Guest Editorial

A charitable look at corporate real estate

Readers of the Corporate Real Estate Journal need no convincing about the importance of real estate to organisational performance in the corporate environment. For all the progress that has been made in establishing CRE as a strategic discipline within the largest global companies, more can be done and especially with organisations of smaller scale and resources. What more deserving audience — and, as it turns out, what more diverse and fascinating range of occupancy needs and challenges — than that of charitable organisations, ranging from those with a single location to those with a national or international presence?

It has been my long-standing hope to establish a forum for meaningful dialogue within the not-for-profit (charitable) sector about the role of real estate and facilities (owned, leased or hosted space) in the operational and financial performance of not-for-profit organisations (‘NPOs’) of all sizes and mission types. As part of my second life in teaching and community service after a career in private practice, I now have the privilege of founding and leading The Rooftops Project, a new initiative of the Center for Real Estate Studies at New York Law School.

While some NPOs can support a large administrative staff, including real estate or facilities professionals, most of course do not. Some may not feel prepared to identify relevant issues and opportunities with respect to their occupancy and facilities strategies; many may not have the luxury of a team of consultants and outside resources typically available to CRE clients from the business world. Yet every real estate decision has a potentially profound impact on the future of NPOs, with decisions involving whether to own or lease; whether to be hosted by others or operate ‘virtually’ without a fixed location; whether to stay or move; whether to ‘dream big’ or ‘stay small’; whether to renovate or build anew; whether to outsource or self-perform; or whether to become ‘green’ or stay whatever that other colour is.

Through The Rooftops Project, we are hosting an ongoing dialogue about the effective ownership, design, use, maintenance and funding of real estate in furtherance of social sector missions. Over more than three decades in the corporate real estate industry I have been impressed time and again — and perhaps you have been too — that while value can be obtained sometimes through innovative approaches to single, complex projects, it also can be achieved by occupiers through relatively simple things done consistently well and at the right times. Fostering curiosity, awareness and enthusiasm about these topics within the not-for-profit community — including executives and staff, but also boards, volunteers and funders — is what intrigues and inspires us at the Center for Real Estate Studies to serve this audience as part of our own not-for-profit mission.

Our first steps were a national field study of NPOs in autumn 2010,1 followed in spring 2011 by hosting The Rooftops Conference 2011, the Center’s first symposium regarding the role of real estate — physical facilities — occupied by NPOs in connection with their
charitable purposes. The conference included voices from the not-for-profit sector, the real estate industry, the professions, academia and government.

We were very gratified by the enthusiastic response. Representatives of several hundred NPOs, from all parts of the USA, participated in our field study, our spring symposium, or both. Our work benefited from the perspectives of NPOs across a wide range of mission types, from museums to places of worship, from social and human services to advocacy and education. Organisations offered their experiences of coping with diverse circumstances ranging from a direct hit from Hurricane Katrina to a myriad of funding challenges — and an increase in demand for charitable services — in an exceptionally difficult economy.

For those of you (and I) who have been involved during the thirty-or-so years in which corporate real estate has emerged as a distinct, separately recognised professional discipline, attitudes among NPOs will be reminiscent of the early days of CRE in the large company world. Many understandably view real estate as a mere supporting resource. Some were even tempted initially to think, often apologetically, that they do not have any real estate at all. But, once engaged in a dialogue, each has a story to tell about a success or challenge concerning physical space — the one it has now or the one it dreams of having someday. All face decisions about how best to forecast and address their occupancy needs in a way that promotes the organisation’s core purpose and mission, provides an efficient, suitable environment for staff, clients and visitors, and is consistent with the organisation’s budgetary resources from both a capital investment and an operating perspective.

Here is a preview of a few of the observations that will inform our future work.

THE PROFILE OF NPOs AS OCCUPIERS

Let’s think: ‘How many Fortune 500 companies are there?’ Oh yes, 500. But according to one recent government source, there are some 1.9 million NPOs in the USA alone.²

And while some NPOs may not think of themselves as having real estate, everyone is somewhere (hopefully out of the rain!). Of those organisations that participated in our autumn survey, the average number of locations per organisation was five. While that sampling was not scientific, if we use it as just a rough ‘finger in the wind’ estimate, it would suggest that US NPOs might have some 9.5 million locations, a figure that would seem easily to eclipse the comparable number of locations occupied by the Fortune 500 and the FT 500 combined. That is a big demand for space (and a big carbon footprint).

A NEW MEANING OF DIVERSE USER GROUP

While some corporate users may have complex and sophisticated space requirements (eg data centres, securities trading floors, food, pharmaceutical or heavy industry manufacturing facilities), the majority of corporate space demand is for office, warehouse/distribution or retail, lending itself to solutions that often can translate from one end user to another. On a good day, that may also facilitate exit strategies for excess properties. NPOs need offices too. But their occupiers can be fantastically diverse, ranging from patients to Picassos, worshippers to wombats. Each of these user groups was represented at our spring conference. The space needs reflect their unique occupier groups. Our autumn survey confirmed another factor in the user profile for NPOs that we would all imagine too: the majority of the NPOs surveyed make their spaces available to outside groups — whether as tenants or subtenants, co-located or hosted charities...
with compatible missions, or one-time users of event space — each with their own unique occupancy needs and expectations.

