business) participation, if applicable.

The GC Interviews:

Are there participation requirements for your organization?

If there are requirements associated with your funding sources, ask about the contractor's history of MBE/ WBE (minority/woman-owned business) participation.

Bid Evaluations

If you decide to competitively bid to select your contractor, your architect and project manager should assist in your review process. Remember, the lowest price isn't always the best price.

Interview General Contractors

If bids come in within a close range, you can interview the contractors to help make a decision. In interviewing contractors, be sure to ask about:

- The proposed project team, including the qualifications of specific individuals assigned to the project.
- The level and type of involvement one can expect from the contractor and key personnel (site supervisor, project superintendent, etc.).
- The contractor's approach to cost control and value-engineering.
- The contractor's experience in getting local approvals.
- The contractor's bonding capacity and insurance coverage. What, if any, set procedures the contractor has for solving design problems.
- The contractor's approach to the construction of the building.
- The contractor's experience working with nonprofit agencies, public financing or relevant projects.
- The contractor's approach to employment inquiries on site.

Check References

This final step is critical. Your principal question should be aimed at discerning whether the previous client would use the same contractor again, and why or why not. Other questions to ask references include those listed below:

GC Interview Questions

Reference Calls to Other Owners:

- What type of project did the Contractor perform for you?
- What was the contract amount?
- How much difficulty did you have in keeping the Contractor on schedule? (Some, Moderate Amount, Great Difficulty)

The GC Reference Check:

Regardless of which process you choose; either by telephone or a mailed questionnaire it is very important to conduct this effort.

- How would you rate the Contractor's superintendence and scheduling on the project? (I.e., were subcontractors scheduled logically, were long-lead items ordered sufficiently in advance, etc.?) (Excellent, Average, Very Poor)
- How would you rate the Contractor's ability to build according to the contract documents? (Excellent, Average, Very Poor)
- How would you rate the Contractor's willingness/ability to work with the [District / City / County] in carrying out the intent of the contract documents? (Excellent, Average, Very Poor)
- Approximately how many RFI's did the Contractor submit?
- Approximately how many change order requests did the Contractor submit?
- How many change order items were taken to the Board? (This is not the same as asking what number of change orders was approved, because a single change order can incorporate numerous change order items.)
- What was the final change order to contract value ratio? (I.e., change order dollars compared to original contract value.)
- Did you have difficulty obtaining documentation for change order requests? (Some, Moderate Amount, Great Difficulty)
- How many stop notices were filed on the project?
- Were any lawsuits filed on the stop notices?
- Was there a claim or lawsuit between the Contractor and [District / City / County]?
- If so, how was it resolved?
- What overall rating would you give the Contractor? (Excellent, Average, Very Poor)

Reference Calls to Project Professionals & Inspectors:

- Did the Contractor provide adequate, competent personnel? (Absolutely, Can't Complain, Rarely)
- Did the Contractor provide adequate, competent supervision? (Absolutely, Can't Complain, Rarely)
- Did the Contractor have adequate equipment and/or supplies on the job when needed? (Always, Usually, Rarely)
- Did the Contractor complete reports and other paperwork in a timely manner? (Always, Usually, Rarely)
- Were there an inordinate number of change orders on the project?

The GC Reference Check:

At least three (3) reference checks should be conducted, especially previous clients.

- Did the Contractor return change order documents in a timely manner? (Always, Usually, Rarely)
- Did the Contractor prepare accurate up-to-date record drawings?
- Was the work completed on time?

Reference Calls to Listed Subcontractors:

- Does the Contractor respond in a timely manner to your questions and concerns on the job? (Always, Usually, Rarely)
- Has supervision by the Contractor on the job sufficient? (Always, Usually, Rarely)
- Does the Contractor pay in a timely manner? (Always, Usually, Rarely)
- Has it been necessary to file a stop notice against this Contractor?
- If yes, was it resolved before a lawsuit needed to be filed?
- If a lawsuit was filed, how was the issue finally resolved?

