The Key to Successful Utilization of Real Estate Assets and Facilities for Land-Owning Non-Profit Organizations

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From our experience working with and serving non-profit organizations, many of which having substantial interests in land and real estate, it is observed from time to time that many might have wanted to make better use of their real estate assets yet do not know how or where and when to start. For starters, a comprehensive study and analysis are necessary in most cases (assuming more than one or two properties) yet the following is intended to provide some guidance and thought stimulation :

(A) See if the real estate assets (including offices, churches, schools, welfare centres, hospitals and the like) are "in tune" with the overall operational needs, i.e. is that any aspect of operation which is adversely affected by the lack of or substandard real estate? Can some of these deficiencies be met via re-allocating / re-designing some of these real estate assets (i.e. buildings and land)? Compared with similar operations, is the spacial standard below (may imply an obstacle to achieving modern operational practices) or above (may imply inefficient use of space/floor area)? In many instances, re-allocation and/or re-design and renovation would solve the deficiencies.

(B) For organizations wishing to realize the economic benefits of some of their real estate assets, see if the site(s) intended for redevelopment is what the market prefers. For instance, a site in a residential neighbourhood would fare better than one in an industrial area. Are there sufficient funds and financing (for construction, related soft costs, and in many cases, the land premiums due to enhanced economic use)? If not, having a joint venture with a real estate developer/investor may solve the capital problem with the non-profit organization contributing the land and the developer/investor contributing everything else - a combination of land resource and capital/expertise resources. [The business and technical points to note in a joint venture would be discussed in subsequent newsletters].

(C) For organizations already having a portfolio of development projects / investment properties, the task is to review from time to time the economic performance of the portfolio based on expected levels of return and risk, and required liquidity (for meeting e.g. operational expenses). As the market and economy change, so do the return and risk criteria, and thus ultimately the portfolio itself via acquistions, dispositions, refinancing and so on. Such real estate investments should also be compared with other forms of non-real estate investments such as stocks, funds, bonds and the like as there are advantages and disadvantages in all types of investment vehicles. Nonetheless, while being illiquid, real estate assets seldom become entirely worthless (individual stocks may crumble or even go bankrupt) and usually can still be mortgaged though at lower loan/value ratios and perhaps for higher interest rates.