President's Report

209 South Commerce Street
Alexandria, VA

The office building at 209 S. Commerce Street is a three-story, free-standing structure, originally built in 1880 and fully renovated in 1991 (including the installation of up-to-date electrical and plumbing systems). The building has been regularly maintained since that time: it was last painted in 2015, for example, and also in 2015, a new roof, gutters, and drain spouts were installed. This work was all undertaken by an architectural firm that has owned and been resident in the building since 1991. The firm is selling the building because the principal partner is retiring and the partner who is succeeding him prefers to locate the firm in a different space.

All of which is to say: an initial, very appealing thing about this building is that it is both a historic Alexandria property (which feels appropriate for ASOR), yet it is a space that has been fully updated for the 21st century (fire and life-safety systems are, for example, all up-to-code and beyond, and the building has ADA access in place for the first floor and an ADA-usable bathroom on that floor as well). Not surprisingly, moreover, architects are very fussy about the quality and livability of their space, so a great deal of attention has been paid to details: the lighting, for example, is of much higher grade than your standard office fluorescents, and built-in storage (file cabinets, cupboards, bookcases, small closets) are tucked into every available cranny. A great deal of attention has also been given over to bringing in natural light, both through the use of interior windows and through the use of skylights on the third floor.

The building is a good size. It is about 2900 square feet, and this does not include 600-700 square feet or so of usable storage space in the basement. The space is divided into 5 individual offices (one of which is meant to hold two people), a reception area (with a work space/desk for a receptionist), a conference room, a combination kitchen-workroom, and (on the third floor) two open office work spaces. There are currently about 14-15 people who work in the building. Of these 14-15 people, moreover, three (on the second floor) are part of a different business, as the building is designed so that each floor has its own utilities (including heat and A/C). This means each floor can be rented out, if desired, to a tenant. All the offices, plus the conference room, reception area, and open office work spaces have windows.

As my comments above about routine maintenance might suggest, the building is in move-in condition. The only recommendation I would make in terms of work to do before moving in is to refinish the original wide-plank wood floors on the first floor. There is also a sort of peculiar diagonal, non-load-bearing wall that divides the kitchen/workroom space that might be taken down.

The location of the building is very appealing: the building is literally steps off King Street, the main "drag" in Old Town Alexandria and so literally steps from hip restaurants, coffee shops, shopping, etc. Our Alexandria staff -- whom we took to see the building -- all agreed that this would be a real plus in terms of staff recruitment and retention. Indeed, the staff described the building as "charming" and as a place "where it feels like it would be a pleasure to come to work." They noted, moreover, that the space would not just be appealing to them; it would be appealing, and present well, to donors and visitors.

Furthermore, the staff liked the fact that the building is a 7 minute walk from the King Street Metro Station and a 10 minute walk to Alexandria commuter rail. For those who drive, there are six parking spaces in the back. Because the metro is so close, moreover, it would be possible -- when Andy or others on the staff needs to travel -- to park at 209 S. Commerce, walk to the metro, ride two stops to National Airport, and be on a plane.

In conclusion, the Board should note that the price is right. The asking price is $1,195,000, and we think we can get it for somewhat less. Indeed, on December 19, 2018, Andy and I submitted a non-binding letter of intent with an offer of $1,075,000. The current owners have furthermore indicated that almost none of the furnishings are going to be moved to the firm's new location, and so they will either be discarded or could be conveyed with the building -- meaning, potentially, a significant savings for us, as we have either already discarded or do not intend to move most of our Boston furniture.

As always, I am happy to discuss any of the points I raised above further with any of you, and I also am happy to answer any other questions you might have.

Attachment B—Memo from Andy Vaughn

Dear Executive Committee colleagues,

President Susan Ackerman has asked me to write a financial summary memo with some estimates of the costs for the various methods of paying for the proposed purchase of 209 Commerce Street. I am happy to do so. I have also attached an Excel Spreadsheet with my calculations. Please click on the different tabs or worksheets for details on each option. The spreadsheet file has a summary tab (or worksheet) and four additional tabs (or worksheets) for each option.

Estimated total cost of the proposed building = $1,120,000
- Purchase price (per agreed upon price) = $1,100,000
- Estimate of purchase expenses (e.g., taxes, fees, legal, other) = $20,000
- TOTAL ESTIMATED COST = $1,120,000

Gifts that ASOR can use for purchase of the proposed building:
- Gifts expected by 1/31/19 = $395,000
- Additional Pledges (to be paid by 12/31/22 = $487,000
- TOTAL RECEIVED AND PLEDGED TO DATE = $882,000
-

Assets that ASOR might use for proposed purchase or for "borrowing":
- Unrestricted cash and "near cash" assets = $664,000.00
    - Unrestricted cash available for operations = $563,500.00
    - Board-designated "near cash" (Opportunity Fund) = $110,500.00
- Restricted assets (collateral for a bank loan) = $1,718,000.00
    - Endowment for operations = $732,500.00
    - Named endowments = $985,500.00

Summary so far: we need an additional $725,000.00 before March 1, 2019, in order to complete the purchase. We have a variety of options to "finance" the purchase, and I present four options below.

