The Market for a San Francisco Nonprofit Multi-Tenant Project

A Study for
The Charles and Helen Schwab Foundation

August 2001

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FORWARD

Our Foundation, like many others, has been closely following the volatile commercial real estate market in San Francisco and the consequences for nonprofit organizations who lease space. Our experience with our grantees — many of whom have felt the immediate impact of rising rents — tells us that stable, affordable space is a critical component for a nonprofit's program success.

In the Fall of 2000, Compass Point released a study alerting us to the magnitude of this crisis. It highlighted the dramatic, negative impact of escalating rents on San Francisco's nonprofit community. As a result, we began attending forums to discuss the urgency of this matter and ways to address it. Then, ironically, the real estate market began to slow. Our responses to the consequences of runaway rents became questionable in light of the changing economic conditions. For example, one nonprofit who had received a capital grant from us to purchase a building suddenly put the project on hold to see what the market would do next.

The first Compass Point study collected compelling data on the severity of the space crisis for San Francisco nonprofits. The market downturn prompted us to ask Compass Point to conduct a follow-up study to see how the real estate climate for nonprofits was changing and to test some specific ideas with nonprofit leaders for how to address their organization's space needs moving forward.

The results of the follow-up are compiled in this report. The study is essentially market research, taking ideas for tackling the space problem and putting them to the test with a potential target market of nonprofit leaders.

The study and report move beyond the panic of expiring leases and tenant evictions to thoughtfully consider longer-term strategies and positioning, including models of co-location that have been tested elsewhere. The insights that result are fascinating and full of lessons and insights for anyone thinking proactively about this issue.

While our Foundation is still contemplating what role we might play in helping nonprofits access affordable space, the information in this study is too important to keep to ourselves. We hope that sharing this analysis will challenge assumptions, spur creative ideas and solutions, and highlight the opportunities and barriers to securing affordable space for our nonprofit community over the long term.

Alexa Cortes Culwell

Chief Executive Officer

Charles and Helen Schwab Foundation

Executive Summary

The attention of the nonprofit and philanthropic community was drawn sharply to nonprofit space needs during the record-breaking climb in the real estate market over the past two years, peaking during the second half of 2000. But by the late spring of 2001, San Francisco Class C rentals had dropped 60% since the fall of 2000[1], and the sudden implosion of the dot-com boom had left hundreds of thousands of square feet vacant. Is there still a reason for philanthropy to address the nonprofit space issue? And if so, based on an analysis of both the real estate and the nonprofit consumer market, what approaches are likely to be most successful?

With the media covering the story in its extremes, it would be easy to conclude that the nonprofit space crisis is over. And despite the fact that nonprofits show increased confidence in their ability to stay operating in San Francisco, nearly 25% experienced dramatic rental increases approaching 100% in the last year—increases which they will have to fund for years. One positive result of the extreme crisis last year is that nonprofit boards—key decision-makers related to nonprofit re-location—have extended their planning horizons, and have begun to conduct long-range assessments of their space needs and real estate alternatives. This attention from nonprofit leaders, along with the drop in real estate prices, is a *window of opportunity* which provides the chance for cost-effective, highly leveraged intervention in nonprofit space needs. (Once their attention is diverted or purchase prices go up again, the window will close.)

To take advantage of this opportunity, however, *prospective nonprofit tenants must be viewed as a market*: the target market must be identified, and market segmentation and analysis conducted to determine how to attract that market. This study explores the nonprofit tenant market and provides a context for determining the goals for a large-scale building. Leadership in acquiring a large-scale, shared-space building in San Francisco—that is properly configured to attract desired nonprofit tenants—along with support for smaller-scale, neighborhood-based efforts, can create permanent nonprofit and philanthropic assets that will grow in value for decades to come.

Related to a large-scale project, three factors are critical to prospective nonprofit tenants:

• Low cost: To attract nonprofit tenants, rentals must be comparable or slightly above what they are currently paying—which is *substantially* below market. To widen the

[1] Annual effective rents for Class C office space in San Francisco, \$51/sqft in the 3rd quarter 2000, had dropped roughly 60% to the low \$20s/sqft by the end of the first quarter 2001.

market segment to a size that would fill a large-scale building, rents of $13 - $18/sq ft would likely be required.

- Location: The location must be close to public transportation (both Muni and BART), centrally located, in an area perceived as reasonably safe and attractive.
- Quality of space: The space must be of good quality, attractive but not luxurious.

Although much of this inquiry tested nonprofit interest in co-locating with other nonprofits, in actuality, nonprofits did not find locating in a nonprofit building—just because it's populated by other nonprofits—to be more compelling than lower, stable rents as a criterion for occupancy. While nonprofits expressed interest in opportunities for collaboration and shared services, cost, location and quality of space were overwhelmingly of more importance to them.

Two other important factors related to nonprofit interest:

- Nonprofits expressed mixed feelings about co-locating in a building strongly identified with one particular foundation. While some found the idea appealing, others were worried about becoming overly identified with that foundation.

- Another important element that surfaced during the study was strong nonprofit demand for meeting and special event space, available both to tenants and non-tenants of a large-scale nonprofit building. Nonprofits report significant difficulty finding space for board meetings, collaborative meetings, workshops and seminars, and small (200 person) conferences.

Protagonists in the creation of large-scale nonprofit multi-tenant space should begin by determining goals and a mission for the project. As this study shows, "rescuing" nonprofits is not enough to drive a successful building; prospective tenants must be viewed as the distinct and segment-able market that they are. Three examples of objectives: a) to provide a high-visibility home for a foundation and its grantees, b) to provide a resource-rich, incubator-like environment for certain types of nonprofits, c) to provide a large stable, affordable space for a wide mix of nonprofits that are valuable contributors to the community. Once goals have been established for a building, this study provides the data for aligning other elements with those goals: governance, location, building design, tenant mix, building services, and lease policies.

I. Background and Methodology

Since funders and policymakers began to address the shortage of affordable space for nonprofits in the summer of 2000, San Francisco office rents have fallen sharply, making space more abundant and relatively affordable again for many nonprofits. So are nonprofits still at risk? What have they learned from last year and are they positioning themselves to withstand future surges in the real estate market? And most especially, are nonprofits attracted to shared nonprofit office space to the degree that those offering this response can be assured of strong interest and participation in a nonprofit building?

This follow-up study to *Nonprofits At Risk: The Space and Occupancy Crisis Facing San Francisco's Nonprofit Community*[2], published by CompassPoint in October 2000, seeks to update information on the issue and test the demand for possible responses. The study includes a review of current market conditions, tests nonprofit interest in co-locating with other nonprofits in subsidized office spaces, and identifies what their programmatic and organizational needs are in such a shared space building. Analysis of this data informs a consumer segmentation model to assist in identifying and marketing to potential tenants. The research questions for this study include:

- In the aftermath of last fall's real estate crisis, how are San Francisco nonprofits preparing to weather potential future crises?
- How large and strong is the nonprofit market for large-scale subsidized co-location spaces? [Note: this study does not directly address the nonprofit market for small scale, neighborhood based buildings.]
- What are the most important elements in attracting nonprofits to participate?
- What nonprofit co-location models already exist and what can we learn from them?

The recommendations outlined at the conclusion of the report provide a model framework for thinking about how to set up a shared space that makes sense for the overall project goals and target tenant population. Depending on the project goals—which nonprofits it is designed to help—the model suggests what shared costs and support services present the most appealing value proposition to the target client segment.

Data for this follow-up study were collected from five sources:

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[2] The study, *Nonprofits At Risk: The Space and Occupancy Crisis Facing San Francisco's Nonprofit Community*, was conducted by CompassPoint Nonprofit Services for the Partnership for Affordable Nonprofit Space (PANS) in October, 2000. The report is available at www.pans.org.