Reference Calls to Listed Suppliers:

- How long have you been a supplier for this Contractor?
- Describe your working relationship with this Contractor. (Excellent, Average, Very Poor)
- What is the Contractor's payment history? (30, 60, 90 days, etc.)

Negotiate a Contract

The draft contract should be included in the "bid documents". Before signing a final contract, however, you should consider the following:

- When signing a contract, know that pricing is normally good for 90 days.
- AIA (American Institute for Architects) contracts are the industry standard.
- Review the contract carefully with an attorney familiar with standard construction practices.
- The contract with the contractor governs the relationship and lays out the date of commencement and substantial completion, the contract sum, payments, responsibility for obtaining permits, dispute remedies and termination or suspension.
- If you hire a project manager, the contract should include language authorizing your project manager to act on your behalf.
- The contract must outline any residency, MBE/WBE, and/or wage restrictions associated with the project financing.

The GC Budget Estimating:

Depending on when you phase in the GC either at the beginning of the project at the Schematic Design phase or when Construction Documents are 100% complete budget estimating should include a min. of 3 bids from each trade.

Design Stages & GC Estimating

It is always beneficial to have the GC onboard after the architect has completed the Schematic Design to begin the initial construction budget estimate

Schematic Design

During the Schematic Design stage for buildings, a list of spatial requirements (number of offices, conference rooms, and special spaces) will baseline the design. The goal during this phase is to acquire a complete and accurate understanding of project requirements.

For example: - A code analysis will establish specific zoning and environmental restrictions. Based on the Program and Code Analysis - A preliminary design sketch of a site plan (the proposed building located on the site), floor plans (layout) and elevations (exterior views of the building) will be produced. - Then an Outline Specification; a list describing the proposed products and materials to be used on the project will be prepared - Depending on the size and complexity of the project, multiple schemes will be prepared and discussed to focus on the benefits and/or drawbacks of each scheme.

Use of several different presentation methods such as 3D perspective drawings and/or models is encouraged. Upon completion of the Schematic Design phase, a preliminary cost estimate for each potential scheme is prepared.

Conceptual Design Stage

This stage should demonstrate compliance with the relevant codes and zoning, the space program identified in the programming phase, functional requirements, adjacencies, and the massing should respect the context for the project. Engineering systems must be defined in a narrative form in this phase. Building envelope should be defined and should respect and relate to the context of the project. A design narrative should be included describing the design approach and the rationale for it. The cost estimate should be consistent with the programming phase and be included in the report.

Design development Stage

Engineering systems must be defined in this phase and incorporated into the architecture. This includes civil, structural, heating, ventilation and air conditioning (HVAC), plumbing, electrical, fire protection, and security. All building elements and components must be selected, defined, and incorporated in this phase of the work. This includes building envelope, interior construction, service spaces, and elevators. Outline specifications should be produced and included in this package.

Construction Document Stage

This stage includes the production of working drawings that identify all the necessary details. Engineering disciplines should be well-coordinated and incorporated into the architecture. The drawings should also be consistent with the specifications. The notes

on these drawings should result in a single interpretation of a specific set of data and become the basis of a competitive price proposal.

Design Modifications Stage

Modifications can be incorporated at any stage in the project. However, the more advanced the design, the higher the modification cost. Hence, it is best to conduct thorough programming and schematic design phases to avoid any modifications during the design development phase and the construction document phase. Modifications during construction will have to be negotiated with the Architect firm through construction; the Architect firm will prepare a cost estimate for the modification. The contractor will be required to submit a modification (variation order) cost.

Modifications are common in every project, so the project manager should anticipate them and budget at least 10 percent of the construction budget as post award allowance. The project manager should expect a higher level of modifications in renovation projects due to unforeseen conditions.

The Project Construction Estimate

During the Construction Document (CD) design phase the design team will produce drawings 50%, 75% and 100% CD stages for the GC to begin soliciting subcontractor pricing. At the 75% CD stage typically includes 85% to 95% of the mechanical, electrical and plumbing (MEP) design is when the GC can begin aggressive pricing with MEP contractors which is when your teams estimating skills will be validated.

