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A DOWN AND DIRTY GUIDE TO COMMERCIAL REAL ESTATE

Glancing around your office you see signs of it everywhere. At first it was kind of amusing; an additional desk or two in an already occupied office wasn't the end of the world. In fact, a little employee camaraderie never hurt anyone (even if it was your office they were sharing). But when your company begins to turn down shipments because your storage space is too small, your bottom line is at stake. Your business is booming and now it's time to find the right space for it.

FLEX OR HIGH-RISE?

The world of commercial real estate is overwhelming. As a CEO looking to move, the most important decision you'll make is choosing the type of property that best suites your business. In commercial real estate, property can generally be described in five categories: office, flex, industrial, mixed-use (a development where people come together to live, work and play) and retail (a space in a mall or shopping center, as well as street-level shopping.)

Office space is probably the easiest one to understand, and unfortunately in DC what's available is scarce. "Washington DC is the hotbed of commercial real estate in the country. Office real estate can be scarce and pricey," comments Patrick Flynn, vice president at Transwestern Commercial Services.

"Your options are limited in the District and they can include 100-year old brownstones with lots of improvements to make." In DC demand for downtown real estate does not match the supply of actual office space, which has led to increased rental rates. If you can't find prime office space in downtown DC, perhaps you should check out the suburbs, in Prince George's Montgomery and Frederick County, where rents can be less.

If your business requires storage and/or distribution space, as well as an office component, you should look into flex space—buildings that provide flexibility in their use. They can be used as an office but may also be used for manufacturing companies, laboratories, service related companies such as plumbing companies, janitorial serv-

ices, HVAC companies, etc. Single story flex buildings are spread out across the beltway.

If your company does not require any sort of office space component, but rather a location to easily store and distribute your product, then you want an industrial building.

LEASE OR BUY?

Now that you know the type of space you're interested in, it's time to decide whether you will lease or buy this space. The decision to lease or buy shouldn't be made lightly and you should consider how this investment will best benefit your company. Leasing

president of Asset Management at Corporate Office Properties Trust. "Inside the beltway, and in the District, rental rates can be much higher. Rental rates in Northern Virginia range from \$30 to \$35 per square foot and office space in Maryland (Prince George's and Montgomery County) can range from \$26 to \$33 per square foot." Boegner adds that the price paid for buildings in the Metropolitan area continues to be among the highest in the country on a per square foot basis.

On the flip side, if you do find property that you are able to buy in DC, the benefits are enormous. "The potential to capitalize on the apprecia-

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and buying are two very different options, but because of the limited market in downtown DC most people lease.

"Class A rents (buildings with a shared concierge and lobby) in outlying metro Washington, DC for existing offices range in the mid-\$40s per square foot," says Derrick C. Boegner, vice

president of the real estate may justify the capital investment into the building," says Boegner. Advantages to owning include the income potential from third party tenants and the opportunity to capitalize on your DC real estate. "In a market that has a high demand and limited supply, corporate owners are capitalizing on opportunities to sell

their buildings to investors at very high prices while leasing back the same building." Disadvantages to owning a property may become apparent if your company is growing. If you need a 5,000 square foot space now, you may need three times that in the future.

There is also the option of buying an office condominium. Office condos tend to be between 2,000 to 10,000 square feet and don't come with the hassles of building maintenance.

LOCATION, LOCATION

Whether you are planning to lease a flex space or buy an office condominium, you have to choose a location. This might be the most daunting task of them all. Thankfully, there's some advice.

"Putting economic incentives and tax breaks aside, the most important thing to consider about location is whether it is going to attract the people you are interested in attracting to your business," says Robert B. Oare, senior vice president of Trammell Crow Company. "You must try to choose a location that is central for both your clients and employees." Access to public transportation, ease in employee parking,

appropriate signage and a true partnership with your landlord (if you are leasing) are essential. "Once you have signed a lease, your landlord becomes your business partner. If he or she does not take adequate care of the building and your property does not maintain a certain appearance suitable to your clients, your business may suffer," continues Oare.

DC does have some up and coming neighborhoods you should be on the lookout for. "The East End with Massachusetts Avenue on the North, Penn-

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sylvania Avenue on the South, 15th street on the West and 3rd street on the East is hot," comments Flynn. Other areas include NOMA (North of Massachusetts Avenue) with residents like XM Satellite Radio and Quest. Also Southeast near the Navy Yard and the future Washington Nationals baseball stadium is booming. "This area is expanding because of Navy (Defense) contractors," adds Flynn.

Meanwhile, in 2002, Mayor, Anthony Williams, and the city launched the reStore DC initiative to help revitalize business districts through economic restructuring of commercial areas. Neighborhoods like Adams Morgan, Dupont Circle, Brookland, 8th St SE (or Barracks Row near the Marine barracks), 14th Street Heights Main Street, and historic Anacostia are Enterprise Zones. Check out the District of Columbia's government website at www.restoredc.gov for more information on these neighborhoods.

CDE, companies must apply to the CDFI Fund (Community Development Financial Institutions Fund). To qualify as a CDE, an organization must further goals such as economic development within a community (job creation), affordable housing (housing development) or development of financial services. For more information, go to www.cdifund.gov.

- Enterprise Zone Employment Tax Credit—Annual federal employment tax credit for 20-percent of wages paid to DC resident employees (up to 3,000 per employee.)
- District Contracting LSDBE Program—Certified small, local and/or disadvantaged business enterprises (LSDBE) are given priority consideration for contracts offered by District agencies and publicly-assisted project.
- Federal Contracting HUB Zone Program—Businesses located in HUB Zones are given preference in bidding for contracts with federal agencies.
- reStore DC Commercial Development Technical Assistance Program—Awards technical assistance and grants to assist revitalization that enhance neighborhood business districts not in designated "Main Street" areas. **CEO**

INCENTIVES

If you are interested in buying property in DC, there are some great tax incentives. Check out some of the incentives below.

- New Market Tax Credit—Taxpayers can receive a credit against Federal income taxes for making investments in designated Community Development Entities (CDEs). To become a

CORPORATE DECISIONS LEAD REAL ESTATE DECISIONS

Sound corporate real estate decisions should be based upon what a company needs, not what the real estate market dictates.

Transwestern's team of specialists understands that exploring space options creates a number of uncertainties for a company. We thoroughly analyze space, comfort and workforce needs and balance those against corporate financial and cultural objectives. From analysis through implementation, Transwestern delivers personalized solutions for each client, so that your real estate decisions are based upon achieving your overall business goals.

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