- Survey data from the original study's 301 San Francisco nonprofit respondents were revisited and used for comparative purposes.
- A follow-up survey was sent to 185 of these original participants for whom we had obtained electronic mail addresses. The web-based survey was completed by 74 San Francisco nonprofits (a response rate of 40%).
- Two focus groups were conducted with a total of 14 San Francisco nonprofits with varying budget sizes and space needs.
- In-depth interviews conducted with nine executive directors and building managers of existing nonprofit co-location sites around the country.
- Literature review on the topic of nonprofit co-location including results from *Under One Roof* by Dr. Diane Kaplan Vinokur.

All data was collected and analyzed by CompassPoint Nonprofit Services. The original 301 surveys were analyzed using SPSS and Excel software. The follow-up web-based survey was conducted using WebSurveyor.com.

Part of the study design was the utilization of a smaller sample for the follow-up data collection than that in the original study. Clear patterns and trends emerged from the survey and focus groups, but given the smaller sample size we are less able to state that the findings are a scientific representation of the views of the entire nonprofit community. Nonetheless, the consistency in observations derived from various primary and secondary data gives us a high confidence that this report accurately captures, with acceptable allowances for error, the attitudes and preferences of nonprofits regarding shared space alternatives.

II. Current Market Conditions

Over the past 12 months, San Francisco's nonprofit community has experienced whiplash while riding out the dotcom-frenzied real estate market. Startup businesses had been snapping up Class B and Class C office spaces while preparing to expand at "Internet speed." When the real estate market started heating up in the 4th quarter of 1999, Class C annual rental rates were about $28/sqft. In the 4th quarter of 2000, rates peaked at $51/sqft—nearly doubling in a year. Nonprofits whose leases expired in 2000 faced all-time high rental rates and low office vacancies. *Nonprofits At Risk* revealed that nearly one-third of all nonprofit site leases had to be renewed by the end of 2000. Newspapers reported that some nonprofits that were not dependent on specific locations and could leave San Francisco did so.

But in the past three months the real estate bubble has popped along with the dotcom implosion. Effective Class C rents have plummeted to the low $20's/sqft—levels that had prevailed back in 1997. Dotcoms are either going out of business, walking away from their signed leases for expansion space, or scrambling to sublet their extra office space to generate cash. As a result, Class B and C direct vacancies and sublease space are piling up in the available space inventory which currently totals over 3.2 million square feet of vacant office space in the downtown San Francisco area. Overall downtown vacancy rates for B and C space are about 10% and 11% respectively, with hardest hit SOMA offices now 17% vacant (Grubb and Ellis).

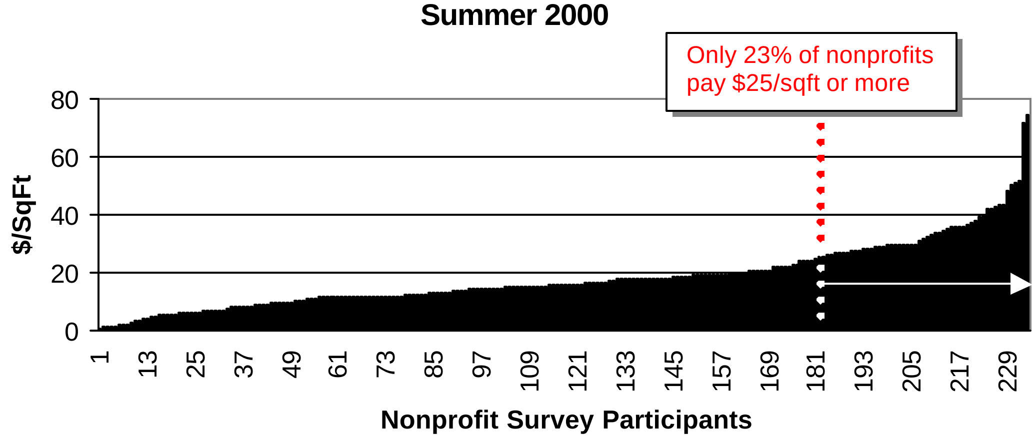
Future market forecasts are unclear. In the short-term, commercial real estate analysts still believe that the San Francisco market has not bottomed-out. Rosen Consulting grimly predicts future dotcom bankruptcies will flood the real estate market with more vacancies on top of another 6 million square feet (sqft) of new or renovated office space that is hitting the market in 2001. In contrast, a fourth quarter Colliers International Market Report notes that San Francisco has a broader technology base to weather individual sector downturns and the desire to unload sublet space at all costs creates an artificially low rental expectation for new tenants. Over the long-term, Whitney Cressman is advising commercial developers to adopt a 10 to 20 year time horizon in their real estate projects. Ultimately, a rebound in the San Francisco real estate market will depend on the overall economy, especially the high tech sector, but many brokers do expect further decline in rents through 2001.

1. Despite recent increases, most nonprofits still pay well below market

Despite the market correction, the average nonprofit still struggles to afford commercial market rents. Even at $20/sqft, Class C rents are still 53-100% higher than last year's reported average nonprofit lease of $10-13/sqft. While nonprofit budgets vary widely and many are capable of paying market rents, many others are unable to absorb 200-300% increases. Some nonprofits have found additional funding to increase their rent budgets: 63% of respondents in our follow-up web survey had increased their rent budgets. Interestingly, the responses were bifurcated, with 24% reporting budget allocation increases of 91% or higher and 47% with much smaller increases of less than 20%. A likely reason for the significant gap is that those with smaller increases were protected by existing leases while those that paid higher rates had been forced to sign new leases.

A proposed project rent of $25/sqft is currently within budgetary reach of the 23% of nonprofits who reported paying $25/sqft or more in last year's survey (see Figure 1). This is not to say that the other 77% of nonprofits that are operating with lower rents would not be able to find the resources to pay higher rents, but we assume their current rents were what they viewed as "affordable"— rates that they were willing and able to pay.

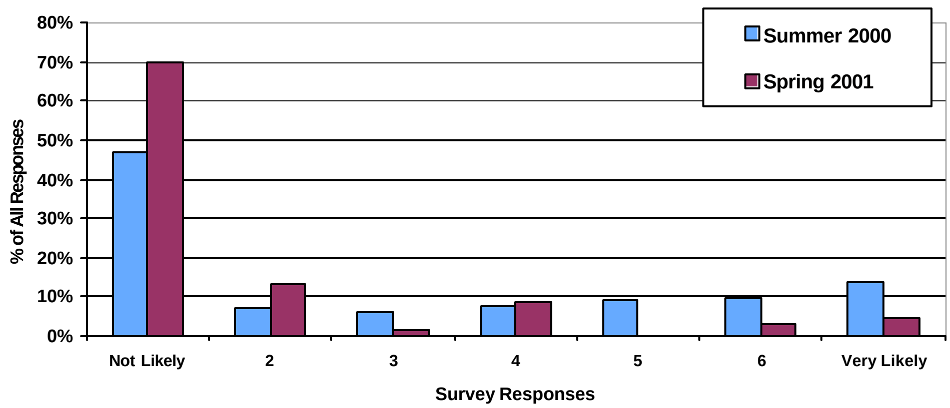
Figure 1: Reported Annual Rents Paid by Nonprofits in Summer 2000



2. Nonprofits have extended their planning horizons due to crisis

In the crisis aftermath, the nonprofit community is more optimistic about their ability to continue operating in San Francisco. Our before-and-after surveys show that nonprofits' confidence in their ability to stay in San Francisco jumped from 47% to 70%, and fewer nonprofits think they will have to leave the City to stay in business. (See Figure 2).

