

NONPROFITS LEVERAGE REAL ESTATE ASSETS

Nonprofit organizations are finding new capital and more freedom by analyzing their real estate assets.

Martin Jablonski

Nonprofit organizations face a challenging economic environment. Foundation and corporate funding continues to shrink, and recent state budget cuts will not be restored in the near future. According to the Donor's Forum of Chicago, one-third of all reporting Chicago area nonprofits have slashed their budgets during the past 2 years. The budget crunch is especially hard on nonprofits that are not foundations or other money-based organizations. As a result, nonprofits have become more sophisticated about viewing their operations and are considering their real estate as strategic assets to achieve their missions.

At the same time, nonprofits are realizing that real estate is a dynamic industry. They are faced with inquiries, problems, opportunities and crises that threaten to negatively affect the value of their real estate holdings. Environmental problems, entitlement issues, easement requests, purchase offers, maintenance problems, new zoning ordinances and regulations, and other issues require daily attention, stewardship and often proactive initiatives that nonprofits must address to protect their assets.

This is a difficult transition for most nonprofits because they have typically worked around their real estate assets rather than using them to work their missions. It's a different mindset — one often antithetical to their organizational culture. As a result, some nonprofits have followed in the footsteps of their for-profit counterparts by outsourcing many of their real estate activities.

BETTER TOOLS FOR BETTER DECISION-MAKING

Real estate professionals take a fresh, objective look at a nonprofit's leased and owned portfolio in its totality, then match the nonprofit's mission goals with its operational space requirements. This can be an eye-opening experience because this strategic approach can often lead to several actions: a consolidation of operations; the renegotiation of a lease; the relocation of various operations; the development of surplus land; the leasing of

excess space to third parties; the sale/leaseback of an owned property; or the disposition of surplus or of obsolete properties. Typically, the real estate professional's most effective course of action in these situations involves a combination of tactics, based on the professional's property and market knowledge, marketing ability, technical expertise, communications skills and track record working on behalf of nonprofits.

Nonprofits place special emphasis on a real estate professional's prior experience with other nonprofit clients because of the unique decision-making process. Most nonprofits tend to make decisions on a group basis, both at the staff and board levels. This means that the real estate professional will deal with employees and volunteers with varying levels of understanding regarding technical matters, all of whom have important input into the process.

Achieving a comfortable level of communication with all stakeholders that are associated with a nonprofit requires specialized approaches that provide complete background information, as well as tools that simplify communication and decision-making. Nonprofit boards are required by law to make decisions that are in the best interest of the organization, so the real estate professional must provide comparative analyses of various tactical options to justify any course of action. In addition, the professional must be patient, enjoy complexity and have a genuine respect for and sincere interest in helping the nonprofit achieve its mission. Real estate companies must make it easy for the nonprofit's staff to communicate effectively with its boards and volunteers by providing sufficient information to document the fulfillment of its fiduciary responsibilities.

For example, Chicago-based Newcastle Limited represented the board of directors of The Auditorium Theater Council in a 2-year, \$14 million capital improvement program. The program was designed to prepare the venerable Chicago performing arts venue, built in 1889, for the operating requirements of the future. This highly complex project required effective coordination with the board; the staff; the technical

team and their consultants; federal, state and local grant-funding agencies; and the theater's ongoing performance schedule.

MAKING DISPOSITIONS LESS TRAUMATIC

One of the most traumatic real estate transactions for a nonprofit is the disposition of land and/or buildings that are long-term assets in its portfolios. This is especially true if the property is utilized by the public or has architectural or historic significance. Many properties have been owned for such a long time that the surrounding market has rendered the current use obsolete, often creating a redevelopment market that can be problematic. Most nonprofit organizations want to be good citizens and do the right thing. The dilemma comes when being a good citizen conflicts with the fiduciary responsibility the organization is obligated to fulfill. In this situation, an experienced real estate professional can make a material difference.

When Loyola University of Chicago decided to implement its financial restructuring plan by consolidating its four area campuses into three, the trustees brought in Newcastle to handle the disposition of its 17-acre Wilmette, Illinois, campus. A fast-track sealed-bid offering resulted in 20 credible offers from residential developers and a lower offer from the Wilmette Park District. It would have been easy for Loyola to accept a developer's offer for this highly desirable land, but the university opted to negotiate with the Wilmette Park District. The citizens of Wilmette subsequently approved a park district referendum authorizing the district to issue general obligation bonds to purchase the property at the market rate of \$20 million and to fund its development for municipal or park purposes.

