NONPROFIT World

Advancement Through Sharing

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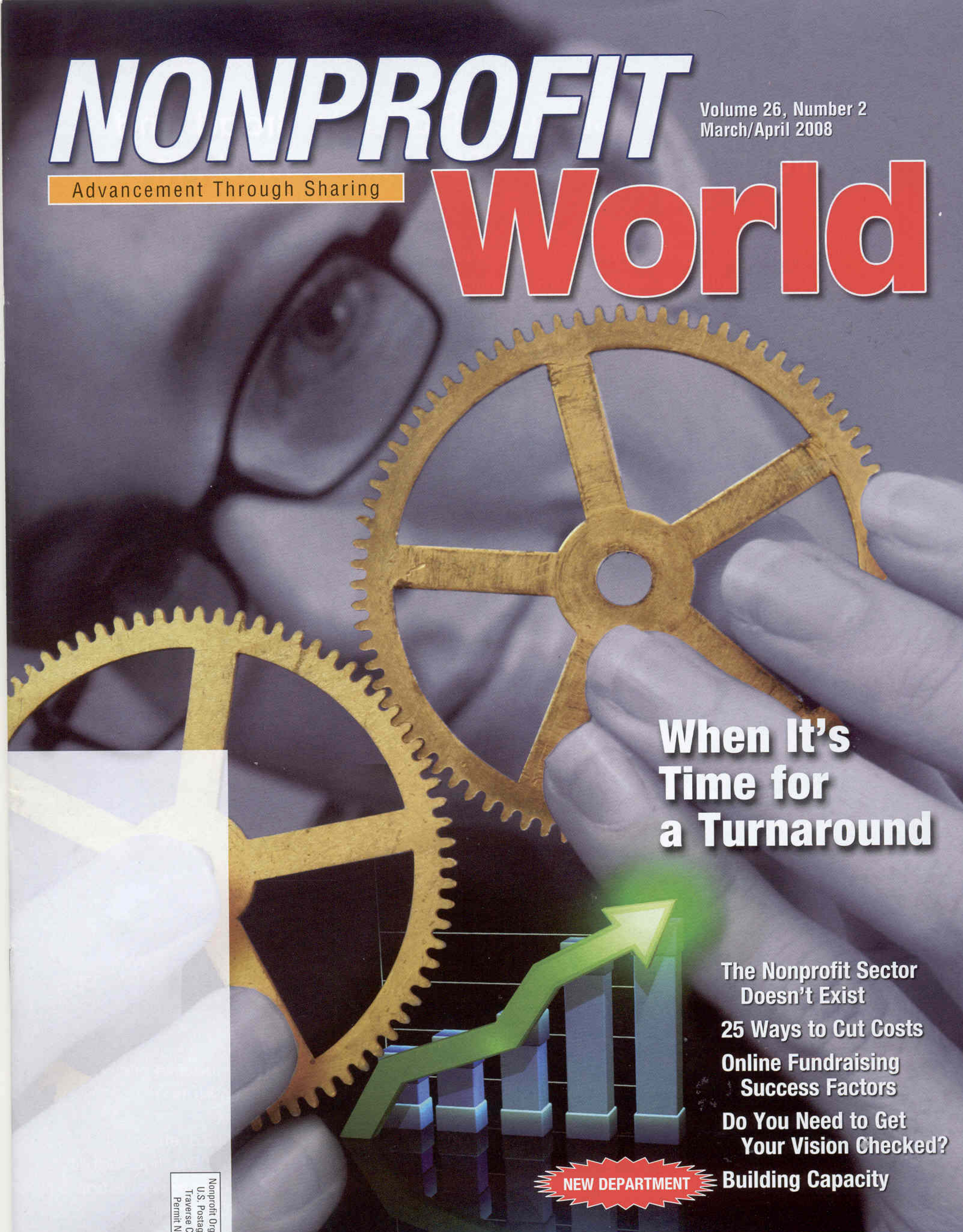

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Making Real Estate Work for Nonprofits

Take these steps to reap the rewards of real-estate development.

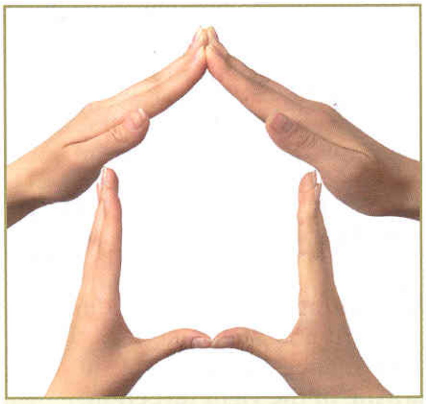
By Richard Gentilucci

Individuals and corporations have built empires by owning and managing real estate. While opportunities exist for nonprofits to capitalize on real-estate ownership, few take full advantage. Rather than owning land and buildings for long-term benefit, most nonprofits seek short-term gains. As a result, they don't enjoy the full value of real estate, which can be in the form of appreciation or future income streams.