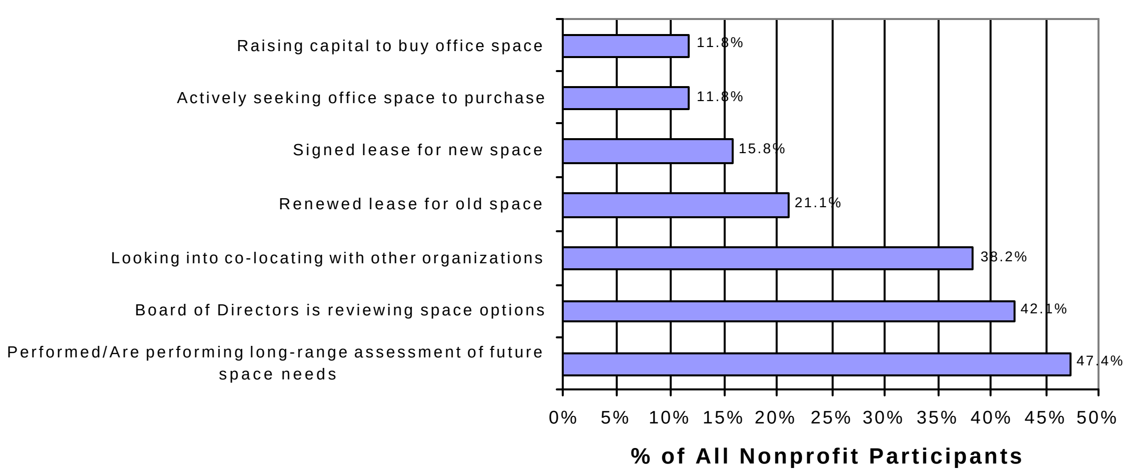
Figure 2: Likelihood of Leaving San Francisco Has Diminished



While confidence has gone up, nonprofits that weathered last fall's real estate market have had a fundamental shift in outlook towards their space needs. Planning for their space needs—current and future—has become a priority. The web survey results (Figure 3) show that organizations are taking pro-active measures:

- Looking for long-term space options, including buying: executives want low-cost, affordable, long-term options and many are being directed by their boards to

Figure 3: Nonprofit Responses to Space Crisis



learn more about buying their own space.

- Exploring shared space alternatives: they are actively talking with other nonprofits, seeking potential partners.

III. Factors Identified for Successful Nonprofit Multi-tenant Centers

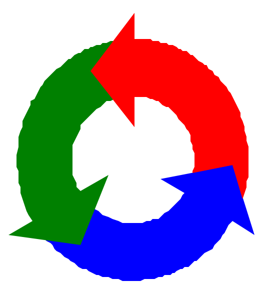
This study identifies a clear market for a long-term, nonprofit multi-tenant building, provided that its characteristics respond to the identified elements of nonprofit demand. Through analysis of survey data, interviews, and focus groups, a framework of key factors emerged that outline a customer-oriented process to plan the project and define the value proposition to target nonprofit tenants. We also show how the consumer segmentation system can help find the right "fit" for a given project goal.

In thinking about nonprofit multi-tenant projects in general, we recommend aligning the building project between three inter-dependent critical elements as described below. In the subsequent section of this report, this model is applied to a case study in San Francisco's South of Market area.

Nonprofit Center Optimization

1. Project Objectives
What goals do protagonists identify? What nonprofit market segments are we trying to help, and how do we want to help them?

2. Building Characteristics
Location, scale, rent pricing, ownership, governance, management, amenities, shared functional space for



3. Tenant Mix and Community Building
Tenant characteristics and mix, administrative services, programmatic services, tenant community building

1. Project objectives and overall mission and objectives of the building

In a crisis, it is presumed that rescuing nonprofits by providing space—with little regard for location or quality—is a worthy goal. As the crisis cools, buildings become more affordable to purchase, and it becomes especially critical that the project begins with identification of its mission and goals. Some of the goals identified by other multi-tenant projects include:

- To provide an intensive, resource-rich, temporary environment similar to a business incubator for specific types of nonprofits (arts, social advocacy, environment, disability, etc.)
- To provide a high-profile location for a major foundation and its long-time grantees
- To create a permanent, affordable site for a single nonprofit, with secondary benefits of leasing surplus space to non-competing nonprofits
- To bring foot traffic and jobs to a neglected downtown district, while secondarily benefiting nonprofits that will contribute to that effort
- To provide a landmark building that houses dozens of nonprofits on a permanent basis as well as provides conference and special event space for the whole nonprofit community

Successful multi-tenant models had established very specific missions and goals before beginning the project. Beginning with the overall project goal, all other aspects regarding the building then fell into place: location, rental rates, tenant selection, space design, amenities and shared support services. Multi-tenant spaces have the potential to help nonprofits—beyond simply subsidizing rent rates—when a clear nonprofit market segment is targeted. The survey results show nonprofits are feeling less pressured by rising rents, so they are focusing on long-term space stability and affordability *in balance* with other programmatic needs. Several of the existing shared space models that we researched reported consistent vacancy rates despite offering below-market rents because they had not adequately responded to other nonprofit requirements such as optimal location or quality of space.

2. Building characteristics

· Location

Location is a critical determinant—with price—that prospective tenants evaluate when deciding whether to move to a new office. Location inextricably bundles together a multitude of issues including accessibility for staff, proximity to clients, personal safety, the compatibility of clientele with other neighbors, and proximity to business services and other nonprofits. Since direct service providers are twice as likely to require a specific location to fulfil their organization mission, locating a shared space close to the downtown will probably discourage 68-75% of direct service providers.

With effective rates dropping in SOMA, a SOMA building may be more affordable at this point than other locations, but would need to focus on non-direct service providers for tenants.

· Lease rates

In last summer's survey, the average annual rent reported was $10-$13/sqft. Can they afford more? This survey found that nearly half the nonprofits had increased their rent budget by up to 20%, and 24% had effectively doubled their rent budgets. Nonprofits may have untapped financial resources to help them pay higher rents, but ability to pay must be considered along with willingness to pay. When we asked the focus groups how much they would value co-located space, we found a general reluctance to consider higher rents despite the possibility of bundling in overhead costs and services into the rent. In response to "If you had an opportunity to lease in your preferred model, how much would you be willing to pay each month?" nearly all felt that they had to "look at their numbers" before deciding. Others were anchored in their thinking by their current rent. This indecision is of course compounded by anxiety over the rapid fluctuations in market rents; they do not want to be locked into long-term leases—even if the rents appear to be affordable right now. They would be more able to respond decisively with an actual building scenario and location to consider.

· Ownership, governance, management

Ownership may be separated from governance by having owners contract with a governing body convened for this purpose. A governing body optimally includes representatives from the ownership group, host/lead agency, major institutional funders, tenants, and non-tenant nonprofits.

• Responsibilities of a governing body can include: tenant criteria, application process, rental rates and lease policies, prospective tenant/lease review, selection of property management firm, public relations, determination of services available, development of operating reserve, capital improvements, cost oversight.

• Property management should be outsourced to a professional property management firm.

- **Shared multi-purpose space**

Although prospective tenants were cautious about various shared *services* (such as computer support), they were highly enthusiastic about shared multi-purpose (functional) space that could be used periodically by tenants and non-tenants: meeting rooms, larger audience multi-purpose rooms, and attractive space for special events such as volunteer recognition events, receptions, etc.

Interviews suggest that such space is not easily available in San Francisco and that the nonprofit demand for such space would be much assisted by its inclusion in this project. Such public space—available to both tenants and other nonprofits—wold also help mitigate against possible resentment against the building project by nonprofits that were not tenants.

- If possible, multi-purpose space that could be used for special events, workshops and seminars, board meetings, and small conferences (200 – 300) should be built into the project.

3. Tenant mix and community building

The tenant mix will be driven by the project objectives. This study shows that nonprofits have mixed feelings about co-locating with nonprofits that either provide similar services or serve similar populations. With the exception of models that are highly structured sharing situations (or are small in scale—3-5 nonprofits), nonprofits are more concerned with building characteristics and lease arrangements than with the tenant mix.

- **Services: minimal services should be bundled into the office rent**

Nonprofits that do not offer direct services are less likely to demand many staff amenities or functional spaces beyond their office space and some shared meeting or conference rooms. Relatively small or new nonprofits might be attracted to the support services and programmatic assistance offered by an incubator, but more experienced organizations would not want to contract for such services—and in fact, would strongly dislike it.

In general, amenities and shared costs would be welcomed especially if they are offered at a discount to commercial market prices. But nonprofits' desire to save money and shift administrative burdens onto a host agency is balanced by their fear of relying too heavily on the host agency, competing for resources with other tenants, and being forced to pay for services they don't want.

