

FINANCIAL SERVICES

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Planning For Non-Profit Real Estate Differs From Business World

Most non-profit organizations count real estate costs second only to those of personnel in the budget. Therefore, real estate transactions are some of the most significant business decisions made by non-profit boards of directors. Making the best decision for the organization requires plan-

ing, giving authority for streamlined decision making and finding a real estate professional who understands the unique needs of the organization.

or you're about to burst out of your headquarters to begin discussing alternatives. Allow time for the 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, the organization also has to allow planning time, sometimes several years, for a capital campaign.

Once a real estate search has begun, a non-profit organization should also allow time for the following:

The executive director, staff, committee members and professional volunteers to visit selected sites and provide input.

Board members to visit one or two final sites selected after initial screening.

The lease or purchase price to be negotiated.

Final approval at the next regularly scheduled board meeting (which may be in several weeks or months away).

And finally, to allow contingency time if one or more board members insist there must be a better deal somewhere.

Non-Profit organizations must carefully execute the planning of their current and future real estate needs.

Streamline Decision Making

The consensus building model that works well for non-profit governance is cumbersome and slows decisions in a real estate transaction. Input from multiple committees, the executive director and the board president are often

Start Planning Early

A non-profit organization can benefit greatly by anticipating its real estate needs early. Don't wait until your lease is about to expire

required. Also, many non-profits gratefully utilize pro bono professional services — space planners, architects, engineers contractors and attorneys. Although the value of these professional services is substantial, non-profit assistance cannot be the priority for professional firms. What happens? Lots of cooks slow down the deal.

Add to the cast of characters the fact that any final approval can only take place at monthly or quarterly board meetings. A single delay can result in the postponement of a final decision for a month or more. Several such delays can result in missing a crucial contract deadline and the loss of a contract or lease.

Whenever possible, 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.

Lease or Own?

A non-profit organization must evaluate its mission, funding sources and the real estate market — now and in the future — to decide if it should lease space or own its own facility.

An organization with special facilities needs may be objectionable to a potential landlord for many reasons; expensive construction requirements, disruptions of building operations or inconvenience to other tenants. If the features required are too unique or expensive, the agency might consider owning its own facility or identifying a landlord willing to build a facility for the agency.

If lease rates are low, a non-profit 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, a non-profit requiring substantial space should seriously consider ownership.

Reasons for Ownership

There are three reasons a non-profit should plan to own its facilities:

It may be more successful in rais-

ing money for the purchase of a facility through a capital campaign than trying to raise additional money for its operating budget to pay increasing annual rents.

Even if the organization must borrow part of the funds necessary for the purchase, its debt payments will be fixed and they'll be dealing less with escalating rent payments.

By owning its facility, a non-profit will avoid paying property and sales taxes on utilities that are part of rent to a landlord.

Planning for a Lease

For most non-profits, owning real estate is not a practical alternative. They must lease. Frequently, landlords cannot or will not accommodate the special needs for non-profit tenants. These needs should be identified early in the planning process, and should be disclosed immediately to potential landlords in case the landlord has a problem with any requirements. All specific requirements would be specifically addressed in the lease agreement.

Getting Qualified Professional Help

Many non-profit organizations have the mistaken belief that they will save money by not hiring a qualified real estate professional to assist them in leasing or purchasing real estate. Nonprofit executive directors and staff are rarely hired for their real estate expertise. Asking the executive director 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, and 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 pro-

fessional, not a firm. Large firms often delegate the organization's work to less experienced brokers. Using a broker with non-profit experience saves the executive director and the board the time and effort required to educate the broker on non-profit operations and approvals. The broker you select should lead the organization, advising on the best way to meet your organization's short and long-term needs.

Planning for a non-profit organization's real estate needs is never easy. Starting the process early, developing a plan, streamlining decision making and hiring a qualified real estate professional will make this formidable task simpler to meet the long term needs of the organization. ■