HOW TO USE REAL ESTATE AS A STRATEGIC TOOL

USING THE RIGHT TACTICS CAN CUT COSTS AND FREE UP CASH YOU CAN USE TODAY.

BY CHRISTOPHER LARSON

For many organizations, an area that presents a distinct opportunity for cost savings is real estate. One of the largest overhead costs, real estate is often overlooked as a budgetary tool.

"Real estate is actually one third of our overall budget," says Joel Olson, president of Columbia College in Aurora, Colorado. "My expertise is in the field of higher education, not in real estate. An expert informed me that we were paying more than 70% above market for our space. So even though our lease was not up for a couple of years, we had an immediate opportunity to capture cost savings that would not have presented itself had we not asked the right questions."

An untapped asset, real estate can be a lucrative financial source for nonprofits. Here are tips to consider.

John Olson, president of Columbia College, recently hired Christopher Larson, vice president of Equis Corporation, to handle the college's real estate.

1. Question the status quo.

Don't assume real estate is a fixed cost that you can't change. Whether you rent or own, there are ways you can use your space to free up capital. Recognize that your nonprofit status doesn't keep you from using creative real estate tactics. In fact, your tax-exempt status can open up unique opportunities for you.

2. Educate yourself.

Do you know it's possible to renegotiate a lease years before it expires? If rental rates are in a slump, you could be overpaying—by a significant amount. If you're up to date on rental rates in your community, you have leverage in negotiating with your landlord. Another effective tactic is to review your landlord's motivations. For example, a landlord whose building is for sale will want to retain the building's value by extending tenants' leases and thus may be willing to offer lower rent.

3. Consider how location plays into your organizational strategy.

The old adage about the importance of "location, location, location" doesn't always hold true for nonprofit organizations. Ask yourself how important location is to serving your constituency and whether a lower-rent facility would suit your needs.

4. Get an early start.

Don't wait till your lease is about to expire to look at real estate options. If you do, you'll be at a disadvantage. Why would a landlord want to negotiate with you, knowing you operate under time restrictions?

5. Know your requirements, but be flexible.

Don't be too specific about your needs in the beginning. You may never find exactly what you want at the price you'd like to pay. But perhaps you can find something at the right price and adapt it to your needs.

6. Hire an expert.

Real estate has many nuances. Knowing which lease clauses to keep or reject and how to finance an improvement can be complex. Find a real estate expert who is sensitive to the needs of nonprofit organizations.

7. Draw on your tax advantages.

Having 501(c)(3) status offers a whole realm of financing options relative to your real estate. Traditional bond issuance remains a powerful tool for raising capital and is often used to build new facilities or refinance debt. As a nonprofit, you have alternatives that aren't available in the for-profit bond market. Also, consider financial tools available from your local government, such as municipal incentives, tax increment financing, and empowerment zone programs.

8. Use environmental and energy-saving options.

A number of "green" alternatives provide financing and are a great way to lower your construction and operating costs. In addition, many states (such as Oregon and New York) offer financial incentives for pursuit of environmental building certifications under the U.S. Green Buildings Council. Modular function-specific facilities can also be a way to decrease operating costs and enhance flexibility.

9. Align your real estate strategy with your organization's special circumstances.

What state and local laws might limit the approaches you can use? Do your organization's bylaws preclude certain real estate tactics? Are your organizational mission and culture consistent with using such methods? Are any unique financing programs available for your specific type of organization? What limitations are there on the use of funds for real estate? How do your strategic plan and business plan fit into the mix?

10. Redesign your workplace.

Identify new, more efficient ways to use your office space. Such creative approaches can yield immediate cash savings, increase your operating efficiency, and improve employee productivity.

11. Use your space to meet other needs.

Offering another nonprofit work space within your leased or owned facility may allow you to meet your obligations with in-kind services rather than cash.

12. Keep your options open.

Balancing short-term space needs with projected long-term requirements is tricky. Negotiate flexibility into your lease to allow for future expansion, contraction, or early relocation.

When matched with your organization's overall goals, these strategies can enhance your cash flow. The key is to look at real estate not as a liability that consumes resources but as an asset that can help you achieve your organization's mission. ■

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