- **Community-building has to be left up to the tenants—it can't be forced**

Trying to create a strong, mutually supportive community of nonprofits within the building is likely to be difficult. In interviews with both small (e.g. 10,000 sqft) and large nonprofit centers (e.g. 100,000+ sqft) the onsite-building managers complained about the disappointing lack of interaction and collaboration between tenants. Research by Dr. Diane Kaplan Vinokur focused on the benefits and challenges of nonprofit collaboration in co-location spaces provided similar observations. In her report looking at nonprofit tenant satisfaction at the NEW Center, Dr. Vinokur found that interaction was highest between adjacent offices and the frequency of communication diminished with distance from the tenant office, especially between floors. She concluded that, "In sum, informal cooperation (sharing) is, on the average, quite infrequent among NEW tenants, and what little does go on has only a limited impact on their organizations' functioning." Formal collaboration between tenants was also fairly low: only 13% of tenants were engaged in formal sharing of core administrative functions or other similar arrangements. ("Survey of NEW Center," February 2001). Sustained community interaction and collaboration tends to evolve from the tenants themselves, and can be facilitated if the tenants have had a history of working together before co-locating.

IV. Factors Applied to a Case Study: A Large-scale SOMA Nonprofit Center

To give an example of how a market analysis can be conducted for a particular property, this section considers a Class B, SOMA (south of Market) building with 200,000 square feet available.

For the purposes of this analysis, two key questions are left aside:

- The goals and mission for the building, and
- Whether a foundation or other key funder would act as the building's anchor and identifying tenant.

a. Location: a SOMA location is selected as an area where many nonprofits are already located, where purchase prices are plummeting, and where non-direct service providers can locate. Some parts of SOMA are appropriately close to Muni and BART (no further than 3 blocks from BART, no further east than Howard, no further south than 10th Street).

b. Scale: for the purposes of this analysis, we assume that of the 200,000 sqft of available space, 50,000 sqft is leased to anchor tenants, thus leaving 150,000 sqft available for other nonprofits. With the average space needs for non-direct service providers at approximately 3,000 sqft, the office would need to sign an average of 50 tenants to occupy 150,000 sqft.

c. Rental rates and the market segment: rental rates must be $13 - $15/sqft in order to widen the market segment to point where the level of market penetration required to fill the building seems reasonable and not overly ambitious and therefore risky.

With the key value proposition for tenants being one of cost, an analysis can be conducted of how many nonprofits are in the market segment that can afford a particular rental rate.[3] As can be seen in Figure 4, based on estimated number of nonprofits that rent space and proportion of those that are not direct service providers (and therefore less location sensitive), nearly one in two nonprofits in the market segment must become a tenant at a lease rate of $25. This required yield is extremely high and unlikely to be tenable.

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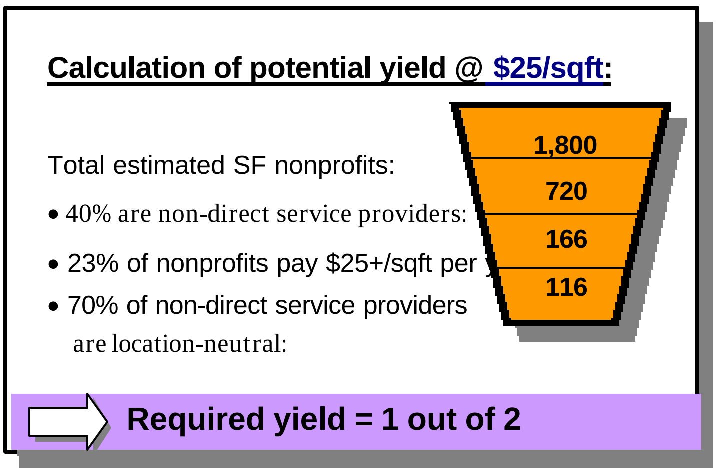
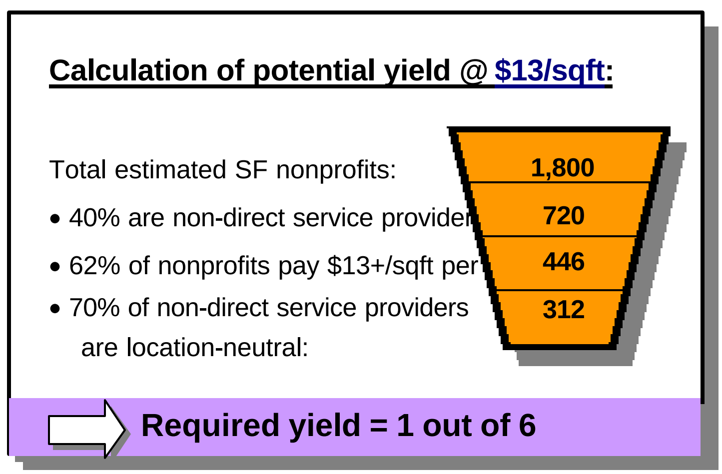
[3] The rent that a nonprofit "can afford" is difficult to determine accurately, and one nonprofit's leadership may perceive a rate as unaffordable that a comparable nonprofit may find reasonable. For purposes of this report, "affordability" is set at the rate currently paid by the nonprofit.

However the value proposition to prospective tenants can be improved by lowering rents and embedding minimal amenities and services that nonprofits already purchase. Actual average rents paid by nonprofits in SOMA last summer were closer to $15/sqft. If we lower rent to last year's *citywide* average rent—$13/sqft—then we see that the required yield improves to one out of six prospective tenants. See Figure 10 following.

Figure 4: Impact of Price on Prospective Market Size





d. Building characteristics:

- The space must be attractive, quality space.
- Shared multi-purpose space (meeting rooms, conference center space, reception space, and other common space) would be used and valued not only by tenants but by non-tenant nonprofits and would add value to the building.
- Cost sharing arrangements and programmatic services should be developed collaboratively with nonprofits to set expectations and begin establishing a community culture.

e. Governance: a pre-acquisition governing committee optimally includes representatives from the owners group, host/lead agency, major institutional funders, and non-tenant nonprofits. Representatives from tenant nonprofits would be added in the post-acquisition phase.

f. Tenant mix: to stabilize rents and meet the needs of a broad variety of nonprofits, a mix such as the following is recommended:

- One to three anchor tenants, combining to a total of 25% - 40% of the square feet
- Tenants selected from a variety of fields of endeavor and differing points of view
- Modest preference for umbrella organizations or nonprofit support organizations whose constituencies could make good use of the common functional space
- Limited space leased to one or more incubator organizations that would operate small-scale incubation projects such as one for emerging arts organizations, emerging environmental organizations, etc.
- "Virtual tenancy" offered where small and/or all-volunteer organizations can receive mail, maintain voice mail, have access to common multi-purpose space (for meetings and events) and locker space (for meeting supplies) but would not maintain offices.

g. Administrative Services: minimal services, such as janitorial and security, should be bundled into the rental price.

h. Programmatic Services

- Programmatic services should be limited to building-related functions, such as access to multi-purpose space.

- Nonprofit tenants can be encouraged to collaborate and partner, but a mandate to do so should not be built into the project design.

i. Community building

- Building design elements such as a rooftop garden or on-site deli/coffeeshop can help encourage a sense of connection and community among tenants.

- Periodic events such as tenant meetings or holiday parties help keep buildings cohesive.

j. Public relations and marketing

- An overall public relations plan must be developed that includes a plan for initial and ongoing marketing to prospective tenants and to prospective users of multi-purpose space.

Appendix A: Nonprofit Multi-Tenant Models

The researchers collected representative case studies of co-location models through direct interviews, web searches and secondary sources.

A. Alignment is essential among three elements: project objectives, building characteristics, and tenant mix:

1. Project objectives

- **Goals for the project/Objectives for protagonists/purchasers.** *Examples:* To provide a high visibility home for a foundation, to provide free or low-cost rent for nonprofits serving low-income populations, to provide a landmark building housing foundations and nonprofits, to create conference and special event space for nonprofits.
- **Target nonprofits for tenants/clients.** *Examples:* new arts organizations, established human service organizations, established foundations, new family foundations, nonprofit umbrella groups, nonprofit technical assistance organizations, nonprofits in the field of disabilities, nonprofits working in education.
- **Objectives for tenants.** *Examples:* rent subsidy, stability, enriched services, prestige identification, participation in a nonprofit community, access to shared services such as photocopying, temporary incubator-like assistance.