Option 1: 50% LTV (Loan-to-Value) equity line of credit or comparable mortgage product. Estimated cost = $68,750 ($52,500 interest paid to a bank, and $16,250 in foregone interest from ASOR investments). With this option, ASOR would receive a cash equity line of credit loan using the building (50% loan to value) and our other assets as collateral for an equity line of credit loan. The advantage of this option is that banks typically do not charge closing costs for these types of loans. Another advantage is that there is no prepayment penalty. The downside of this type of loan is that the interest rate is variable. From preliminary conversations with BB&T and with Sheldon Fox, I estimate that the rate would be approximately 5.0%.

- Year 1 estimated cost
  - Foregone interest (2.5%) on $175,000 in unrestricted cash = $4,375
  - 5% interest on Equity Line of Credit ($550,000) = $27,500
  - SUBTOTAL = $31,875
- Year 2 estimated cost
  - Foregone interest (2.5%) on $175,000 in unrestricted cash = $4,375
  - 5% interest on Equity Line of Credit ($350,000) = $17,500
  - SUBTOTAL = $21,875
- Year 3 estimated cost
  - Foregone interest (2.5%) on $175,000 in unrestricted cash = $4,375
  - 5% interest on Equity Line of Credit ($150,000) = $7,500
  - SUBTOTAL = $12,000
- Year 4 estimated cost
  - Foregone interest (2.5%) on $130,000 in unrestricted cash = $3,125
  - 5% interest on Equity Line of Credit ($0) = $0
  - SUBTOTAL = $11,875
- **Summary = $68,875**
  - Total interest paid to a bank = $52,500
  - Foregone interest (2.5%) = $16,250

Option 2: 30% LTV equity line of credit or comparable mortgage product from a bank. Estimated cost = $54,000 ($23,000 interest paid to a bank and $31,000 in foregone interest from ASOR investments). With this option, ASOR would receive a cash equity line of credit loan using the building (30% loan to value) and our other assets as collateral for an equity line of credit loan. This is essentially the same as Option 1, but we would use less of the Equity Line of Credit because we would "borrow" more money from ourselves. Like Option 1, the advantage of this option is that banks typically do not charge closing costs for these types of loans. Another advantage is that there is no prepayment penalty. The downside of this type of loan is that the interest rate if variable, but we would have less risk because we are borrowing less.

- Year 1 estimated cost
  - Foregone interest (2.5%) on $395,000 in unrestricted cash = $9,875
  - 5% interest on Equity Line of Credit ($330,000) = $16,500
  - SUBTOTAL = $26,375
- Year 2 estimated cost
  - Foregone interest (2.5%) on $395,00 in unrestricted cash = $9,875
  - 5% interest on Equity Line of Credit ($130,000) = $6,500
  - SUBTOTAL = $16,375
- Year 3 estimated cost
  - Foregone interest (2.5%) on $325,000 in unrestricted cash = $8,125
  - 5% interest on Equity Line of Credit ($0) = $0
  - SUBTOTAL = $8,125

- Year 4 estimated cost
  - Foregone interest (2.5%) on $125,000 in unrestricted cash = $3,125
  - 5% interest on Equity Line of Credit ($0) = $0
  - SUBTOTAL = $3,125
- Summary = $54,000
  - Total interest paid to a bank = $23,000
  - Foregone interest (2.5%) = $31,000

Option 3: 100% financing from ASOR (using as much of our unrestricted assets as possible and "borrowing" the remainder from our endowment for operations). Estimated cost = $44,375 (zero interest paid to a bank, and 100% in foregone interest from ASOR investments). There are two advantages of this option: a) it has the lowest cost; and b) there is no interest payment that goes to a bank. The disadvantage is that this option would use almost all of our unrestricted assets and leave us with little to no flexibility for unforeseen circumstances at a time when we are experiencing a lot of change (i.e., moving and buying a property). In addition, this option would require a Board vote to re-designate the Opportunity Fund temporarily, and the Board would also need to vote to dedicate a small part of the accumulated earnings in our Endowment for Operations ($80,000) as an investment in the building.

