RENT OR BUY?

How to Choose a Place of Your Own

Whether you lease or own your space, you have important choices to make. Follow these four steps to make the best decisions for your organization.

BY ELIZABETH E. SOLENDER

Most nonprofit organizations count real estate costs second only to personnel costs in their budgets. Therefore, real estate transactions are some of your most crucial decisions. To make the best choices for your organization, follow these four steps:

1. Decide Whether to Lease or Own.

Should you lease space or own a facility? To decide, you must evaluate your mission, funding sources, and the real estate market—now and in the future. Here are some points to consider:

- If lease rates are low, you can benefit from a long-term lease with a fixed rate or moderate, staged increases during the term of the lease. When the market has rapidly increasing lease rates, you should consider ownership, especially if you require substantial space.
- If you're like many nonprofits, you may need special facilities to accommodate your clients. If so, you're likely to make potential landlords uneasy for many reasons: expensive construction requirements, disruptions of building operations, or inconvenience to other tenants. If the features required are too unique or expensive, you may want to consider owning your own facility or identifying a landlord willing to build a facility for you.
- Owning a facility may be more cost-effective than you think. Even if you must borrow part of the funds necessary to buy a facility, your debt payments will be fixed and probably less than escalating rent payments.
- By owning your facility, you will avoid paying property and sales taxes on utilities that are part of rent to a landlord.
- Another good reason to buy rather than lease is that you have the option of holding a capital campaign to raise money to purchase a facility. You may be more successful holding such a campaign than trying to raise money for your operating budget to pay increasing annual rents. Note, however, that your organization must be ready before you embark on a capital campaign. It must have a strong financial base, a clear direction, high visibility, donor support, committed leadership, and a team of informed, motivated volunteers. (See "Selected References" for more on capital campaigns.)

Don't wait till your lease is about to expire.

Although owning real estate has important advantages, it is not a practical alternative for most nonprofits. If you're one of the majority of nonprofits who must lease, be sure to disclose your special needs immediately to potential landlords. Then, if the landlord can't or won't accommodate those needs, you'll have time to look elsewhere. Also be sure that the lease agreement specifically addresses your unique requirements.

2. Start Planning Early.

Whether you decide to lease or purchase, you will benefit by anticipating your organization's real estate needs early. Don't wait till your lease is about to expire or you're about to burst out of your office before you begin discussing alternatives. Allow time for staff and board to evaluate current and future space requirements and to explore all options: leasing, purchasing an existing facility, or purchasing land for construction of a new facility. If purchasing or building a facility is an option, you also have to allow planning time—sometimes several years—for a capital campaign. And, once you begin your real estate search, don't forget the following:

- Allow time for the executive director, staff, committee members, and volunteers to visit sites and provide input.
- Arrange time for board members to visit one or two final sites selected after your initial screening.
- Plan time to negotiate the lease or purchase price.
- Allow time for final approval at the next regularly scheduled board meeting (which may be several weeks or months away).
- And finally, build in contingency time in case one or more board members insist there must be a better deal somewhere.

3. Give Authority for Streamlined Decision-Making.

The consensus-building model that works well for nonprofit governance is cumbersome and slows decisions in a real estate transaction. Input from multiple committees, the executive director, and the board president are often required. Also, many nonprofits gratefully use pro bono professional services—space planners, architects, engineers, contractors, and attorneys. Although the value of these professional services is substantial, nonprofit assistance cannot be the priority for professional firms. What happens? Lots of cooks slow down the deal.

Add the fact that final approval can take place only at regular board meetings. A single delay can postpone a final decision for a month or more. Several such delays can result in missing a crucial deadline and losing a contract or lease.

Retain a specific real estate professional, not a firm.

Whenever possible, then, the board should give the executive director or president the authority to negotiate within specified financial limits and criteria. This authority can save the organization valuable time during crucial negotiations.

4. Get Professional Help.

You will also benefit by hiring a qualified real estate professional to help you. Many nonprofits believe they'll save money by making real estate decisions themselves. Doing so is a mistake, however. Asking the executive director or staff—who are rarely hired for their real estate expertise—to locate, evaluate, and negotiate without professional guidance is a truly "penny wise and pound foolish" decision.

A professional real estate broker will know current market rates and inducements. Best of all, the real estate commissions are typically paid by the landlord or seller.

A little known fact: The party who benefits most when the tenant or purchaser doesn't have a broker is the broker for the landlord or seller. The commission goes entirely to the landlord/seller's broker rather than being split with the tenant/purchaser's broker.

Retain a specific real estate professional, not a firm. Large firms often delegate the organization's work to less experienced brokers.

Seek out a broker with nonprofit experience. Doing so will save you the time and effort of educating the broker on nonprofit operations and approvals. It may also save you the grief of working with someone who isn't on your wavelength. The broker you select should lead the way, advising you on the best way to meet your short and long-term needs. ■

Selected References

Brinckerhoff, Peter C., *Financial Empowerment: More Money for More Mission*.

Dove, Kent E., *Conducting a Successful Capital Campaign*.

Muehrcke, Jill, *Are You Sitting on a Gold Mine? Fundraising Self-Assessment Guide*.

Solender, Elizabeth E., "Looking a Gift Horse in the Mouth," *Nonprofit World*, January-February 1998.

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