



CASE STUDY: EYES WIDE OPEN Becoming a Green Landlord



Third Sector New England's NonProfit Center

How one nonprofit moved beyond the dream of controlling its costs to owning a financially and programmatically-grounded green building.

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For almost 30 years, Nonprofit Finance Fund (NFF) has provided capital and financial services to nonprofits across the country. Through this work, NFF has identified many operational and financial patterns common among social service institutions. One of the most prominent patterns is the strong desire to purchase property to control space and costs. For many organizations, this aspiration can quickly expand to include dreams of being a landlord — creating earned revenue through rental income — and being at the forefront of sustainable building practices. However, few organizations are adequately prepared for the challenges inherent in these choices. In this case study, we explore how Third Sector New England aligned its mission and program, financial model, and capacity to emerge as a leading social change landlord in Boston while simultaneously achieving LEED and ENERGY STAR certification for its NonProfit Center.



From Contemplation...

With roots dating back to the late 1950s, Third Sector New England (TSNE) is one of the region's most well-known nonprofit support agencies. TSNE provides fiscal sponsorship, executive transition support, management consulting, and grants to build the knowledge, power, and effectiveness of nonprofit organizations that engage people in community and public life. Spurred by rising occupancy costs in the late 1990s, TSNE began thinking in earnest about purchasing a building and co-locating with other Boston nonprofits. A consultant hired to complete a feasibility study determined that despite TSNE's significant financial resources, the agency did not have the organizational capacity or infrastructure necessary to enter the real estate business.

The consultant was making a crucial point, one that NFF has long advocated in the sector through the NFF Triangle: for an organization to be successful, its mission and programs must be supported by a scaled financial model and proper capacity (see Figure 1). While from the outset TSNE had a stable financial model, the organization needed to establish and balance all three legs of the NFF Triangle in order to proceed with its real estate project.

Although the consultant's findings caused TSNE to delay its real estate plans, the agency did not abandon them entirely. In 2001, TSNE hired a Program Developer to design and implement new initiatives and projects. Though not specifically hired to manage TSNE's real estate project, this individual bolstered TSNE's organizational capacity to do so.

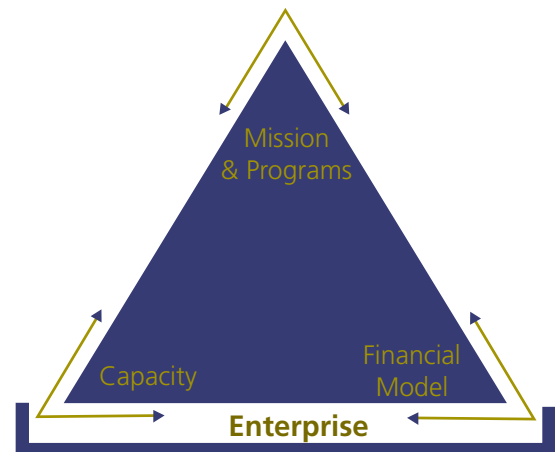


Figure 1. The NFF Triangle demonstrates that an enterprise's mission and programs must be supported by a balanced financial model and proper capacity.

...To Conversion

Later that year, TSNE Executive Director Jonathan Spack and the Program Developer attended a national conference of multi-tenant nonprofit centers. While networking with other nonprofits that had successfully entered the landlord business, Spack had a "conversion experience" that helped him envision how TSNE could stabilize the final leg of its NFF Triangle. Spack realized that it "wasn't good enough to purchase a building just to control space and costs. We needed to drill down to the mission and get explicit about why we were doing this." TSNE needed to ensure that its real estate aspirations made sense in the context of the organization's mission. Otherwise, it would run the risk that finances and capacity would be dictating an off-mission venture. As these thoughts progressed, a detailed vision was founded; TSNE wanted to be a landlord so that it could:

1. Provide high-quality space for social change nonprofits at stable, affordable rental rates,
2. Foster collaboration among tenants and others in the community, and
3. Raise local visibility and increase credibility of nonprofits advocating progressive social change.

Once TSNE committed to these intentions, it was obvious that purchasing and operating a NonProfit Center to house nonprofits fit with TSNE's mission. Moreover, the three-part vision became the lens through which all future project decisions — from site search to tenant selection — would be made.



Looking Inward: Constituents and Assets

Once TSNE's enterprise was balanced in terms of the NFF Triangle, the organization had to make several decisions in order for the NonProfit Center to become a reality. Because TSNE viewed its current constituents as potential tenants, it first surveyed those organizations to determine their requirements for leased space. Respondents said they wanted office space that was affordable, within walking distance of public transportation, and close to downtown Boston or the State House. Because TSNE had committed to providing tenants with high-quality space in which they could advance their missions, Spack recalls that "it was a given" that the NonProfit Center would feature sustainable, green design and practices. With these criteria in mind, TSNE launched its property search and, in March 2004, purchased an historic, 110,000 square foot property built in 1899 and located at 89 South Street, in Boston's financial district.