2. Building characteristics

- **Location**
- **Building scale.** *Examples:* large, centralized projects (50,000 – 300,000 square feet), smaller projects (10,000 – 50,000 square feet), two floors in a large office building (40,000 square feet).
- **Rent pricing and lease policies.** *Examples:* Rents at market with long-term stable leases, rents substantially below market, rents slightly below market, rents free or with nominal/symbolic rates.

- **Ownership, governance, management.** *Examples:* owned by lead tenant and governed by a committee of the board, owned by a nonprofit subsidiary to a foundation or a small consortium of foundations, owned by a nonprofit created similar to an LLC with a small number of partners, building "condominium-ized" so that tenants own their own spaces, tenants organized into a cooperative structure,

- **Functional space for tenants and non-tenants.** *Examples:* special event space, meeting space, small conference space.

3. Tenant mix and community building

- **Characteristics of tenants.** *Examples:* field of endeavor, size of organization, client population, longevity of organization, funding streams. Homogeneity and heterogeneity.

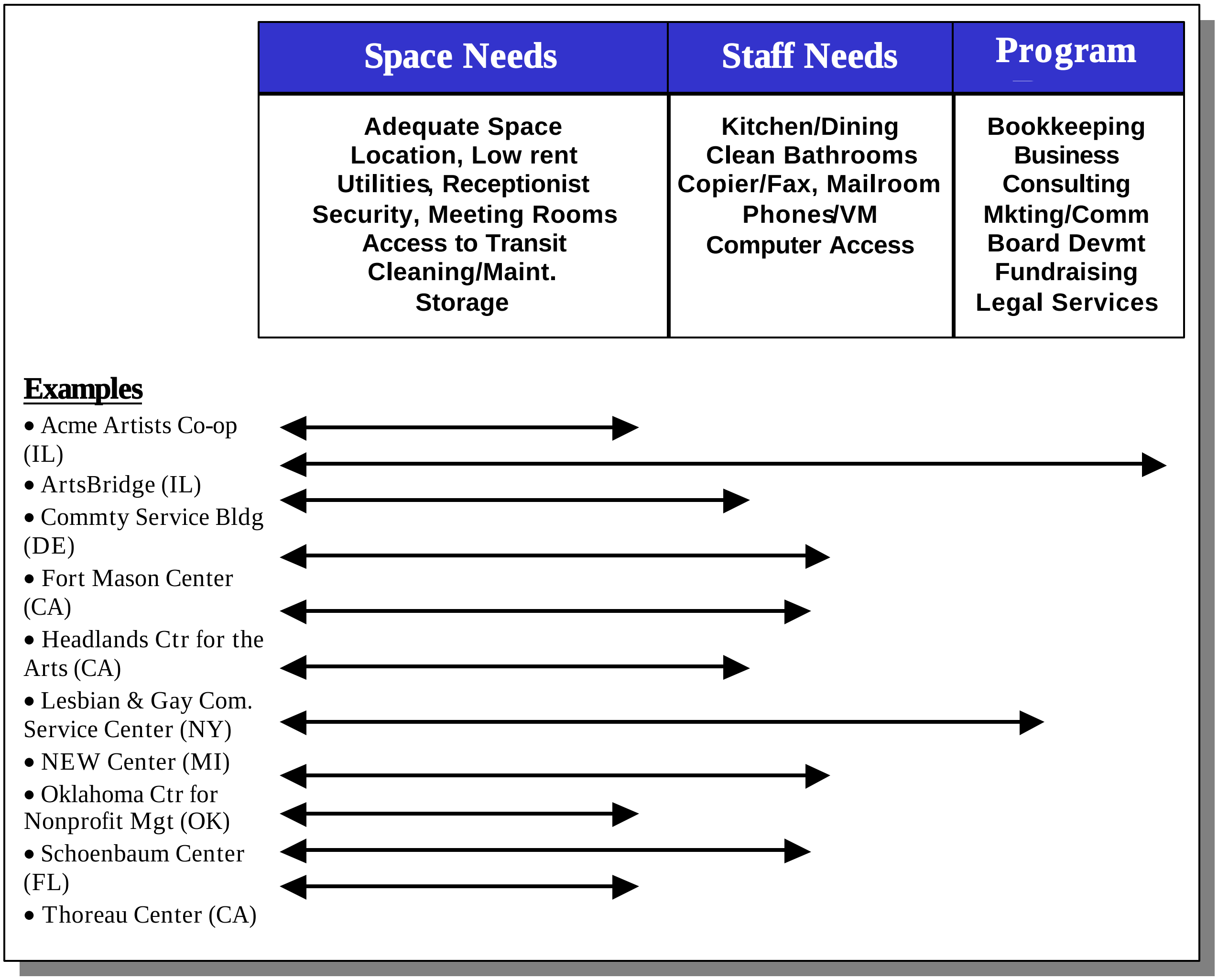
- **Required or optional administrative services to tenants.** *Examples:* shared reception, shared IT, shared accounting and finance services.

- **Required or optional programmatic services.** *Examples:* shared fundraising, shared use of computer labs, peer-to-peer technical assistance.

- **Project characteristics that support a sense community.** *Examples:* shared lunchroom or rooftop garden, tenant work-days.

The wide variety of models, incorporating various combinations of elements above, is demonstrated in the following chart:

Figure 5: Continuum of Building Services/Functions



Looking just at the nature of shared space for tenants, nationally three archetypes emerge:

In general, the national models were set up as one of three types: condominiums or cooperatives, leased office space, and incubators/villages. Figure 5 shows how each type is characterized by the five critical dimensions highlighted above.

Figure 6: Shared Space Categories

<table>
<tr><th></th><th>Condo/Co-op</th><th>Nonprofit Office Bldg</th><th>Bldg as Village/ Incubator</th></tr>
<tr><td>Tenant Leases/Owns</td><td>Owns</td><td>Leases</td><td>Leases</td></tr>
<tr><td>Building Governance</td><td>Self-Governed</td><td>Owner/Host Agency</td><td>Owner/Host Agency</td></tr>
<tr><td>Shared Administrative Services</td><td colspan="3">• Utilities
• Cleaning and maintenance
• Security
• Meeting spaces/conference rooms
• Kitchen and eating area
• Office equipment</td></tr>
<tr><td>Shared Programmatic Resources</td><td>NONE</td><td>NONE</td><td><u>Staff Positions</u>
• Office Manager
• Administrative staff
• Computer & IT support
• Accounting/payroll
<u>Business Assistance</u>
• Professional dev. Training
• Legal assistance
• Financial management
• Marketing & communications</td></tr>
</table>

Perceived advantages and disadvantages to co-location

Below we summarize the perceived advantages and disadvantages of co-locating gleaned from our web survey and focus groups. While many generic space-related concerns were raised (e.g. restroom cleanliness), the comments and concerns below are specific to co-location arrangements.

Leaders see potential benefits in co-locating if the "fit" is good:

- **Attracted to co-location opportunities with nonprofits:** Nonprofit executives desire knowledge sharing between nonprofits regarding fundraising, business know-how, and government programs.

- **Interested in a "one-stop shop" for clients**: Some nonprofits go further and wish to be clustered with similar organizations that could complement their services and thereby offer a continuum of client services under one roof. But as the segmentation model showed, some nonprofits seek to avoid competing with similar organizations for fear of losing clients, funding and organizational identity.

- **Client compatibility is critical:** Nonprofits shared a deep concern for the right "mix" of client groups and whether they were compatible (e.g. homeless, HIV patients, seniors, children, etc.)

Leaders fear losing organizational control and becoming overly-dependent on host:

- **Anxious over loss of organizational autonomy:** Participants did not want to lose control over important budgetary elements, space decisions, or have their daily operations constrained because they had to seek building management approval or wait "their turn" for shared resources. They are leery of building management being too "bureaucratic."

