Social Purpose Real Estate: The Nonprofit Multi-Tenant Center Approach

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Introductions: Who We Are

Welcome! A chance to Rethink!

- Lara, NCN
- Stephaney, NCCLF
- Linda, The Health Initiative
- Jeff, Georgia Equality

- We all operate in the Social Purpose Real Estate and overlapping Nonprofit Multi-Tenant Center spheres
What is Social Purpose Real Estate?

- SPRE can be defined in two parts: (i) social purpose, meaning organizations with a mission to provide community benefits; and, (ii) real estate, (i.e. property and/or facilities) either rented, leased, or owned and operated by social purpose organizations.

- Together, SPRE refers to property and facilities owned and operated by organizations and investors for the purpose of community benefit, and to achieve blended value of returns.

Why Social Purpose Real Estate?

- Together, SPRE refers to property and facilities owned and operated by organizations and investors for the purpose of community benefit, and to achieve blended value of returns (financial and social).

- To support the sustainability of the not-for-profit sector, including the preservation of real estate holdings in targeted communities or communities under development pressure.

- To Maintain and secure community-owned assets to better meet community social, cultural, economic, and environmental needs.
What is a nonprofit center?

A physical place (usually a building or campus) where mission-driven organizations intentionally share space for mutual benefit, ranging from cost savings to shared programming.
Almost 400 Known Centers

Together our sector

Occupies 13.75 million sq. ft.

Houses 28,000 employees

Serves 99,000 people per week
Typical nonprofit centers

- 35,000 square feet
- 12 tenants
- Earns $500,000 in gross revenues
- Has 2 full-time staff for management

Field Origins
Nonprofit Centers Today

- Service Centers
- Theme Centers
- Multi-Sector Centers

Service Centers

Haven for Hope, San Antonio, TX

Deschutes Children’s Foundation’s Rosie Bareis Community Campus, Bend, OR
Theme Centers

Posner Center for International Development
Denver, CO

Literacenter, Chicago, IL

Artscape Wychwood Barns
Toronto, ON

Multi-Sector Centers

Carroll Nonprofit Center
Westminster, MD

Community Service Building
Wilmington, DE

The Kahanoff Centre
Calgary, AB
Who Develops Nonprofit Centers?

- Existing organization
- New organization
- Foundation
- Government
- For-profit
- Condo/Co-op


How Nonprofit Center Projects are Funded

- Donated funds only 34%
- Organization assets only 9%
- Donations & Assets 4%
- Debt financing only 13%
- Combination 35%
- Unknown 5%
Mission Informed Business Models

- Provide free rent for spaces
- Subsidize rent for spaces
- Charge to cover expenses
- Charge market rates rents

Mission-related → Break-even → Profitability

Revenue Spectrum

Mission-related Profitability

Triple Bottom Line Social Enterprise

Traditional Commercial Real Estate vs. Nonprofit Centers

Expenses vs. Rent

- Traditional Commercial Real Estate:
  - Org & Sharing Mgmt
  - Bldg Mgmt
  - Prop Taxes
  - Debt
  - Fac. Op Exp
  - Revenue

- Nonprofit Centers:
  - Org & Sharing Mgmt
  - Bldg Mgmt
  - Prop Taxes
  - Debt
  - Fac. Op Exp
  - Revenue

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The majority of revenues for shared space come from rent and CAM Charges

2015

- CAM and Rent, 64%
- Contributions, 19%
- Other Space Usage Fees, 7%
- Other, 8%

75% of centers have less than 10% vacancy

Vacancy Rate of Centers

Percentage of Centers

Vacancy Rate

- 0% to 10%
- 11% to 20%
- 21% to 30%
- 31% to 40%
- Over 40%
Shared spaces often run a surplus

- Surplus: 56%
- Break-Even: 18%
- Deficit: 26%

Tenants say that being in shared space has allowed improvements in these areas:

**Mission**
- Overall ability to achieve goals (82%)
- Organizational credibility (83%)

**Finances**
- Stability of costs (75%)
- Net revenues (52%)

**Staff**
- Staff morale (75%)
- Staff recruitment (55%)
- Staff retention (50%)

**Programming**
- Quality of services (74%)
- Program scope (63%)
- Program size (61%)
2016 OPPORTUNITY FINANCE NETWORK CONFERENCE

Neighborhoods are improving around shared spaces

Trends: Where Shared Space is Headed

1. Continued emphasis on collaboration
2. Ratio of dedicated:shared space is important
3. Increase in use of program-related investments from philanthropy
4. Linkage with place-making strategies
5. Philanthropic interest in reducing service duplication
How We Started

1) Stabilization of two critical LGBT serving organizations in a time of economic downturn.

2) Development of a collaborative office space that will nurture small and emerging community organizations.

3) Creation of a community meeting space that is accessible to diverse segments of the LGBT community, with a specific emphasis on reaching out to organizations and individuals who are marginalized from the greater LGBT community due to issues of gender, race or economic status.
What Is The Rush Center

The Phillip Rush Center coordinates and engages the greater Atlanta area to offer:

- Office space for both long-term and short-term tenants.
- Executive board room with conference phone.
- Training room with A/V equipment for small meetings.
- Event room with overhead projector and surround sound for large meetings and special events.

Our Mission

The mission of the Phillip Rush Center is to promote community through a multi-tenant, mixed-use facility that models community in its design and practice. By providing affordable rental space, the Rush Center brings LGBTQ+ and allied nonprofit organizations together under one roof, leveraging their unique strengths.
Our Beginnings

- Two cubicles
- One Private office
- Open area with kitchen and living room
- Adjacent undeveloped warehouse for community meeting space

Where we started 2008
Phase I - 2009

- Two additional private offices built out
- Separate kitchen & small group meeting space
- Large community meeting space with a capacity around 50 people
- Home to three staffed organizations

Phase II - 2012

- 8 private offices
- Conference room for staff meetings
- Semi-private group meeting space for around 15 people
- Large Meeting space for around 100 people
- Home to five organizations
Phase II Event Space
Before the build-out for our organizational offices

Phase III - 2014
- 15 private offices
- Dedicated interspace for administrative office building.
- Administrative conference room for organizational use
- Community meeting Annex
  - Earned income
  - Security
Former Event Space Transformation
The build-out plan for our organizational offices

Look at our growth
We are now home to 6 staffed organizations:

- The Health Initiative
- Georgia Equality
- Atlanta Pride
- Southern Jewish Resources Network for Gender and Sexual Diversity (SOJOURN)
- ProGeorgia
- Georgia Engaged
Look at our growth

We are now the headquarters for 9 different partner organizations:

- In The Life Atlanta
- The Atlanta Gay & Lesbian Chamber of Commerce
- Sigma Omega Phi
- Transgender Individuals Living Their Truth
- The Counter Narrative Project
- Muslims For Progressive Values
- JustUs Atlanta
- The Transgender Health Education Alliance
- Transgender Housing Atlanta Project

Administrative Offices
2016 OPPORTUNITY FINANCE NETWORK CONFERENCE

Administrative Offices

New Organizational Offices
Our Current Community Meeting Annex

New Community Meeting Annex
New Event Room
During the renovation process

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New Event Room

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Lobby of Annex Building

The Training Room
The Conference Room

Annex building rentals include the following:
- Tables and chairs
- A/V equipment
- Free wifi
- Two gender-neutral bathrooms
- Access to a small kitchen
- Free parking

We do rent our facilities for private events for double the cost of our non-profit rates. This allows us to use a portion of our revenue to subsidize rentals by non-profit and community groups that may not have a budget to cover reservation costs.
Types of programming that we have had the pleasure of hosting within the Annex:

- Lunch and learn trainings for healthcare providers
- Workshops and strategy sessions
- Job fairs workplace preparedness trainings
- Health and wellness seminars/classes
- HIV and other health screenings
- Social and support groups
- Silent and live auctions
- Ticketed fundraising dinners
- Community townhall meetings
- Dance-A-Thons
- Fashion and art shows
- Poetry and spoken word performances
- Movie screenings and gaming nights

