Hunt Q&A: Why not-for-profits should buy real estate

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Q: Our organization is not-for-profit and we are leasing space that we now have outgrown. Does it make sense for us to consider the purchase of new office space?

A: I would answer with a resounding, “Yes!” There are many factors that contribute to whether any organization should buy or lease a property, and as a not-for-profit you are subject to most of them. But there are some advantages that are peculiar to only not-for-profits that tilt the final decision in favor of purchasing real estate.

The underlying factors that drive the buy-lease decision in most buy-lease scenarios are the availability of capital, the alternative use of the same capital, and the anticipated growth of the organization. To properly compare these factors and their results, a cash flow analysis, showing the inflows and outflows of cash during the desired holding period, should be prepared. Each of these cash flows is then discounted back to its present value ($1 today is worth more than $1 spent ten years from now.) In this way, any number of lease and buy scenarios can be compared to one another in a very objective manner.

We have conducted cash flow analyses for our clients over many years, and typically find that the break-even point in a lease-buy scenario is somewhere within five to seven years for the typical “for profit” corporation. For not-for-profit organizations, however, this time period is much shorter, often three to five years, especially on Long Island.

The principal reason is that not-for-profits may start a process, after ownership, to remove their real estate tax obligations for the property that they purchase. On Long Island, and especially in Nassau County, the savings can be very significant. Our firm has represented one major not-for-profit organization for many years. When we were initially introduced, they were paying a hefty rent for organizational headquarters within a class A office building in Lake Success. Our spreadsheets demonstrated that they were effectively paying over $100,000 a year in real estate taxes to the landlord. In a ten-year lease, this expense would rob a million dollars from their programs and services! With our assistance, they now own a 25,000 s/f office building, with a carrying cost not much more than the rent they were paying for half the space.

The second advantage that is available to not-for-profits is special financing, which is often 100% financing that can include renovations and soft costs. There is a whole world of not-for-profit lenders and programs, most often at rates not available to the corporate “for profit” world. This, of course, makes a purchase even more desirable, and once again, is reflected in the cash flow analyses.

So, I urge you to actively consider the purchase of your new headquarters, and use discounted cash flow analyses to compare your choices!

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