- **Fear loss of identity:** Participants did not want their nonprofits subsumed under another organization's name (e.g. the United Way building) and were very concerned that they would receive adequate signage to advertise their presence and programs. Some raised the fear that if the host agency was a foundation, it would be harder to get outside financial support because of the presumption of being funding by the host.

- **Leery of being "beholden" to a government host agency or funder:** leaders don't want to feel stifled from implementing politically sensitive programs that may offend the host agency and thus jeopardize lease renewals.

Leaders are concerned over financial and time resources that might be required by joining a co-located site:

- **Costs of joining the shared space:** Identified costs included the deposit or down payment for joining a cooperative, costs of moving, costs of reorganizing staff functions and responsibilities, and the opportunity costs of disrupting service delivery during the dislocation.
- **Loss of productivity:** Some managers noted the loss in staff time to organizing the shared space arrangement (e.g. locating suitable property, acquisition, building design, financing, selecting applicants, etc.) and the ongoing governance. As one participant remarked: "I hate endless meetings!"

Interest in shared administrative services is dependent on cost, quality, and size of organization:

- **Responses to the concept of sharing services were mixed, but nearly all acknowledged that there could be potential efficiencies:** Most had difficulty visualizing the way services and overhead costs could be administered and shared, but all could suggest ideas for what overhead resources they would like to share with other nonprofits.
- **Heads of larger organizations did not see the benefits of having to coordinate and share costs and services with other nonprofits**: Larger nonprofits thought the benefits of cost-sharing would be outweighed by "long meetings" and "discussions."
- **Concern with resource allocation and cost burden:** Leaders raised serious concerns with the quality of service they would receive, responsiveness, how to make sure "I get my fair share," and how costs would be shared.
- **Fear of overly depending on the host agency for services:** Nonprofits expressed reservations about growing out of their space and then suddenly having to learn how to manage the back-office administration and responsibilities that had been handled by the host agency.

Attitudes towards ownership vary by organization size and experience:

- **Young organizations aspire to own, but not in short-term:** Leaders of new nonprofits were still not sure if they were addressing a short-term need (e.g.

advocacy groups) and feel that nonprofits should emerge and dissolve according to need. But regardless, at an early stage, they didn't want to be putting time, money and energy into a capital campaign instead of funding their program operations.

- **Older, established organizations are more concerned about upfront costs:** More seasoned organizations seemed more comfortable with the risk of buying and were more ready to consider raising the down payment.
- **Yet older organizations also wanted "space to grow:"** Leaders of growing organizations wanted to be assured that the building set-up and administration would be able to handle organizational growth and meet their demand for more resources.

Even as they expressed these concerns and preferences, most leaders said they were at a loss as to how to go about evaluating lease versus buy alternatives and admitted ignorance about the process of purchasing commercial real estate. Many also conceded they knew little about property management and that it might be better to leave those responsibilities to a host agency.

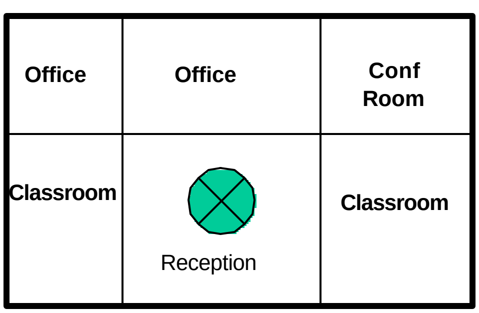
Consumer segmentation: Which nonprofits want to share what kind of space?

Nonprofit demand for co-located space was analyzed by developing a segmentation model that differentiates nonprofit space needs based on organization characteristics. We started with a hypothesis on the set of characteristics that would drive nonprofit demand for different types of space alternatives. The set of demand characteristics were staff size, organizational mission, and whether they offered direct client services. Staff size would serve as an easily identifiable proxy for development experience which we thought would be a significant factor in their confidence to make long-range space commitments. Further refinement was done to create a cluster of direct service providers that may have special needs for large functional spaces like arts, recreation and childcare organizations. The model was then tested using the survey data gathered from summer 2000. The results showed significant differentiation in tenant space needs by the set of demand drivers. Below are general findings on different segments' space needs.

- **Space size:** Small and midsize direct service providers required double the amount of square footage than non-direct service providers.

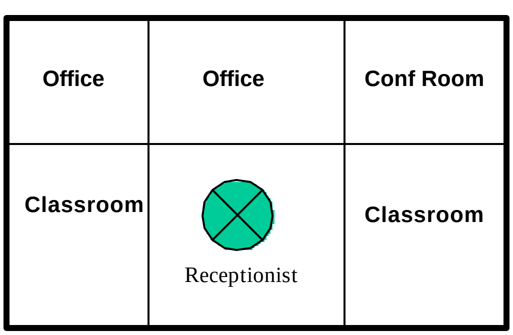
- **Location sensitivity:** As might be expected, the need for specific locations for direct service providers was twice as high as for non-direct service providers. Large direct service providers were the most sensitive and those that did not offer direct client services were the least sensitive among all segments.
- **Willingness to co-locate with other nonprofits:** Desire to co-locate was highest among small and midsize nonprofits, with desire diminishing as the firm size grows. Willingness to co-locate tended to be higher if the tenant thought they would be with nonprofits whose mission was sufficiently *dissimilar* from their own organization's. To explain why, nonprofits stated that they wished to avoid competing for clients and funding, and avoid blurring of organizational identity in a "one-stop shop." While these explanations seem to be at odds with the general desire to co-locate and maximize collaboration in serving the same client population, clearly there is a dynamic tension that must be considered in selecting tenants.
- **Demand for staff amenities:** There was less differentiation among the groups but there was a slightly greater demand among the small and midsize direct service providers.
- **Demand for special functional spaces (e.g. workshop space):** Direct service providers had a strong need for functional spaces while non-direct had minimal needs.

Below are characteristics of the consumer segments—small, midsize, large and very large nonprofits—with examples of possible floor layouts that might serve a nonprofit in the segment.



Small Nonprofit

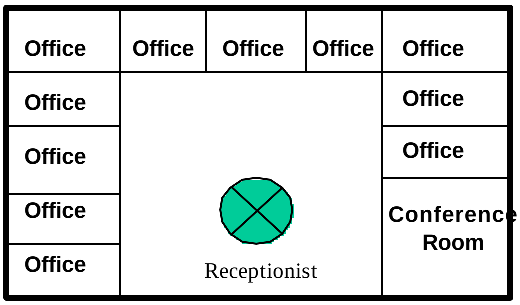
- Staff: 0 to 3
- Space: Small space requirements
- Usage: Part time usage, seasonal or project-by-project basis
- Clients: Low client traffic
- Examples: Start-up nonprofits, Women's League of Voters



Midsize Nonprofit

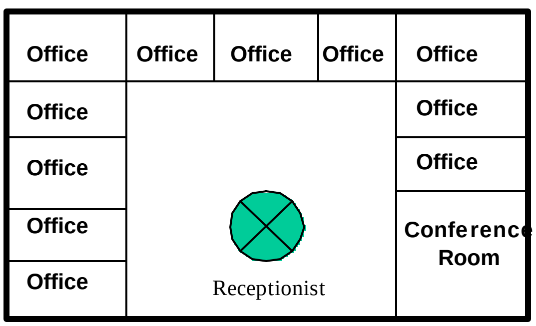
- Staff: 3 to 10 full-time staff
- Space: Require small administrative office with multiple large shared spaces or offices
- Usage: Daytime and evening

- Clients: High client/student traffic
- Examples: Dance and art schools, medium-sized service education providers program
- *Notes:* Nonprofits that are involved in arts, childcare or recreation have significantly larger space requirement 4,900 sqft versus other direct service providers, 3,200 sqft or non-direct service providers, 2,000 sqft



Large Nonprofit

- Staff: 10 to 50 full-time staff
- Space: Require multiple office spaces with conference rooms
- Usage: Regular full-time usage
- Clients: Low to medium client traffic
- Examples: Foundations, research institutes, advocacy groups, schools
- Notes: "Large" and "Very Large"-nonprofits involved in arts/childcare/recreation and non-direct service providers are least likely to want to co-locate with other non-profits



Very Large Nonprofits

- Staff: 50 or more full-time staff
- Space: Require multiple offices and dedicated functional rooms for classes, workshops, etc.
- Usage: Regular daytime and evening
- Clients: high client and student traffic
- Examples: American Red Cross, nursing and health care facilities, large foundations

Local nonprofits are very interested in sharing building space with other nonprofits. The web survey found that 43% of respondents were "very interested" and another 36% were "somewhat interested." They saw particular advantage in sharing space with nonprofits that have complementary missions; 63% said their interest would be stronger in this scenario.