Caution: When to Start GC Estimating?

What are the architectural design phases?

- SD - schematic design,
- DD - design development, and
- CD - construction documents.

Where Does Design Stop?

Did you notice that CD is the only phase that does not mention design? Design is completed during DD. CD is used to document the design. Don't be naïve; of course design occurs during the CD phase. As details are developed, some design elements must change to be sure the project can be built and perform as intended.

The AIA *Architect's Handbook of Professional Practice* states: "While most **design issues should be resolved by the end o f design development**, some will continue to be refined, resolved, or modified during the construction documentation, bidding and negotiation, and construction phases of the project." This design is described as occurring during the **implementation phases**.

The GC Budget Estimating:

When to price?

Design decisions are not completed until later, after the project pricing is known. Then materials and sometimes complete systems may be discarded in favor of other design solutions.

Rule #1: provide realistic time frames for the GC pricing exercises ensures less "swage" bids from the subcontractors.

Rule #2: Select a GC that has strong reputation as a "fair ball" vs. "hard ball" in the market with the subcontractors.

Remember, get subcontractor references.

The GC Budget Estimating:

Money well spent!

It will cost you "client" more money upfront to have all team members on board from the beginning but cost will be saved overtime with over lapping activities by each member during the early stages and in most cases allows a more aggressive schedule.

In most cases, you can negotiate the GC's Pre-construction services fee for being on board early because he has already won the work or you can pay the Pre-con fee and if the GC does not meet your expectations, you can hire another GC.

If you want a successful project, then develop a "partnership" team where all team members succeed.

A New Meaning for CD

However, CD has taken on a new meaning within the architectural community. CD, it seems, now means continue designing. I see early project design (SD and DD phases) attempting to set scope for pricing purposes. "Just be sure we have the cost covered" is the new mantra.

So what is the problem?

Well, there would likely not be a problem, except that the entire design team is forced to produce biddable documents before the design is completed. Contractors are pricing projects and providing owners a GMP at 50% CD phase, at 100% DD phase, and sometimes at 50% DD. The result is potentially wasted effort - effort spent documenting decisions that are destined to substantial revision.

The difficulty lies in delaying significant design decisions until the CD phase. The later the decisions are made, the more challenging it becomes to coordinate the documents and ensure everything is working together. Finding every detail, every spec paragraph that may be affected by a changed decision late in the process is unrealistic. So the drawings and specifications when finished may not be as well coordinated as they should be.

GC Interior Construction Budget Comparison (Example)

Below is an example of comparing multiple revisions to the final construction document (CD) design phase. On this particular project, the GC was involved pricing four (4) CD phases; 50% CD w/o MEP, 50% CG w/MEP, 80% CD w/MEP and 100% CD. Due to estimating assumptions prior to the 100% CD's, the final GC price went down by 4% or $370,000. This result is normal for a cohesive project team and the GC's ability to buy down the project during the final 100% DC phase.

Click here for PDF version or Click here for Excel file download.