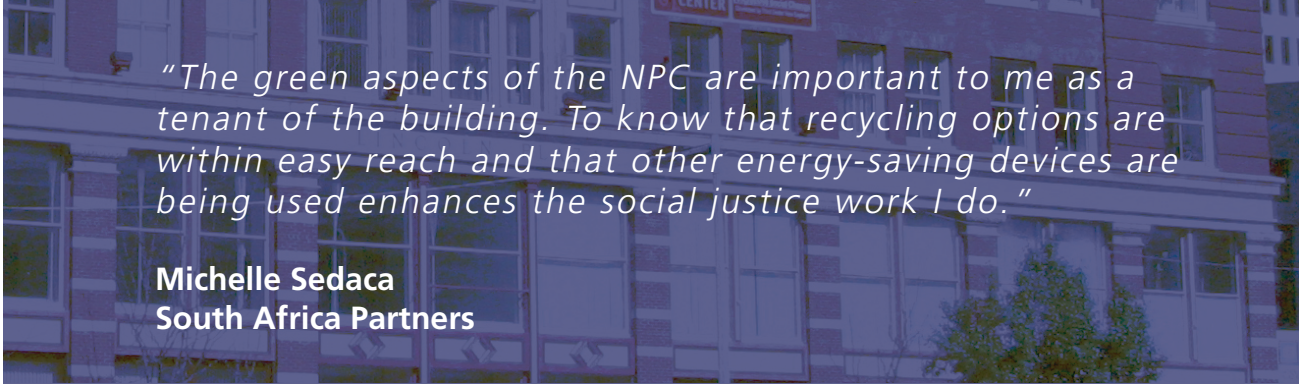
Simultaneously, TSNE had to decide how it would finance the NonProfit Center. The organization has long received royalty income from intellectual property rights it controls from its earlier incarnation as the Massachusetts Health Research Institute. This earned income stream has allowed TSNE to accumulate a significant cash reserve as well as subsidize programs that are financially variable yet core to the organization's mission. Originally, TSNE planned to use the cash reserve to make a down payment on the NonProfit Center. However, as the scale of the project grew — TSNE came to appreciate that a larger building would provide significant economies of scale in terms of maintenance, security, and administration — they realized that it would be short-sighted to deplete the balance sheet for this purchase. Instead, TSNE shifted its focus to its income statement, choosing to sell a portion of the future royalty revenue from one patent to generate the down payment.

While NFF acknowledges that TSNE's intellectual property rights represent the kind of earned income revenue that most nonprofits can only dream about, in truth the organization's strategy provided them with an outcome similar to that which would have resulted from a one-time capital campaign; the organization took a holistic view of its financial strengths and leveraged them to meet a goal. Beyond the down payment, TSNE first financed the project with a short-term bridge loan and then with an \$18.5 million tax-exempt bond. The final cost of the project was approximately \$24 million, slightly under budget.

Living the Mission

Following renovations and fit-out, the first NonProfit Center tenants moved into the building in October 2005. Despite high demand for office space, the Center was only 45% occupied when it opened. TSNE originally attributed the low occupancy rate to a soft commercial real estate market, but NonProfit Center Program Coordinator Jackie Cefola also acknowledges, "our commitment to our vision for the Center meant that we were purposely picky when it came to selecting tenants." With the support of the Board of Trustees, TSNE used other revenue sources to subsidize uncovered costs due to the building's low occupancy, in essence treating the NonProfit Center as one of its programs. By the spring of 2008, the NonProfit Center reached a 90% occupancy rate, covering all operating expenses, including debt service and depreciation.

As the NonProfit Center grew, TSNE worked to ensure that it was providing high-quality space to tenants. Referring again to the three-part vision for the Center, TSNE implemented a recycling program and educational and networking events for tenants. Later, a café using local and organic ingredients and showers for bicycle commuters were added to the building. In this way, TSNE was promoting green practices and lifestyles to complement its green building. Today, the NonProfit



"The green aspects of the NPC are important to me as a tenant of the building. To know that recycling options are within easy reach and that other energy-saving devices are being used enhances the social justice work I do."

Michelle Sedaca
South Africa Partners

Center houses 28 nonprofit organizations that advance social change. Tenants' pride in their new home has been enhanced by Leadership in Energy and Environmental Design (LEED) certification from the U.S. Green Building Council as well as an ENERGY STAR rating from the U.S. Department of Energy and the Environmental Protection Agency.

Bringing the Angles Together: Lessons Learned

What set TSNE apart from other nonprofits looking to control space and costs? How did TSNE resist making poor choices in the face of a real estate dream? It all comes back to the fact that TSNE devoted attention and resources to its Mission and Program, Capacity, and Financial Model during its planning process. Here we revisit the three angles of the NFF Triangle and how TSNE achieved balance:

1. **Mission and Program.** Articulate what you do and why you are doing it. TSNE succeeded because its real estate aspirations were integrated with its core mission. Moreover, drilling down to the real reason for embarking on the project provided a clear and consistent framework through which TSNE made all project decisions. According to Spack, "the NonProfit Center is a natural expression of the TSNE mission. It has never been seen as a distraction from our work because it is our work."
2. **Capacity.** Use your core competencies and "know what you don't know." Early in the process, TSNE benefited from the timely hire of a Program Developer who was able to guide the real estate project. Later, when the NonProfit Center was a reality, TSNE chose to hire an outside real estate broker as well as a property manager. TSNE did not have the required expertise to manage the day-to-day operations of the NonProfit Center, nor did it want to devote resources to building them. However, a happy balance was achieved as TSNE was able to contract with individuals and companies who had previous experience working with nonprofit organizations.
3. **Financial Model.** Hope for the best, but plan for the worst. Although TSNE had a strong earned revenue stream and a cash reserve that could be used for the NonProfit Center, the organization focused on its long-term financial stability, choosing to forego future revenue rather than depleting its balance sheet to enter the real estate market. TSNE also had a financial contingency plan backed by the Board that it could look to when building occupancy was lower than expected.

To learn more about the NFF Triangle, our experience, and our wide range of lending, advisory, and capital services, visit us at nonprofitfinancefund.org. NFF New England is a proud tenant of the NonProfit Center.