- Year 1 estimated cost
  - Foregone interest (2.5%) on $650,000 in unrestricted cash = $16,250
  - 5% interest on Endowment Loan ($75,000) = $3,750
  - SUBTOTAL = $20,000
- Year 2 estimated cost
  - Foregone interest (2.5%) on $525,000 in unrestricted cash = $13,125
  - 5% interest on Endowment Loan ($0) = $0
  - SUBTOTAL = $13,125
- Year 3 estimated cost
  - Foregone interest (2.5%) on $325,000 in unrestricted cash = $8,125
  - 5% interest on Endowment Loan ($0) = $0
  - SUBTOTAL = $8,125
- Year 4 estimated cost
  - Foregone interest (2.5%) on $125,000 in unrestricted cash = $3,125
  - 5% interest on Endowment Loan ($0) = $0
  - SUBTOTAL = $3,125
- Summary = $44,375
  - Total interest paid to a bank = $0
  - Foregone interest (2.5%) = $44,375

Option 4: Financing from a mortgage product with 4-year balloon payment. Estimated cost of interest and fees is $107,000, all paid to a bank. The advantage of this option is that we do not tap any our unrestricted assets nor our endowment. We may also benefit from donors wanting to accelerate gifts so that ASOR can avoid interest. As you can see, the disadvantage is that the cost is much higher than the other options. In addition, there would likely be closing costs with option (legal fees and appraisals, etc.).

- Year 1 estimated cost
    - Estimated closing costs = $5,000
    - Foregone interest (2.5%) on unrestricted cash = $0
    - 6% interest on Loan ($725,000) = $43,800
    - SUBTOTAL = $48,500
- Year 2 estimated cost
    - Foregone interest (2.5%) on unrestricted cash = $0
    - 6% interest on Loan ($525,000) = $31,500
    - SUBTOTAL = $31,500
- Year 3 estimated cost
    - Foregone interest (2.5%) on unrestricted cash = $0
    - 6% interest on Loan ($325,000) = $19,500
    - SUBTOTAL = $19,500
- Year 4 estimated cost
    - Foregone interest (2.5%) on unrestricted cash = $0
    - 6% interest on Loan ($125,000) = $7,500
    - SUBTOTAL = $7,500
- Summary = $107,000
    - Total interest paid to a bank = $107,000
    - Foregone interest (2.5%) = $0

Attachment C: Financing spreadsheet

Details for Option #1 (50% Equity Loan)					
Closing costs	$	-			
Purchase costs	$	20,000.00			
Purchase	$	1,100,000.00			
Gifts received	$	395,000.00			
Funds from Unrestricted Assets	$	175,000.00	Total amount borrowed from bank and ASOR		
Funds from Equity Loan	$	550,000.00		$	725,000.00
Year 1 Costs					
-purchase costs ($25,000 in purchase price)	$	-			
-2.5% interest foregone on unrestricted assets ($180,000)	$	4,375.00			
-5% interest on Equity Loan ($550,000; assume none repaid after first of year)	$	27,500.00			
-SUBTOTAL YEAR 1 COSTS	**$**	**31,875.00**			
Year 2 Costs			Assume $200,000 principal paid at beg. of year		
-purchase costs	$	-			
-2.5% interest foregone on unrestricted assets ($180,000)	$	4,375.00			
-5% interest on Equity Loan (assume $350,000 remaining)	$	17,500.00			
-SUBTOTAL Year 2 COSTS	**$**	**21,875.00**			
Year 3 Costs					
-purchase costs	$	-	Assume $200,000 principal paid at beg. of year		
-2.5% interest foregone on unrestricted funds ($180,000)	$	4,375.00			
-5% interest on Equity Loan (assume $150,000 remaining)	$	7,500.00			
-SUBTOTAL Year 3 Costs	**$**	**11,875.00**			
Year 4 Costs					
-purchase costs	$	-	Assume $200,000 principal paid at beg. of year		
-2.5% interest foregone on unrestricted funds ($130,000)	$	3,125.00			
-5% interest on Equity Loan	$	-			
-SUBTOTAL Year 4 Costs	**$**	**3,125.00**			
Year 5 Costs			Assume $130,000 principal paid at beg. of year		
-purchase costs	$	-			
-2.1% interest foregone on unrestricted funds	$	-			
-5% interest on Equity Loan	$	-			
-SUBTOTAL Year 3 Costs	**$**	**-**			
TOTAL COSTS OVER FIVE YEARS	**$**	**68,750.00**	Note: costs much lower if gifts received sooner		
-interest paid to a bank	$	52,500.00			
-interest foregone on unrestricted funds	$	16,250.00			