Organizations who have rented space with us:

- Alphabet Soup
- Atlanta Prime Timers
- AID Atlanta – Evolution Project
- AIDS Vaccine Advocacy Coalition
- Agenda Benda Social Justice Project
- Amnesty International
- American Foundation for Suicide Prevention
- Gay Gamers Group
- Over 50 Lesbian Potluck
- SAGE Atlanta (LGBTQ+ senior group)
- Sunday Assembly
- The Gentlemen’s Foundation
- Association of Nurses in AIDS Care
- Atlanta BUCS Rugby
- Atlanta Executive Network
- Atlanta Queer Literary Festival
- Campaign to End AIDS
- Charis Circle
- Faces of Feminism
- For the Kid in All of Us
- Gay Fathers of Atlanta
- Gay Undocumented Youth Alliance
- Georgia Commission on Family Violence
- Georgia League of Women Voters
- Georgia Safe Schools Coalition

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### Organizations who have rented space with us:

- Georgians for a Healthy Future
- Georgians for Alternatives to the Death Penalty
- Human Rights Campaign
- Lambda Legal Defense and Education Fund
- Lift Up Atlanta
- Marcus Jewish Community Center
- National Gay and Lesbian Task Force
- National Queer Asia/Pacific Islander Alliance
- 9-5 Working Women
- Out on Film
- Outworlders
- Positive Impact
- Poz Veterans Support Group
- Project South
- QueerFit
- Queer Justice League
- Sapelo Foundation
- Someone Cares Transgender Education and Support Program
- Southern Bears
- Southerners on New Ground
- State of Black Gay America Summit
- Stonewall Democrat
- Transgender Law Center
- Spark Reproductive Justice
- Transgender American Veterans Association
- Two-Spirit Collective

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### Impact - The Health Initiative

- Atlanta Lesbian Health Initiative (2008)
- ACA Implementation
- New Relationships - SEEDCO & Georgians for a Healthy Future
- New Opportunities & Services - Health Insurance Navigation
- New Capacity, Staff, Funding, Statewide Outreach
- The Health Initiative (Today)
Impact - The Health Initiative

2008 - 1 Full-time, 1 Part-time staff  Budget: $167,000
2016 - 3 Full-time, 3 Part-time staff  Budget: $550,000

Impact - Georgia Equality

2008 - 2 Full-time staff  Budget: $250,000
2016 - 7 Full-time staff  Budget: $1.4 mm

Looking to the future
Before you build you have to have these:

1. Vision and Project Champion
2. Partnership/Invested Network
3. Ownership Model
4. Governance Model
5. Operating Model
6. Capital Funding Strategy

(Lots of) People Make Projects Happen

Who’s Involved
- Your organization
- Funders/Donors
- Partner organizations
- Public sector
- Architects/engineers/builders
- Lawyers

What are their Roles
- Project Champion
- Landlord
- Tenant
- Funder
- Lender
- Program Partner/collaborator
- Community supporters

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Ownership Framework

FORM FOLLOWS FUNCTION:

1. LLC: Multi-member? Managing Member?
2. Master Lease
3. Anchor/Equity Partnership
4. Condominium
5. Guiding Principles defined including: Mission, Risk, Financing, Governance, Charitable Status/State Exemption Benefits (if applicable)

Governance, LLC, newly formed 501(c)3, or both!

New entity will be governed by an operating agreement/by-laws.