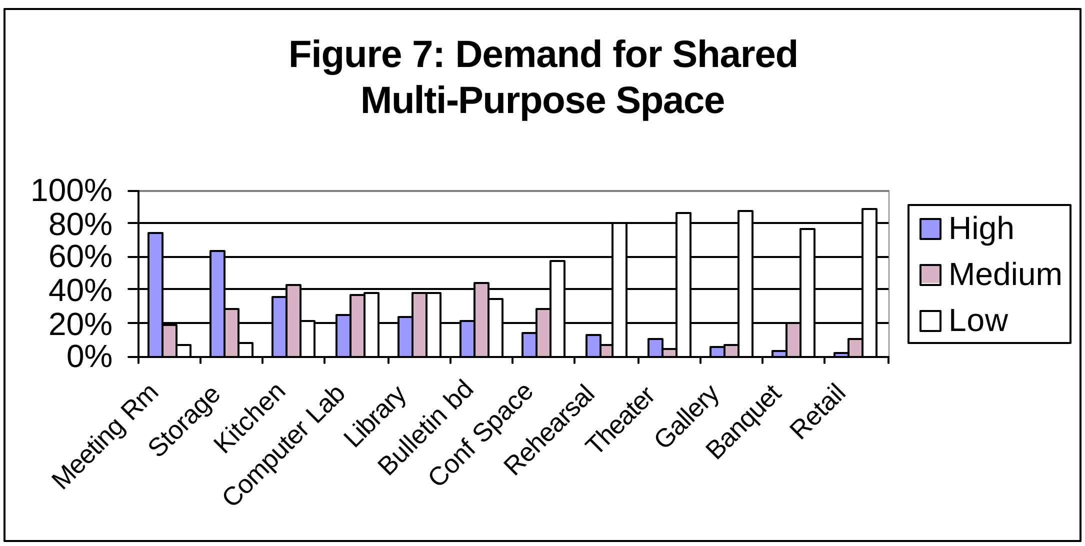
The three types of shared space arrangements described above were used in our focus groups to provoke comments and identify prospective tenant preferences among the three choices. The participants were told to assume that the buildings were in attractive locations, the space fit their organizational needs, and the rent was substantially below-market. The following are their summary views and comments.

Desired shared multi-purpose space, amenities and programmatic services

In our focus groups and the web survey we also sought to learn what specifically nonprofits would like to see in a shared space. We divided building features and services into three categories: functional spaces, building amenities, and programmatic services.

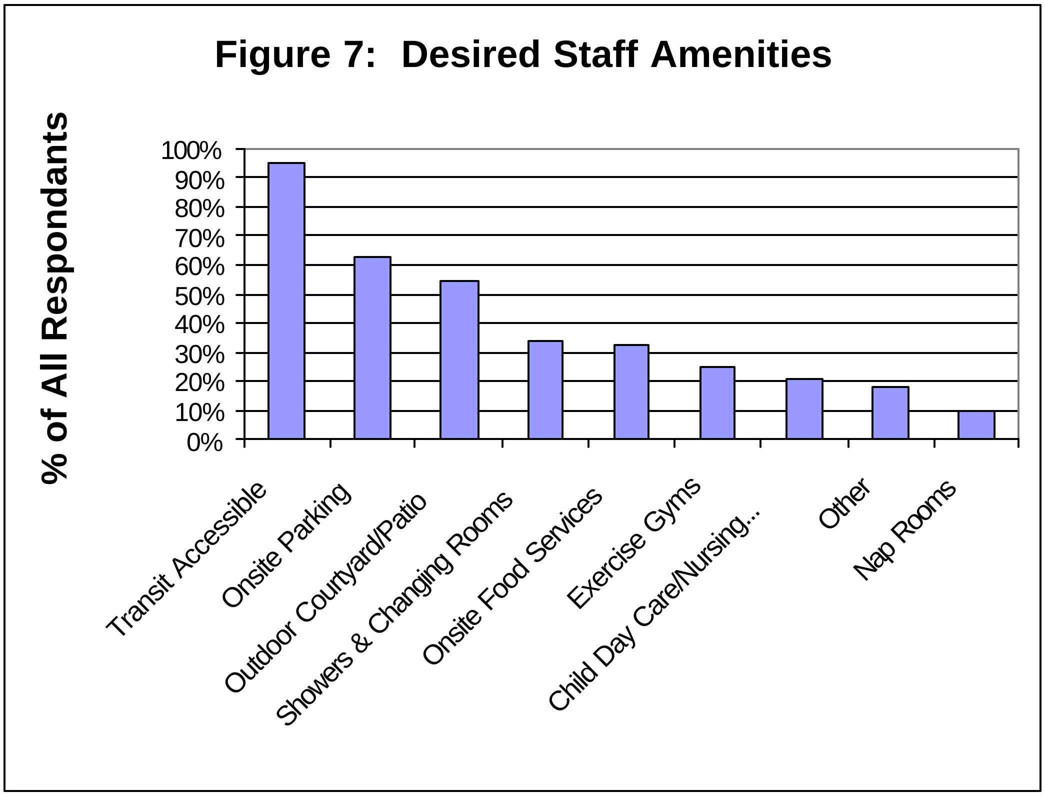
- **Demand for Shared Functional Space**

Nonprofits were very interested in common types of functional spaces—meeting rooms, storage space, and kitchens—and ranked other special need spaces much further back in priority. However, the importance of those special functional spaces--theaters, galleries, special event/banquet halls--should not be underestimated for the relatively small number of studio arts and performing arts organizations that were represented in the survey. As one respondent noted: "This is the real critical need in town—affordable and secure space for dancers that's easily reached by public transportation."



- **Demand for staff amenities**

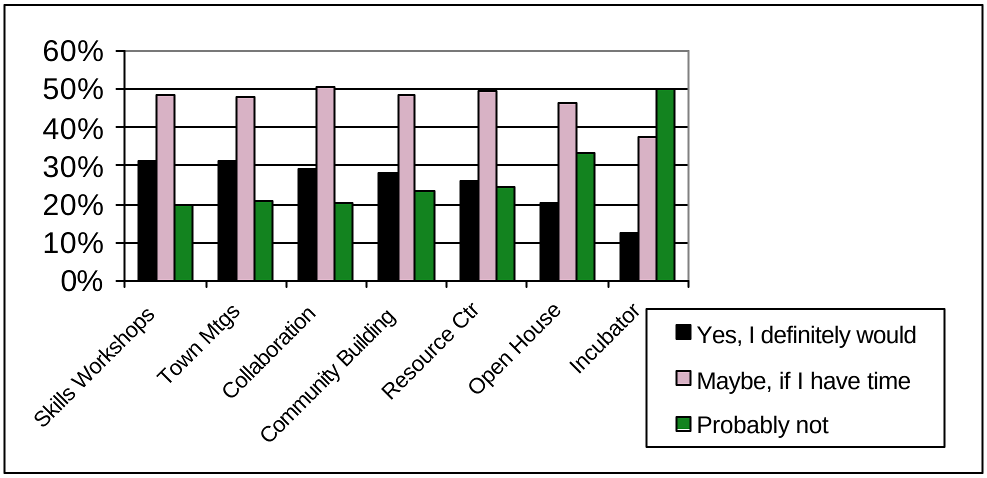
The vast majority of nonprofits were concerned about location-related issues—access to transit and parking. Other amenities that were very popular in focus groups were DSL network service and outdoor courtyards/patios. Onsite food services came in fifth in the web survey though most informal interaction is reportedly done during mealtimes.