GC Cost Estimate Revision #4 & Final
Building One - XYZ Tenant

Date: 8/29/2005

Total Rentalble Square Footage (RSF): 166,942

GC Estimate Revision #4 dated 8-22-05 80% CD with MEP
GC Estimate - 100% CD Bid

Trade	Rev #4	Cost RSF	100% Bid	Cost RSF	Variance	Cost RSF
Final Cleaning	22,361	0.13	22,361	0.13	-	0.00
Demolition	297,326	1.78	194,963	1.17	(102,363)	-0.61
Concrete	42,928	0.26	81,304	0.49	38,376	0.23
Stone	64,978	0.39	61,280	0.37	(3,698)	-0.02
Metals	44,400	0.27	52,495	0.31	8,095	0.05
Carpentry	171,037	1.02	197,363	1.18	26,326	0.16
Millwork	780,363	4.67	683,391	4.09	(96,972)	-0.58
Spray Fireproofing	6,241	0.04	6,241	0.04	-	0.00
Roof	-	0.00	7,500	0.04	7,500	0.04
Doors, Frames,& Hardware	530,125	3.18	579,950	3.47	49,825	0.30
Rolling Grille	-	0.00	10,230	0.06	10,230	0.06
Glass & Glazing & Storefront	27,910	0.17	133,845	0.80	105,935	0.63
Drywall & Acoustical Ceilings	1,376,843	8.25	1,122,486	6.72	(254,357)	-1.52
Carpet, Resilient Flooring & Base	641,077	3.84	639,000	3.83	(2,077)	-0.01
Painting & Wallcovering	375,920	2.25	244,245	1.46	(131,675)	-0.79
Fabric Panels	-	0.00	56,434	0.34	56,434	0.34
Specialties	83,705	0.50	77,540	0.46	(6,165)	-0.04
Access Flooring	17,926	0.11	32,082	0.19	14,156	0.08
Operable Partitions	42,000	0.25	51,105	0.31	9,105	0.05
Window Treatments	49,490	0.30	43,587	0.26	(5,903)	-0.04
Elevators	Excluded		Excluded			
Mechanical/HVAC/Plumbing	1,414,400	8.47	1,482,754	8.88	68,354	0.41
Fire Protection	218,676	1.31	263,592	1.58	44,916	0.27
Electrical	1,863,925	11.17	2,299,191	13.77	435,266	2.61
Security	Excluded		Excluded			
TRADE SUB TOTAL	8,094,100	48.48	8,342,939	49.98	271,308	1.63
Genral Conditions	132,000	0.79	132,000	0.79	-	0.00
Preconstruction Services	5,000	0.03	5,000	0.03	-	0.00
TRADE TOTAL	8,231,100	$ 49.31	8,479,939	$ 50.80	271,308	$ 1.63
GC Fee (2.75%)	222,588	1.33	240,078	1.44	17,490	0.10
Budget Contingency (7%)	422,684	2.53	-	-	(422,684)	(2.53)
Trash Chute	15,000	0.09	15,000	0.09	-	-
Dumpster	21,060	0.13	21,060	0.13	-	-
Clean Up Labor	16,489	0.10	16,489	0.10	-	-
Elevator Operator	15,000	0.09	15,000	0.09	-	-
Temporary Protection	5,000	0.03	5,000	0.03	-	-
Repairs Post Move-in	20,000	0.12	20,000	0.12	-	-
Drawing Reproduction	15,000	0.09	15,000	0.09	-	-
Utility Consumption Allowance	20,000	0.12	-	-	20,000	0.12
Commissioning Allowance	30,000	0.18	30,000	0.18	-	
Request for Clarification Response	-	-	42,230	0.25	(42,230)	
Overtime/Expediting Allowance	186,343	1.12	-	-	186,343	
County Inspection	3,540	0.02	3,540	0.02	-	-
TOTAL BASE CONTRACT	9,223,804	55.25	8,903,336	53.33	30,227	0.18
MEP P&P Bonds	46,514	0.28	-	-	(46,514)	(0.28)
GC P&P Bonds		-			-	
Gross Receipts	11,124		10,464		(660)	
General Liability Insurance	36,895	0.22	38,985	0.23	2,090	0.01
Builderss Rick Insurance	23,060	0.14	17,404	0.10	(5,656)	(0.03)
GRAND TOTAL	9,341,397	55.96	8,970,189	53.73	(20,513)	(0.12)

Max. Budget:	$ 11,500,000	GC Current Estimate:	$ 8,970,189
Less Tenant Misc & Soft Cost:	$ 2,292,950	Tenant Construction Budget:	$ 9,207,050
Tenant Construction Budget:	$ 9,207,050	Budget Variance (Contingency):	$ 236,861

Section 12 – Planning for New Operating Cost

New Facility Operating Cost:

The Real Estate Broker should be able to provide you historical operating cost for any property you purchase from the Seller.