One of the biggest misconceptions is that developing land isn't compatible with operating a nonprofit organization. It's plausible that a nonprofit that tries to develop property on its own could lose its tax-exempt status, especially if the activity is totally unrelated to the organization's mission and generates unrelated business income (UBI). And it's true that real-estate development isn't without risk. However, there are ways to minimize these hazards and capitalize on the benefits that come with owning and developing real estate. Here are the steps to take.

Invest in Experienced Counsel

Although it may be difficult to justify investing in real-estate advice, time and money spent at the outset will be worth the expense in the long term. Many nonprofits rely on pro-bono real-estate advice, sometimes from members of their boards of directors or friends who have some real-estate experience. Such advisors may have great intentions, but they rarely have the time or experience needed. Be sure to seek out someone who has the right expertise as well as enough time to evaluate your objectives and see the job to completion.



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Form a Separate Entity

One way to avoid tax consequences while developing land assets is to create a community development corporation (CDC), a separate, legal entity that will be responsible for developing the land. You can structure the CDC in a variety of ways, from a corporation to a partnership. One of the most popular structures is the Limited Liability Corporation (LLC), which is easy and inexpensive to create, has few ownership restrictions, and limits your exposure to liability.

In addition to avoiding tax issues, developing land under a CDC provides a variety of other benefits. For one thing, you'll retain control of the enterprise as manager of the LLC. Also, you can attract capital from sources that might not contribute to a pure nonprofit.

Take, for example, the West Angeles Community Development Corporation, which was founded in 1994 as an outreach program of the West Angeles Church of God in Christ, a 24,000-member church that has been a leading congregation in South Los Angeles for more than 60 years. The Church, through its CDC, develops affordable, low- and mixed-income housing, and commercial projects that create employment opportunities in South Los Angeles. Since its inception, the CDC has developed 400 units of low- and moderate-income housing and 5,000 square feet of commercial space, with an additional 200 for-sale housing units and 55,000 square feet of commercial retail space in the pipeline to be developed over the next 36 months.

The CDC helped the church overcome the barrier of not being able to receive funds from government agencies and other sources that don't traditionally give to religious groups. The West Angeles CDC uses returns on real-estate investment to invest in top-quality staff and programming, which now includes economic development, dispute resolution, and community assistance.

Find a Partner

Another option is to joint-venture your CDC with a developer. While you may give up some control, the trade-off is that your partner can contribute predevelopment capital and municipal contacts to expedite permits. Once built, the property can be sold or rented, and the profits, along with the risk and exposure, can go to the CDC, which can then funnel the money back to your organization or reinvest the money.

There are numerous examples throughout the country. In Massachusetts, the Neighborhood Development Corp. of Jamaica Plain is joint-venturing with Urban Edge Housing Corp. and private developers to develop more than 450 units of mixed-income housing, retail, community-center space, and offices on 12 acres of land in Roxbury. Back in Los Angeles, the Phoenix

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Realty Group, a national real-estate investment firm, is providing the equity investment in a joint venture with the West Angeles CDC to develop West Angeles City View Condominiums, a 61-unit, for-sale housing community to be built for South Los Angeles' working families. In addition to investment capital, Phoenix Realty Group will provide a full complement of expertise and market knowledge.

There are many types of developers, and you should select a joint-venture partner with the experience, knowledge, and track record in the product you wish to develop, such as affordable housing, mixed use, or retail.

Real-Estate Round-Up

For more on handling real estate, see these *Nonprofit World* articles, available at www.snpo.org:

- **Do You Have a Policy for Real-Estate Gifts?** (Vol. 25, No.3)
- **Nonprofit Doesn't Have to Mean Noncomfortable** (Vol. 18, No. 2)
- **Looking a Gift Horse in the Mouth: Receiving Real-Estate Gifts** (Vol. 16, No. 1)

Reduce Risk with a Good Team

Real-estate development, whether alone or in joint venture, does involve risk: The value can decline; there can be cost overruns; and a project can take more time than planned to construct. But forming the right team will provide the collective expertise necessary to meet such challenges so that you can focus on your organization's mission while maximizing your real estate's value.■

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