Nonprofit 411: When Owning Property Isn't the Best Option

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Businesses routinely reevaluate their real estate expenses to ensure that they support the company's business goals, culture, and growth. Nonprofits are no different. But unlike for-profits, nonprofit entities must focus financial resources on mission-driven activities and ensure that funds are optimally utilized.

Over the last few decades, nonprofits have acquired real estate, believing that doing so will reduce long-term costs. Lately, we have seen an uptick in nonprofit organizations selling property that isn't core to their missions. While this solution isn't right for everyone, it is worth considering.

When evaluating real estate options, nonprofits should consider all decisions in the context of one critical question: does this property support the organization's core mission? This applies to organizations moving from one leased space to another, and to those considering selling property. To help you answer this question for your organization, consider the following factors.

Flexibility

The way in which businesses operate has changed over the past two decades. Open floor plans are increasingly common, and technological advances necessitate regular physical updates. Rather than spending precious funds on renovating or rewiring, consider whether to sell your property and move to one that meets your needs yet allows you the flexibility to relocate as those needs evolve.

Don't just consider administrative space. As some nonprofits identify permanent housing for homeless individuals, home-based care for seniors, and community-based programs for individuals with developmental disabilities, large institutional structures may become necessary. Though the mission may remain unchanged, the way your organization executes it may not require the same space it did a decade ago.

Potential Savings

Many questions should be considered when evaluating real estate options. Is the current space leveraged, and if so, is existing debt a significant expense? Are significant capital improvements necessary? Is the use of the property central to your mission? The YWCA of Boston recently sold a building used for housing which required significant improvements, but which no longer served its core mission of social justice and racial equity. If your organization is operating in a building that is too big or needs work, it might be more cost-effective to sell, thereby reducing debt, operating expenses and capital costs.

Future Development Prospects

If multiple parties are interested in buying your property, you will need to identify the buyer who best fits your needs. Consider whether the property will necessitate repermitting for the buyer's use, what time that will entail, and what outs the buyer wants. Review the buyer's track record to ensure that the deal will close as anticipated.

Some buyers may want to leverage your nonprofit glow. While sharing the spotlight with a developer can be a good thing, there are inherent risks. Just before the last economic downturn, a Boston-based nonprofit agreed to sell property to a developer. After values fell, the developer needed to compensate for overpaying by seeking approvals for a large luxury project which necessitated demolition of historic buildings. The resulting community outcry had an impact on the nonprofit's brand.

Nonprofit leaders focus on their organization's mission and operations. Considering complex real estate issues can benefit from the engagement of board members with real estate expertise and/or outside experts.

The bottom line when considering real estate options is to ensure that your resources – space, financial and time – best support your mission, now and in the long-term.

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