**ECONOMIC IMPACT ON OCCUPANCY STRATEGY**

Funding streams for NPOs, which depend on some combination of public and private grants, individual donations and even government contracts for services, can be even more complex than those for product or service companies. At the same time, demands for services (and space) often can be countercyclical. More than 50 per cent of organisations responding in our autumn study predicted needing more space over the next three years. Given the state of the general economy, widespread declines in donor revenues and, in particular, the dramatic cutbacks and payment delays in state and local funding of programmes, this confidence in projected, growing occupancy needs is interesting. One possible reason is increased demand, in an economic downturn, for services offered by charitable organisations. All of these factors impact the need for space, the ability to afford it, and the difficulty in creating sufficient flexibility for a constantly changing equation.

**DONOR AND FUNDER PREFERENCES NOT FAVOURING PROPERTY AND INFRASTRUCTURE**

Whether one looks to institutional or individual donors to charitable causes, or to government agencies and programmes that contract with NPOs for services, there is often a strongly stated preference to fund people and programmes, rather than infrastructure, general administration or property. This preference is underscored, of course, in both government reporting and private rankings of the spending and efficiency of NPOs, using methodologies that look to percentages spent on direct services or programmes versus administration and overhead. Austerity measures increasingly result in arbitrary cuts even to previously allowed allocations for administrative expenses, leaving NPOs to cover property and other supporting costs from reserves, undesignated funds or other spending cuts. Authors from both the not-for-profit and the business sectors frequently note the discouraging absence of funding for capacity building.

**CENTRALISED DECISION MAKING**

One advantage of many NPOs compared to their large for-profit counterparts may be centralisation in decision making. While real estate may not be established as a separate discipline inside many NPOs, those who participated in our field study most often indicated that a significant real estate project would report either to the CEO or Executive Director (55 per cent) or to members of the board of trustees or other volunteers (17 per cent). In fact, even in the largest organisations we studied, the CEO, COO or Executive Director chose to be personally interviewed for our work (65 per cent) rather than delegating to another in the organisation.

**UNCERTAINTY HOW TO BEGIN**

Identifying the opportunities and the menu of possible approaches understandably can be difficult for organisations without staff experienced in real estate. Navigating these choices wisely, and leading and supervising the execution of transactions and projects to implement them, is a recurrent theme. One key step forward may be to consolidate responsibility for real estate and better capture a base of experience within the organisation over time. While it may be tempting, for example, to regard an organisation’s
single 50,000 square foot, five-year lease requirement as more significant than another organisation’s 20 one-year lease requirements of 2,500 square feet each, it is the latter organisation that may have the most occasions to build experience. Over the same five years, the second organisation may have executed as many as 100 leases or renewals.

**BARRIERS TO AN INFORMED DIALOGUE**

Our field observations, consistent with several other studies of the viewpoints of NPOs, indicate that NPOs may be hesitant (even privately suspicious) about vendors and providers of proposed solutions proffering problems that were not already in their field of vision. A 2008 Gallup survey of how the public ranks ‘the honesty and ethical standards’ of people in different professions placed real estate agents in a dead heat with lawyers (only 17 per cent said they rated real estate agents very high or high for honesty and ethics, compared to 18 per cent for lawyers) and just behind building contractors (22 per cent). Whatever the merits or however unfair those impressions might be, this phenomenon suggests to us that there may be a particular benefit to an effort like The Rooftops Project, which offers a forum independent from (although inviting and drawing upon) the commercial marketplace. It may also indicate that NPOs might respond best to small, self-led first steps that are not dependent upon capital, paid advisors or big, sudden changes.

**METRICS AND BENCHMARKING**

As unsettled as the debate may be in the corporate real estate industry about whether (and which) benchmarks may be appropriate in informing occupancy strategy, the dialogue is even more complicated for NPOs. For many organisations, it is about much more than raw operating efficiency. If you wanted the most cost-effective, occasional meeting place for 500 people, let alone with a revenue model where participants pay what they wish (or nothing at all), you would never build a cathedral. Whether an owned, debt-free, but only partially occupied, property is better than selling and relocating is equally complex.

**‘DO-OVERS’**

Almost one-half of responding organisations agreed that they have at least one location where they would probably not select the same property or location if they had the chance to start over now. In some cases this reflected the quality or characteristics of the particular property rather than its location. Charities also have the unique opportunities — and complex challenges — of evaluating, accepting and managing properties that may be offered as contributions by donors, some of which may be more efficient (and mission-suitable) than others.

**SPACE DESIGN**

For every organisation (for-profit or not-for-profit), matching available facilities and space commitments to operational needs can be a constantly moving target. Space design was prominent in the narrative comments of respondents. More than 30 per cent indicated that if they had additional access to outside resources they would hope for space planning advice. And when asked what they might do with a one-time gift of US$50,000 designated specifically for physical space, an amazing 25 per cent replied that they would invest it in space planning, redesigning or reconfiguring the space to better suit their programmatic and operational needs. This percentage approached the number...
(30 per cent) that would invest in maintenance, repairs, upgrades or renovations of existing facilities.