Defines Power and Authority:
- Rights and responsibilities
- Voting powers
- Management details
- Defines duties, management, fiduciary and other of Managing Member AND Regular Members
- Percentages of ownership
- Allocation of profits and losses
- Defines requirements such as reports from owners/partners (e.g.)
  - Audit of partnership finances
  - Review of tax returns
Rental Revenue Framework

1. Office leases
   - Tenant Reimbursables/Common Area Maintenance (CAM) Charges
2. Memberships
   - Office and meeting space
   - Mailbox-Mailbox Plus
   - Co-Working
   - Makers space
   - Other
3. Hourly
   - Meeting rooms
   - Classrooms
   - Rehearsal
   - Events

**TEST ASSUMPTIONS, BUILD HEALTHY VACANCIES FOR EACH GROSS RENTAL REVENUE ITEM!**

Occupancy/Operating Costs Framework

- What will it cost to operating the building?
  - Occupancy Expense Includes: Utilities, Maintenance, Insurance & Taxes, Other
  - Can be estimated on a cost-per-square-foot basis
- What will you set aside for reserves?
  - Lenders will require a repair and replacement reserve, with monthly set asides
  - Can be estimated based on a physical needs assessment or on a cost-per-square-foot basis
- Conservative and reasonable?
- Have all assumptions been thoroughly defined and tested?

**What is the net income available to service debt?**
Build a Comprehensive “All In” Budget

- **Facility Expenses** (from Project Proforma)
  - Acquisition Expenses
  - Hard costs
  - Soft Costs Related

- **Related Expenses**
  - Capital Campaign Cost?
  - Furniture & Start-up
  - Interim Facility Expenses?

- **Opportunity Expense**
  - Staff Time
  - Moving Time

- **Contingencies in all line items**

How to pay for it all?

- **Equity:** Your agency’s financial stake in the project
  - Agency cash, Capital Campaign, Capital Donations

- **Debt:** Other people’s money
  - Loans (banks, government & others)
  - Tax Credits, Bonds
  - Program-Related Investments
Financing for Multi-Tenant Centers: What Does a Lender Want to Know?

Lenders want clarification re:

- **Ownership**
  - Who will own the real estate? Will others be tenants?
  - Owners carry financial risk
  - Cash equity vs. sweat equity
- **Expectations for participation in decision-making** prior to and during construction, and on occupancy.
- **Partners’ roles in fundraising**
  - One campaign or multiple campaigns?
  - Partners’ roles and obligations in debt financing
- **Operations and governance**
- **Bankruptcy/Default/Resignation**
- **Living Together**

Define and Execute a Memorandum of Understanding between all MTC parties!

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  - Lenders will require a repair and replacement reserve, with monthly set asides
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- **Conservative and reasonable?**
- **Have all assumptions been thoroughly defined and tested?**

What is the Net Income available to service Debt?
Financing for Multi-Tenant Centers: What Does a Lender Want to Know?

- Are your agencies a good credit risk? (especially the sponsor/lead)
  - Who are you all and how are you managed?
  - Financial health
  - Credit history
- What is the backup source of collateral?
  - Appraisal
  - Loan to Value
  - Organizational Cash Flow and/or available cash and cash equivalents
  - Other property
- Is the Project feasible?
  - Project budget and Sources & Uses
  - Project team
  - Operating costs and reserves
  - Income sources
  - Cash Flow—Can you pay the loan

Who are you and who is your project team?

You (All)
- Agency (Project Lead and Anchor Tenants)
- Staff
- Board
- Credit history and reputation
- Development and ownership profile

Your Project Team
- Real Estate, RE Tax Attorney
- Other Specialized Attorneys
- Financing consultant
- Architect
- Engineers
- Construction lenders
- Equity Investors/Donors
- Project Manager/Owner’s Representative
- Accountant
- Appraiser
- General Contractor (GC)
- Construction Manager
- Property Manager
Financing for Multi-Tenant Centers: What Does a Lender Want to Know?

Key Risks:
- Project Delay
- Fail to reach construction phase
  - Due to lack of funds raised from the capital campaign
  - MTC’s are new ventures for the agency partners (1st Time MTC operator)
- Construction Risk
  - Agency is not a developer!

Example Risk Mitigants:
- Board approved CC feasibility study, plan and schedule
- Reasonable pay-down schedule for the remaining term of the loan
- Board approved CC threshold needed to be raised in order to begin construction
- Require experienced PM Team
- Guarantees from all parties
- MOU defining roles and responsibilities
- Board reconfiguration or expansion
- Infrastructure/Systems Upgrades, including new hires

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