REAL ESTATE

The Importance of Aligning a Nonprofit's Real Estate with its Mission

When an organization evaluates its real estate, it must also take a close look at its mission. This is especially true with nonprofits and charitable organizations. Anticipating the growth of an entity in the short- and long-term is a difficult exercise and requires a thorough understanding of an organization's goals. Real-estate consultants can facilitate the process by demonstrating that a transaction supports the organization's objectives.

Often, decisions that organizations face are the result of significant increases in real-estate values. Because of this, property values cannot be ignored. Nonprofits and charities dispose of properties to unlock their value and use the proceeds for other organizational goals.

Understanding the Mission

Understanding the mission is essential to the crafting of real-estate solutions that support an organization's goals. Many entities are tempted to sell their real-estate assets to capture these high values. Cashing in on real estate is a necessity for some. Others see an opportunity to fuel expansion or shift strategy. For some organizations, real estate is so intertwined with identity that selling an asset would jeopardize the organization. For others, a redeployment of real-estate assets is necessary.

Similar questions arise with property acquisition. A clear understanding of the motivation to buy or sell helps all the professionals involved create a transaction that supports a client's goal.

Impact of the Current Real Estate Market

With escalating real-estate values, many groups are looking either to dispose of property or to acquire before prices increase further. Any transaction should be done with a cool head and a hard look at the facts, not the emotional Zeitgeist of the day. In many instances, the value of real estate for a nonprofit is in the land or in transferable development rights, a.k.a. "air-rights." This is especially true in New York City. Depending on site specifics, these values are available today and may not be available again. In other situations, land has an inherent value that will remain and increase over time. A nonprofit, just like a for-profit corporation, must assess its real-estate assets continuously so that it does not miss opportunities.

Acquiring Property

Acquiring property for a nonprofit utilizes a set of criteria broader than those of a for-profit corporation. With businesses, decisions are made in a more analytical fashion and are normally based on capital and operating costs. The objective is narrower: enhance the bottom line. Businesses tend to lease real estate rather than own it. Leasing allows companies more flexibility in size with minimal transaction expenses and limited liability. Leasing also limits capital investment in a property to its tenant improvements. With a for-profit corporation, money invested in real estate is not invested in the corporation's business. The company knows its return-on-investment in its own business and this can be compared to the rate of return on real estate. For a corporation, the value of investing in the business normally is greater than investing in real estate. For closely held companies, the ownership of real estate by the principals of the company has significant tax advantages and with leverage and appreciation provides a favorable investment.

When a nonprofit purchases a property it can view the acquisition the same way a corporation does, by asking: Does tying up capital in real estate serve it well and can the capital be used for other, more important services? There may not be a quantitative answer, but framing the question in these terms pinpoints the issues essential for the board to address.

By owning, a nonprofit can lock in its costs and not be subject to the fluctuations of the leasing market. The only costs for a nonprofit that owns its property are operating expenses and a mortgage. Operating costs are controllable to some extent, and mortgages are often available at advantageous rates for nonprofits. With ownership, nonprofits avoid real estate taxes, a significant savings. From an operational standpoint, buying makes sense especially for entities that do not anticipate a significant increase or decrease in size.

The lease-versus-buy analysis that a nonprofit makes would be similar to a corporation's questions: would it be less expensive to lease or buy and how much capital would it deprive other programs? Again, the essential issue is whether the purchase supports the organization's mission.

George Grace

Board Consensus

A nonprofit that provides social benefit to a community undergoes a decision process different from a for-profit corporation. Nonprofits have a large constituency that is reflected in their governance.

With real estate a common topic of cocktail conversation, everyone has a story and considers him- or herself an "expert." Board members are no exception. By providing exhaustive analysis, full disclosure of every aspect of a transaction and comparable transactions in the marketplace, real-estate consultants educate board members so that each has a deep understanding of the transaction they are contemplating. Further, we can assure the board that the information received is from professionals such as architects, construction-cost estimators and engineers who are independent, experienced and free of conflict

When we are called upon to give opinions and suggestions, it is beneficial to have experience in diverse transactions. We see the results of other organizations' decisions, experiences and "best-practices."

Our experience indicates that beyond the factual presentation of a real-estate transaction, the more clearly defined an organization's goal, the more successful a particular transaction will be. Further, with clear objectives, it is easier for the board to determine that a transaction supports the organization's mission. If it does, approval is almost always assured.

Examples

G.E. Grace & Co. has been involved in several transactions that demonstrate the importance of a nonprofit's mission. In one case, we were hired to sell an underutilized property with an entity that had a long history and a deep understanding of its role in the community. Everyone involved understood the goal and objectives. There was a clear strategy and need to obtain value from the real estate. Because of this the entire undertaking made sense and ran smoothly.

In another case, we were asked to negotiate the sale of a property that had been prompted by an offer from a developer. In this instance, there had been no prior thought about how best to use the asset, and there had been no strategic need. The entity was doing well and operating efficiently. The board was divided as to the best course of action. As negotiators, we were able to increase the value of the offer considerably. However, there was no overriding strategy or need and as a result, the transaction languished.

Process and Results

Keeping the client's mission at the forefront for your agents and consultants makes the overall real-estate assessment process easier and provides the framework for communicating each aspect of a real-estate transaction. This, together with in-depth real-estate analysis and corresponding success with other organizations provides the ingredients for successful transactions with nonprofits. The process avoids getting caught up in the hoopla of the day and lets the facts speak for themselves. The result will always be decisions for your organization that support its broader mission.

George Grace has over 20 years experience in real estate and is a principal of G.E. Grace & Company, Inc., a real estate consulting and brokerage firm, whose mission is to serve organizations with personalized advocacy that counts in every real estate transaction. See www.GEGrace.com; (212) 486-4100.