Projecting Your New Occupancy Budget

As a part of the facility planning process, it is critical to consider all of the costs associated with operating a building. These expenses associated with operations in the new facility, known as occupancy costs, will need to be covered by your organization's annual operating budget. As a rough guide, total occupancy costs should be between 10% and 15% of your annual operating budget.

Once you have an estimate of all the potential costs, you should evaluate the feasibility and affordability of the occupancy costs on an annual basis. Certain costs are only associated with ownership of a building and certain costs are specific to renting.

Explanation of Occupancy Budget Line Item Terms

*Refer **Facility Operating Budget Projection Example**. This also can be downloaded by clicking on the spreadsheet example.*

Assumptions

On the worksheet, enter the total number of square feet you will be occupying. Also, write in your assumption for each cost estimate you enter.

A: Mortgage/Taxes/Insurance

Mortgage:
The amount of loan (principal and interest) payments for money borrowed to purchase or renovates the property.

Rent:
If you do not own the property, then enter the amount of your rent. This number may be quoted in annual dollars per square foot. Depending on your lease, taxes, insurance and utilities this may or may not be included as part of your rent. A "triple net lease" arrangement means that you are responsible for paying for all of these costs directly.

Property Taxes:
Unless you are in a triple net lease arrangement, your rent should include property taxes. If you will own, you should try to secure property tax exemption on your building; otherwise, use previous tax records to determine your tax liability.

Property Insurance:
Unless you are in a triple net lease arrangement, your rent should include insurance. If you will own, you should secure a quote for property insurance from your insurance carrier.

New Facility Operating Cost:

If your organization is a member of BOMA- Owners Building Owners and Managers Association International or IFMA- International Facility Management Association, contact them for assistance with building/facility operating cost in your area. These organizations typically provide market annual operating cost for their members.

B: Utilities

Gas:
If you are in a triple net lease situation, you are responsible for paying your utilities directly. Budget at least $2.50 per square foot for your gas and electric charges. If purchasing an existing building, try to secure utility cost information from the seller of the property.

Electric:
If you are in a triple net lease situation, you are responsible for paying your utilities directly. Budget at least $2.50 per square foot for your gas and electric charges. If purchasing an existing building, try to secure utility cost information from the seller of the property.

Water & Sewer:
If you are in a triple net lease situation, you are responsible for paying your utilities directly. If purchasing an existing building, try to secure utility cost information from the seller of the property.

C: Maintenance

Fire and Safety:
Budget for costs associated with routine maintenance of smoke detectors, fire extinguishers and carbon monoxide detectors.

Fire Alarm Maintenance"
Budget for costs associated with your fire alarm maintenance contract.

Exterminating:
Budget for costs associated with exterminating, unless this is provided by your landlord.

Elevator Maintenance:
If you own your facility or are in a triple net lease, and you have an elevator, secure a quote for a maintenance contract.

HVAC Maintenance:
If you own your facility or are in a triple net lease, secure a quote for a maintenance contract.

Snow Removal:
If you own your facility or are in a triple net lease, budget for snow removal.

Waste Disposal:
If you own your facility or are in a triple net lease, budget for waste disposal.

Maintenance Repairs:
As guideline, set-aside for repairs about $1 per square foot (SF), these may include general improvements for painting or landscaping, or plumbing repairs, etc.

New Facility Operating Cost:

Identify as many categories as possible to ensure your budget covers all possible known and unknown expenses.

Capital Improvements:
If you own your facility, conduct a 5year capital budget estimate for all the major systems and common areas and update annually for capital improvements such as roof or system repairs. The actual estimate will vary depending on the age and current system life cycles.

Replacements Reserve:
If you own your building, aim to place 3% of your total occupancy budget on an annual basis into a replacement reserve to account for future major capital repairs.

Janitorial Supplies:
Budget for janitorial supplies if you have a janitor or a cleaning service if you don't.

D: Payroll

Maintenance Worker/Building Engineer: If you own your building or are in a triple net lease, budget personnel expenses for building maintenance.

