

## **Procedure for Leasing Space in Buildings for Commercial/Private Use**

All requests for leased space must be processed through Facilities and Real Estate Services (FRES) 3101 Walnut St. / 6289. FRES is responsible for all lease transactions as well as lease administration for the University. This includes University-Owned buildings as well as Third Party Landlord owned buildings. The primary contact person is Laura Park Smith, Director of Portfolio Management. She may be reached at 8-4241 or [lpsmith@upenn.edu](mailto:lpsmith@upenn.edu). The Lease Administrator is Laurie-Ellen Shumaker. She may be reached at 6-6861 or [lshu@upenn.edu](mailto:lshu@upenn.edu).

### **1) Identification of Need or Opportunity**

The first step of a lease action is to identify a need for space and to determine that the need should be satisfied in leased space. All efforts to utilize University spaces should be exhausted before seeking a leased location.

A need is defined as any new, additional and /or existing leased space that is expiring. The need will typically come to the School or Center's attention because:

- An existing lease is expiring and needs to be renewed.
- An opportunity has been identified. Such an opportunity might be the cancellation of one lease in order to relocate a tenant into vacant or under-utilized space at another location. Another example would be a consolidation.
- New programs have been identified.
- Short-term space is required while existing facilities are renovated.

Once a need is identified, the S/C needs to determine that the space requirement cannot be fulfilled within their existing inventory of leased and owned space.

### **2) Documentation and Initial University Review Process**

The School / Center completes a "Request for Leased Space Form " that describes the facilities related issue and the space requirement. This form must be completed for every lease requirement regardless of size or duration of lease and must be signed by the Dean, VP, Vice Provost, or Resource Center Director, as applicable. Requests for leases with total obligations \$250,000 or greater must also be signed by the EVP, Provost or President's Chief of Staff, as applicable.

Completed Request for Leased Space Forms should be submitted to:

- For Schools and resource centers that report to Provost or Deputy Provost: To Lynne Hunter in the Provost Office (122 CH / 6303)
- For President's Centers: To Janet Dwyer in the Office of the President (100 CH/6380)
- For EVP Centers: To Stephen D. Golding (737 FB/6293)

**Exceptions:**

- Need for 1,000 sq ft or less of expansion space that can be accommodated by modifying an existing lease that has more than a year of the term remaining. In such cases, the forms are sent directly to Laura Park Smith in F&RES. F&RES will work with the School / Center to negotiate a lease modification.
- Needs for storage cages are exempt from completing a Request for Leased Space Form; however, requests for leasing such spaces should be sent to Laura Park Smith for execution and signature.

Working with the representatives from the Schools and Centers, FRES, the Provost's Office and the Office of the University Architect (OUA) will assess the need and review possible solutions. This review includes checking the facilities space database and lease administration database as well as discussions with the Space Planning and Space Steering Committees. If it is determined that the space requirement cannot be accommodated on Campus, OUA will authorize the request to proceed through the approval process.

Note: If a University Responsibility Center intends to enter into an arrangement to occupy space "belonging" to another Responsibility Center, they should refer to the University Office of Budget and Management Analysis memorandum on Space Sharing.

**Approval Thresholds:**

To determine the level of approval needed, the present value of the entire lease obligation, including estimated operating expenses; utilities; costs of moving, furniture and improvements paid by the tenant (whether paid up-front, or financed through the lease term) is evaluated. The discount rate used for calculating present value is the University's long-term cost of funds. The rate that should be used for FY09 is 5%. The Treasurer's Office will update this rate annually.

- Present value < \$250,000. Dean, VP, Vice Provost, or Resource Center Director
- Present value = \$250,000 to \$500,000. Provost, President's Chief of Staff, or EVP
- Present value = \$500,000 to \$1,000,000. Capital Advisory Group (CAG)
- Present value > \$1,000,000. CAG, Capital Council, Trustees

FRES representative will assist in presenting the lease request to Capital Advisory Group. The S/C should review the CAG calendar and working backward from the highest approval needed, schedule presentation before CAG early enough to meet Capital Council and Trustee meetings. It is recommended that the S/C allow for two presentations to CAG.

**3) Market Survey and Preliminary Lease Negotiations**

- a. FRES will conduct (either in-house, or utilizing the services of an external tenant representative), a market survey and develop a list of all suitable available space. This will be reviewed with the S/C and tours of available space will be conducted.
- b. A Short list is developed.
- c. Space requirements are confirmed. For a new lease or relocation, this will involve the development of a space plan and, if size and complexity warrant, the services of an Architect to conduct a "test fit", and prepare preliminary cost estimates. Generally, prospective Landlords provide this service. For a succeeding lease, this may still involve

- development of a scope of work for improvements to the existing space (such as new paint and carpet).
- d. FRES will prepare and send RFP's to prospective Landlord(s).
  - e. Preliminary terms and conditions are negotiated by F&RES with one or more than one landlord, depending upon the type of action. FRES will prepare comparative analysis of terms and conditions. Schools and Centers may not meet with, nor enter into lease negotiations with Landlords independently of FRES

#### **4) Approvals, Final Lease Negotiation and Implementation**

In accordance with the capital planning process policies, Lease obligations greater than \$250,000 need to be identified in the annual Capital Plan. Each S/C should try to identify all needs for leased space a year or more in advance to allow sufficient time to gain approvals, identify and negotiate appropriate space, and to design, construct, and occupy. F&RES will assist the S/C in preparing appropriate forms and financial analysis, and guiding them through the review process, including presentation at Capital Advisory Group meetings.

Market surveys and preliminary negotiations may take place parallel to the approval process; however, commitments to lease space and / or more advanced lease negotiations may not take place until the appropriate approvals have been received.

Once the approvals have been received (as outlined above), FRES (working with the S/C representatives) will undertake final lease negotiations with the Landlord. The Office of the General Counsel will provide an attorney who will review and draft lease language that appropriately documents the deal terms, and when possible, utilizes "Penn" standard lease language. Leases are also subject to review by the Office of Risk Management.

Final Lease documents will be signed by either the Vice President for Facilities & Real Estate Services or Vice President for Finance.

Leases will be abstracted, distributed and administered (including bill payment) by FRES, through the lease administration function. Distribution for leases is to the S/C; OGC; Treasurer's Office; and FRES.