- **Demand for Shared Programmatic Services**

Most suggested services were met with a negative or lukewarm response by roughly 70% of respondents. Half of the respondents said that they would only participate in the subsidized services if they had time. For incubator-related services, half of respondents adamantly declined while another core 13% said that they definitely wanted it. Some executive directors explained their lack of interest was due to concern with the type of services they could receive and the quality of services. Having access to onsite support services were not viewed as a big benefit. As one focus group participant said, "just because the provider is offsite doesn't deter me from getting business support services if I think it's a better provider."

Figure 9: Demand for Programmatic Services



The analysis of market conditions and the analysis of the data suggest the following market segmentation

Figure 10: Nonprofit Segmentation

Nonprofit Segment	Avg Space	Daily Client Traffic	Location Sensitiv	Staff Amenities	Function Space	Support Services	Interest in Co-location
	Sqft	*# of Clients*	*0-100%*	*1-3 Scale*	*Function*	*Low-Hiah*	*0-100%*
Small (0-3 staff): part-time staff, start-ups							
No Direct Service	730	NA	30%	1.0	0.3	Med/High	79%
Direct Service	1,500	70	68%	1.3	0.6	Med/High	83%
Mid-Size (3-10 staff)							
No Direct Service	2,000	NA	35%	1.4	0.3	Low/Med	71%
Direct Service	3,900	130	68%	2.0	1.6	Low/Med	75%
Large (10-50 staff)							
No Direct Service	7,100	NA	19%	1.7	0.2	Low/Med	55%
Direct Service	8,000	140	73%	1.4	1.3	Low/Med	65%
Very Large (50+ staff)							
No Direct Service	74,000	NA	33%	NA	NA	Low	0%
Direct Service	25,300	480	75%	2.8	1.9	Low	47%

Appendix B: Acknowledgements

This market research study would not have been possible without the shared concern of many people who actively volunteered their time and insights to help us understand nonprofit space needs in a volatile real estate market. First and foremost, we want to thank Alexa Culwell and Ann Webster for initiating and framing this study, and the Charles and Helen Schwab Foundation for commissioning the study. This research is a result of their multi-dimensional commitment to respond to the nonprofit space issue in the most informed and relevant manner possible. Their efforts in this arena stand out among those who seek to provide real solutions to the San Francisco nonprofit community.

For current and historical real estate information we are grateful to commercial realtors Mike Hamasu of Whitney Cressman, Steven Mavraomihalis of Pacific Union, and Cal Nakanishi of Colliers International who provided data and their professional insights on the market gyrations.

To inform our understanding on the realities of running and managing nonprofit co-location spaces, we contacted many executive directors and building managers. Thanks to these people who patiently let us ask in-depth questions about their experiences: Jerry Bilton of the Community Services Building, Lia Stevens of the NEW Center, Alex Zwissler of the Fort Mason Center, Laura Weathered of the Acme Artists Cooperative, Sharon Danhoff of ArtsBridge, Cindy Littlefield of the Oklahoma Center for Nonprofit Management, Lani Valentine of the Community Services Center of Marin, and Mitchell Chapman of the Thoreau Center for Sustainability.

We are especially grateful to Dr. Diane Kaplan Vinokur of the *Under One Roof* project who directed us to key sources of information on this topic and provided us with her own research reports compiled from two years of interviews and surveys. Her findings and rigorous studies of existing nonprofit tenants helped us make sense of our own prospective tenant surveys and interviews.

Finally, we want to thank the hundreds of individuals who have completed surveys, participated in focus groups, and allowed us to interview them in this investigation.

August 2001

Appendix C: Information Sources

1. Focus Group Participants' Organizations

Asian Perinatal Advocates
California Childcare Resource & Referral Network (CCRRN)
Continuum
Frameline/9th Street Media Consortium
Hospice by the Bay
Immigrant Legal Resource Center
Legal Assistance to Elderly
Project Inform
Rails to Trails
Rebuilding Together (formerly Christmas in April)
Richmond Senior Central
San Francisco Bicycle Coalition
San Francisco Suicide Prevention
Seven Tepees Youth Program

2. Models of Shared Space Projects

Acme Artists Co-op, Chicago IL	www.lf.org/acme
ArtsBridge, Chicago IL	www.artsbridge.org
Artspace, Minneapolis MN	www.artspaceprojects.org
Association Center, New York City, NY	
Community Service Building, Wilmington DE	www.csbcorp.org
Community Services Center of Marin	
Devco—The New Brunswick Dev. Corp., NJ	http://devco.org/html/devco.html
Fort Mason Center, San Francisco CA	www.fortmason.org
Fund for the City of NY, NY	www.fcny.org
Hannan House	www.ezsis.org/hanhouse/index.htm
Headlands Center for the Arts, Marin CA	www.headlands.org
Lesbian and Gay Community Service Center, NY NY	www.gaycenter.org
Marian Center, Milwaukee, WI	
Nonprofit Enterprise at Work (NEW) Center, Ann Arbor MI	www.new.org
Oklahoma Center for Nonprofit Management, Oklahoma City OK	
Renaissance Entrepreneurship Center, SF CA	www.rencenter.org
Robert Woodruff Volunteer Service Ctr, Atlanta GA	
Schoenbaum Human Services Center, Saratoga FL	www.humanservicescenter.org
Thoreau Center, San Francisco CA	www.thoreau.org

Tides Foundation, San Francisco CA www.tides.org
Wilson Historic District, Dallas TX www.mfi.org
Women's Community Building, Ithaca NY www.lightlink.com/womens/

3. Recommended information sources

- National Business Incubator Association (NBIA) www.nbia.org
  See their publication "Incubating the Arts" which offers general methods to set-up and operate arts incubators and includes 6 detailed case.

- Community Agency Partnership Project Email: bccf@istar.ca
  See Kylie Hutchinson's publication "Getting It Together" which describes collaboration models for community groups and 11 case studies.

- Dr. Diane Kaplan Vinokur, Director of *Under One Roof* project, University of Michigan
  Email: dkv@umich.edu
  Dr. Vinokur is leading a multi-year study funded by the Aspen Institute on the benefits, challenges and best practices of nonprofit co-location spaces. See her publication, "The Role of Nonprofit Management Support Organizations in Sustaining Community Collaborations," Nonprofit Management and Leadership, vol. 10, no. 2, Winter 1999, pgs. 127-135.

- Partnership for Affordable Non-profit Space (PANS) www.orgspaces.org
  This San Francisco-based organization provides space-matching services and technical assistance for helping nonprofits consider space options, financing, lease negotiations and referrals to funding sources.

- Nonprofit Finance Fund www.nonprofitfinancefund.org
  This nationwide organization provides financial advice and assistance to primarily arts nonprofit organizations that are seeking new office and exhibit/performance spaces.

- Tides Center
  One of the sponsors of the May, 2001 conference on multi-tenant nonprofit buildings, the Tides Center is an anchor tenant for the Thoreau Building in the Presidio of San Francisco.

About CompassPoint Nonprofit Services

(formerly the Support Center / NDC)

With offices in San Francisco and San José, CompassPoint Nonprofit Services is one of the nation's leading consulting and training firms serving nonprofit organizations. Through its 36 staff and hundreds of volunteer professionals, CompassPoint provides management assistance to nonprofits in fundraising, technology utilization, strategic planning, nonprofit finance, executive transitions, boards of directors, strategic internet presence, and other topics. Last year CompassPoint conducted 700 workshops for Bay Area nonprofits, and consulted to more than 300 nonprofit organizations. In addition to workshops and consulting, CompassPoint publishes two free electronic newsletters-- *Food for Thought* and the *Board Café*. CompassPoint's mission is *to increase the effectiveness and impact of people working and volunteering in the nonprofit sector*.

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