QUESTS FOR NEW SPACES, NEW LOCATIONS

Some 54 per cent of all organisations indicated in narrative comments that, if they had sufficient time, professional resources and funds, they would pursue some change to their location strategy (one of the top answers overall in narrative comments, second only to space planning and space utilisation). And 52 per cent of the reporting organisations mentioned that they eagerly await acquiring or constructing a new building, in many cases one that they have already designed but are awaiting funds to achieve and sometimes on land they already own.

APPROACH TO FACILITIES MANAGEMENT

At locations where the responding organisation had responsibility for maintenance and repair, most NPOs we studied outsourced at least some facilities management functions (the most common categories, unsurprisingly, being cleaning and janitorial, maintenance and repair of building systems, and security). Yet only 9 per cent reported that maintenance and repair was done solely on a ‘preventive’ basis in accordance with a scheduled plan. Twenty-five per cent used a solely ‘reactive’ approach (where maintenance and repairs were performed on an ‘as-needed’ basis when something was broken or worn out). Most organisations (65 per cent) reported using a mix of these two approaches. Naturally, having an unexpected need for repairs and no available source of funding can be an unwelcome strain on any organisation (or household). Only 46 per cent of responding organisations reported having reserved or special funds set aside for property repairs. This leaves 54 per cent to cope with an unexpected maintenance or repair cost through other means (general operating funds, solicitation of donations or bank borrowing) or not to make the needed repair at all (23 per cent).

EXEMPTION FROM REAL ESTATE TAXATION

Charities often enjoy the benefit of policies exempting organisations from taxation. In the USA, this includes not only exemption from income tax (driven by federal tax policy and subject to complex rules and exceptions), but state law exemption from real estate (ad valorem) tax on qualified properties. While precise requirements depend on statutes and case law in the individual states, continued qualification depends among other things on the specific uses to which the property may be put. Strategies to derive revenues from excess space, or even making space available for outside meetings or events, can put the exemption in doubt. Moreover, in an economy where taxing authorities are seeking revenue anywhere they can, some have suggested limiting or even repealing the exempt status for charities.7,8 State and local governments may also pursue ‘voluntary’ contributions by NPOs to support essential services (eg fire and police protection, utilities and infrastructure) under so-called ‘payment-in-lieu-of-tax’ (‘PILOT’) arrangements, the subject of a recent study by the Lincoln Institute of Land Policy,9 which is co-hosting with our Center a workshop on this topic in New York in autumn 2011.

SUSTAINABILITY AND ‘GREEN’ INITIATIVES

It comes as no surprise that NPOs cited an interest in sustainable design and ‘green’ operating habits, a trend that mirrors both the business community and society. NPOs
participating in our study were asked to indicate their viewpoints about balancing sustainability goals and occupancy costs. Thirty-four per cent replied that sustainability is a priority, even if it increases the cost of operations. Another 44 per cent were interested in sustainability where it is achievable without increasing costs. Twenty-two per cent did not have sustainability as a current priority. Implementation of sustainability enhancements may also be more difficult where the organisation feels that it lacks the background and experience to sort through the many available technologies, assess competing products and services, and judge the effects on operations and the likely payback periods. They are also not eager to be pioneers as early adopters. There was a stated reluctance, especially by organisations with specialised uses (e.g., healthcare and museums), to adopt experimental rather than proven technologies given the high stakes for providing a reliable, suitable space environment.

GOING FORWARD
Our initial survey, field interviews with organisations around the country, and the discussions that emerged at our spring conference in New York, validated many of the themes we have established, all centred around the unique characteristics of not-for-profit occupiers and the spaces they occupy. You can follow our project on our website. On visiting the site, you will find our mission statement and ongoing news about the project, access to an electronic version of the results and commentary on our autumn 2010 survey, and podcast highlights from our spring symposium. We hope that you will follow our work and join our discussion.

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AUTHOR’S NOTE
Some of the content of this Editorial has been adapted, with permission, from ‘The Rooftops Project Report Summarizing Results of a Survey of Not-for-profit Organizations’ (New York Law School, 2010).

REFERENCES AND NOTES


(8) For a speculative discussion about the tax revenue impact of no longer extending real estate tax exemptions to NPOs and in particular religious properties such as St. Patrick’s Cathedral in New York City and the Mormon Tabernacle in Salt Lake City, have a look at the recent appearance by Heesam Nadij, Research and Advisory Services Managing Director at Marcus & Millichap, and Scott Hodge, President of The Tax Foundation, on Street Signs with Erin Burnett ‘Appraising the Lord: Should religious institutions pay property taxes in order to help cut the budget deficit?’, CNBC US edition, 27th October, available at: http://video.cnbc.com/gallery/?video=1626480562 (accessed 11th July, 2011).


(10) See: www.nyls.edu/The_Rooftops_Project.