



non-profit

For non-profits able to expand, now is the time for action in these uncertain times

gg George Grace



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Like many companies and organizations, nonprofits feel the impact of these uncertain times in lower revenues from both their contractual programs as well as fund raising. Given the anxiety that seems almost tangible at times, we find our clients are taking action to optimize their real estate holdings or preparing the foundation to take advantage of market conditions. From observation of our clients, we

find that they are not standing still to see what happens—paralysis is not the answer.

We have closed several lease transactions in the last few months at rental rates substantially lower than what our clients were paying. This is for tenants whose leases were expiring in the next few years. Our clients saw this as an opportunity for an immediate benefit to their bottom line and locking into a lower rental rate. Landlords are glad to have the extended term and to avoid the high costs of losing a tenant. We have other nonprofits that are planning and preparing expansions that before were never possible because of the high cost of properties.

The question that we are most often asked is whether this is a good time to extend a lease? Where are

we in the real estate cycle? Should we buy or is it too soon?

In December of 2006, for this

economy after the lull of the .com bubble burst and 9/11. Low interest rates had accelerated growth, by

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very newspaper, I wrote a story whose headline was "What should you do when the big squeeze is on?" Wow, have times changed! In 2006, we were feeling the effects of a recovering and expanding

2006 we were booming! When the market was tight, we recommended (i) widening the search area, (ii) economize on the amount of space needed, (iii) start the process early and (iv) be properly represented. I

could have added if you were leasing is to take as short a term as possible. Four years later and we are back to 2001? 1994? The 70s?

From a real estate perspective the market in the early '90s was much, much worse for landlords than it is today. Vacancy rates were 25% and more in many markets. Banks were taking back properties. Rental rates were verging on operating costs. Today, the market is much more balanced. There was no building binge in the commercial sector like there was in the residential area. There are few buildings being built. Supply is stagnant. Vacancy rates hover just above 10%. However, rental rates have dropped substantially—by 20% and more depending on the market. In New York, according to the latest economic data, employment has gone up. If the economy continues to slow down, we do not believe that rents will accelerate lower, but may go down marginally.

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From our perspective, we see this as a good time to take advantage of the uncertainty and many of our nonprofit clients agree. Our advice today would be to take advantage of the better properties in the market—upgrade if you can. Always be prudent on the amount of space needed. Start the process early—plan and analyze when the right opportunity arises and be ready to act. As always be properly represented. Finally, lock into a long term transaction, preferably with fixed costs, because when the market does turn around costs will rise quickly. The best long term transaction is ownership. If you can afford to buy now, it is a great time to buy.

For nonprofits now and over the next few years may present opportunities that have not been available for 20 years. If you have the vision, viscera and wherewithal take advantage of the fear!

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