CONSENSUS-BUILDING ESSENTIAL

Consensus-building is an essential process for virtually all disposition transactions involving nonprofits. The

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process includes approaching municipal officials, neighborhood organizations and other stakeholders to determine their expectations for the property and assess opposition, if any, to the disposition. The purpose of consensus-building is to help align the interests of the nonprofit with its constituencies. This is a time-consuming and challenging process, but one that pays dividends in goodwill down the road.

Neighbors, contributors, government officials and even former campers had opinions about Metropolitan Family Services' decision to sell its 116-acre Camp Algonquin in McHenry County, Illinois. Newcastle managed a sealed-bid offering, which resulted in many qualified bids from residential developers. Although the McHenry County Conservation District could not match a reasonable market bid for the land, the social services agency and the district initiated a fund-raising effort to raise the \$650,000 shortfall from private donors. Newcastle shepherded the process, which resulted in a \$9 million sale and required the district to utilize the land as open space in perpetuity.

ESTABLISHING MARKET VALUE

Once the disposition decision is made, nonprofits can find themselves between a rock and a hard place as many stakeholders — including contributors, volunteers and clients — often feel they have a vested interest in the property's future. Neighbors who have enjoyed the use of a nonprofit's land typically do not want to see it developed. Parishioners and congregation members financially support religious nonprofits and associate many lifetime milestones with church properties. These emotional attachments can further complicate the disposition process.

For example, since 1922, the YMCA of Metropolitan Chicago has operated

its 254-acre Hastings Lake property in Lake County as a summer camp for kids. Faced with a \$16 million general operating deficit and \$6 million in deferred maintenance for the camp, the board of directors decided to work with Newcastle to sell the land and negotiate the retention of a 10-acre site for the ongoing use of the YMCA. The organization could have sold the land to any number of qualified residential developers from which it received attractive offers. It even received a low offer from one of the YMCA's own prominent board members who wanted to continue the summer camp. However, while the YMCA needed to sell the property, they also wanted to preserve the land for public use and continue its goodwill in the community. It ultimately conducted a sealed-bid offering and sold the land to the Lake County Forest Preserve District for \$10 million, assuring the future public use of the land.

Nonprofit organizations tend to be good citizens and neighbors. When approached by municipal officials, nonprofits are usually ready to help — whether by providing a location for a fireworks display or an easement for a new sewer line. Unfortunately, when the nonprofit needs help, municipal officials may not be as willing to provide assistance. When public officials have a particular use in mind for a nonprofit's property, they can be formidable opponents with an arsenal of leveraging tools at their disposal, such as downzoning, restricted-use regulations and the long, arduous and contentious condemnation process. If a nonprofit does not have professional real estate representation, it can be intimidated and taken advantage of fairly easily.

For example, Loyola University of Chicago and Newcastle managed the disposition of a surplus 210,000-square-foot, five-story office building in Forest Park, Illinois. Through a

sealed-bid offering, Loyola established the market value of the property. Newcastle then negotiated a \$16.5 million sale to Proviso Township School District 209. The complicated negotiations involved the district's plan to retrofit the building into a magnet school, financed through a \$40 million bond issue. Loyola accomplished the sale without the cost and distraction of defending protracted condemnation litigation that was being considered. The new Proviso Central Math and Science Academy opened for classes this fall.

BENEFITS OF THE SEALED-BID OFFERING

The sealed-bid process not only establishes market value for a property, but also creates a transparent process by opening the bidding to all interested parties. By allowing purchasers to retain their anonymity and to discreetly submit their intentions, the nonprofit enjoys a greater number of offers. An accurate picture of market value in the shortest possible timeframe is achieved through multiple offers. Also, competing bids encourage buyers to submit their best offers.

The sealed-bid process permits nonprofits to quickly determine which offers are — and are not — in their best interest to negotiate. When nonprofit organizations work with uniquely qualified real estate professionals, the results of leveraging real estate assets can benefit all parties.

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