Janitor:
Hiring a janitor or not depends on the size of your staff at the organization; how much the janitor works depends on the size of your building. You may decide to use a cleaning service in lieu of a janitor.

Fringe Benefits:
If you have a maintenance worker, an engineer or a janitor on your payroll, you will need to budget for their fringe benefits.

E: Administration

Management Fee:
If you own your building and lease to other tenants, we strongly recommend using a management company to manage your building and tenants. This fee is typically 3-5% of gross revenues of the building (lease payments) and covers costs associated with rent collection, leasing of space and addressing tenant issues.

City/County Permit Fees:
If you own or are in a triple net lease, budget for these fees, which depend on your municipality. Such fees include driveway and elevator permit fees, or business license renewals.

Bank Charges:
If you maintain a separate bank account for your building, you may have bank fees.

Miscellaneous:
You should always set aside funds as a cushion for unanticipated situations. ***For example:*** An interior water main break that doesn't meet an insurance claim but does increase water usage by 50% for the year.

Facility Operating Budget (Example)

NEW FACILITY OPERATING BUDGET PROJECTION (Example)

Square Feet in Building: _____

Cost Item	Monthly	Annual	Annual Cost per Square Foot	Assumptions
Section A: Mortgage/Taxes/Insurance				
Mortgage/Rent		0		
Property Taxes		0		
Property Insurance		0		
Section A Total:	**$ -**	**$ -**	**$ -**	
Section B: Utilities				
Gas		0		
Electric		0		
Water		0		
Section B Total:	**$ -**	**$ -**	**$ -**	
Section C: Maintenance				
Fire and Safety		0		
Fire Alarm Maintenance		0		
Exterminating		0		
Elevator Maintenance		0		
HVAC Maintenance		0		
Snow Removal		0		
Garbage Removal		0		
Maintenance Repairs		0		
Capital Improvements		0		
Replacements Reserve		0		Approximately 3% of your occupancy costs
Janitorial Supplies		0		
Section A Total:	**$ -**	**$ -**	**$ -**	
Section D: Payroll				
Maintenance Worker		0		
Janitor		0		
Fringe Benefits		0		
Section A Total:	**$ -**	**$ -**	**$ -**	
Section E: Administration				
Management Fee		0		Approximately 4% of your occupancy budget
City Permit Fees		0		
Bank Charges		0		
Miscellaneous		0		
Section A Total:	**$ -**	**$ -**	**$ -**	
Total Building Expenses	$ -	$ -	$ -	

Click here for PDF version or Click here for Excel file download.

Section 13 – Development Tools

Development Tools:

In this section are several whitepapers and Tools that will assist you with understanding the Commercial Real Estate Development Process and performing many of the associated tasks.

Resources and Tools

The following links (download PDFs) provide a further understanding of commercial real estate development, construction and project management methodology, techniques and practices.

Knowledge Resources

Construction Design Build Guide: Design-Build is a contracting procedure used to accelerate procurement of a contract by allowing the contractor to begin construction before the final design has been completed. This guide will enable the project team to evaluate the feasibility of using Design-Build compared to the standard process whereby the client takes most of the risk.

Construction Contractor Selection Criteria: A general overview on industry standards with the GC selection process and types of contract vehicles.

Preventing Construction Claims: The benefits of developing a pro-active claims prevention program.

Successful Project Management: This article provides 29 point Checklist on reducing potential project risk.

Architectural Design Process: Architectural design, like the overall process of development, proceeds through a series of distinct phases. These phases and the particular architectural services that might be provided in each phase are defined in this whitepaper.

New Development Project Plan: While with Himes Associates as the Project Executive (client representative) developing a major project in Chandler, AZ this type of a plan should be a standard deliverable by your project's "project manager/client representative" to define project process, roles and accountability.

Construction Glossary: This document will provide the most common construction terms and definitions you should be familiar with if you are directly involved with a construction project.

Commercial Real Estate Glossary: This document will provide the most common real estate terms and definitions you should be familiar with if you are directly involved with a commercial real estate project.

Development Tools:

In this section are several Tools that will assist you with many of the associated tasks and understanding of the processes involved with a project.

