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Getting board consensus: Keys to working with non-profits

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In a previous article, we discussed ways in which a clear understanding of a nonprofit's mission can optimize what is done with the nonprofit's real estate. As a real estate practitioner, approval of a real estate transaction is much easier if these goals are met. Communicating the nature of a real estate transaction and its costs and benefits are fundamental issues for board of director approval.

Board Consensus

A non-profit providing social benefits to its community undergoes a decision process different than for-profit corporations. Non-profits have a large constituency that is reflected in their governance. A large and diverse board of directors is common. Each board member provides his or her own viewpoint and value during the decision-making process.

As real estate professionals, our responsibility to our non-profit clients is to communicate all aspects of a real estate transaction in a clear and concise manner. This would include the analytical basis for our recommendations. With real estate a common topic during cocktail conversation, everyone has a story and considers him or herself an "expert." Board members are no exception. By providing exhaustive analysis, full disclosure of every aspect of a transaction and comparable transactions in the marketplace, we educate board members so that they have a deep understanding of the transaction they are contemplating. These are the ingredients that bring consensus to a diverse group.

We do not make decisions for our clients. We provide them with a comprehensive understanding of the costs and benefits of a transaction. We provide the facts relating to the value of undertaking or not undertaking a transaction. Further, we can assure the board that the information received is from professionals such as architects, construction cost estimators and engineers that are independent, experienced and free of conflicts.

Contrast with For-Profits

With for-profit businesses, real estate decisions are looked at in a more analytical fashion and are normally based on capital and operating costs. Their objective is narrower: enhance the bottom line. Businesses tend to lease real estate rather than own it because leasing allows for more flexibility in growing and contracting and it limits a company's liability. Leasing also limits capital investment in a property to, at most, tenant improvements. For all companies leasing is a simpler analysis and process.

When a non-profit purchases a property it can look at the acquisition in a way similar to a corporation. Does tying up capital in real estate serve it well and can it use its capital for other, more important services? There may not be a quantitative answer, but framing the question in these terms pinpoints the issues that the board needs to address.

Because nonprofits have tax advantages in ownership, buying commercial real estate makes sense especially for entities that do not anticipate large increases or decreases in size. The lease-versus-buy analysis that a nonprofit makes would be similar to a corporation's assessment–is it less expensive to lease or buy and how much capital does it drain from other programs?

Properly framing issues, providing the analytical basis for recommendations and demonstrating how objectives are met provide the basis for board approval.

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