Tools

Base Building Delineation: (PDF) or (Excel) The purpose of this delineation is not to provide an all-inclusive list or definition of each of the project components, nor is it to provide performance criteria for any of the components. It is simply to identify the category for each of the major components of the Work.

Construction Responsibility & Scope Matrix: (PDF) or (Excel) This Excel template will assist with defining each team member's roles, responsibility and scope during each phase of the project.

Development Budget: (PDF) or (Excel).

Renovation Budget: (PDF) or (Excel).

Commercial Mixed-Use Pro Forma: (PDF) or (Excel).

Facility Operating Budget: (PDF) or (Excel).

GC Interior Construction Budget: (PDF) or (Excel).

AIA Consultant Short Form: (PDF) or (Excel) Use this contract template with very legally binding language for your project's consultants.

Project Life Cycle Framework Toolkit: (PDF) or (Excel) If you don't have access to a PMO or PPM software system, then this is one of the best Excel Toolkits you will find on the internet. This Tool has a **Dashboard** and 42 worksheets (PLCF Best Practices) from Budgets, Schedules, Issue Tracking, Gantt Charts, Complexity Assessments, Risk Tracking, 3-NPV Calculators, Graphs and Charts and so much more.

There are many other Tools available on the MPCS website for free.

Development Professionals:

Simple rules to project success when assembling the "Team":

1. Do your homework and understand the lifecycle associated with your project.

2. Get 3 to 4 referrals for each professional service required.

3. Interview a minimum of 3 professionals.

4. Check References.

5. Define roles & responsibilities.

6. Establish Performance Metrics.

7. Issue your own contracts for services or use AIA contracts.

Remember, take responsibility but limit liability with strong contract indemnification clause.

Professional Resources

Over the past 40 years working with numerous local and national professional firms on either the owner's side and or on the client's side has provided a long list of "best practices" and a true appreciation for getting what you pay for.

Having the opportunity to of worked with the following professional individuals/firms listed below represent a very short list of those that have repeatedly met or exceeded expectations. Each of these recommendations can attest to my "firm" but "fair" contract enforcement and collaborative commitment to project success.

Real Estate Attorney

Holland Night (International)
Charles Welch "Chad" Tiedemann, Partner
800 17th Street NW, Suite 1100
Washington, DC 20006
Office: (202) 457-7156
Profile: http://www.hklaw.com/Charles-Tiedemann/
Website: http://www.hklaw.com/Offices/Washington-DC/

Project Management Services

Himes Associates, Ltd (National)
Paul E. Himes, President
3702 Pender Drive, Suite 120
Fairfax, VA 22030
Office: (703) 591-7272
Profile: http://www.himesassociates.com/leadership/
Website: http://www.himesassociates.com/

Development Professionals:

When selecting design firms and GC's, verify that they have **Building Information Modeling** (BIM) experience.

BIM is a process involving the generation and management of digital representations of physical and functional characteristics of a facility. The resulting **building information models** become shared knowledge resources to support decision-making about a facility from earliest conceptual stages, through design and construction, through its operational life and eventual demolition.

Architects

Reynolds, Smith and Hills, Inc. (National)
Website: http://www.rsandh.com/

Fox Architects (Washington DC Metropolitan)
Website: http://www.fox-architects.com/

Davis Carter Scott (Washington DC Metropolitan)
Website: https://dcsdesign.com/

BBG-BBGM (International)
Website: http://www.bbg-bbgm.com/

Development Professionals:

Cost for architectural and engineering (A/E) services, while important and meriting careful negotiations, is related to work to be performed which often is not clearly defined at the time the A/E service provider is selected.

Therefore, selecting A/E's based solely on cost is not recommended.

Engineers

Affiliated Engineers SE, Inc. (National)

Website: http://www.aeieng.com/

Facility Engineering Associates, P.C. (National)

Website: http://www.feapc.com/

Bohler Engineering, P.C. (NE Region)

Website: https://bohlerengineering.com/