Building it Right:

Non-profit Development Delivery Options

As a non-profit organization (NPO) embarking on a real estate development project, you will face several options of how to deliver on the project. This effects who will own and manage the project components and who will take on the risk and reward. Each option comes with pros and cons that you need to weigh and compare to your goals and objectives. It's important to consider these options early on in the planning process as it effects who you involve and how they engage.

Rewards can include financial and other benefits that stem from the property. Risks are multi-faceted and can include:[1]

a) **Land value risk:** land acquisition costs and the risk that the value of acquired land changes due to market circumstances.

b) **Land exploitation risk:** the risks mainly related to environmental issues.

c) Planning permit risk: the risk that no usable planning permit is received or that this process takes longer than expected. This risk also applies to other municipal approvals/permits, such as commercial licenses. Whether or not grants are obtained is also included in this risk.

d) **Construction risk:** this regards pricing, design, quality and possible delays.

e) **Revenue risk:** there are many factors that influence revenues. These include yields, rent levels, sales price levels, inflation and interest rate levels, demand and supply

f) **Duration risk:** the duration is a consequence of other risks. It can impact interest costs, but can also cause other problems, such as claims from tenants if the agreed opening date of a shopping centre is not met. A delay could also mean that the project has to face adverse market circumstances.

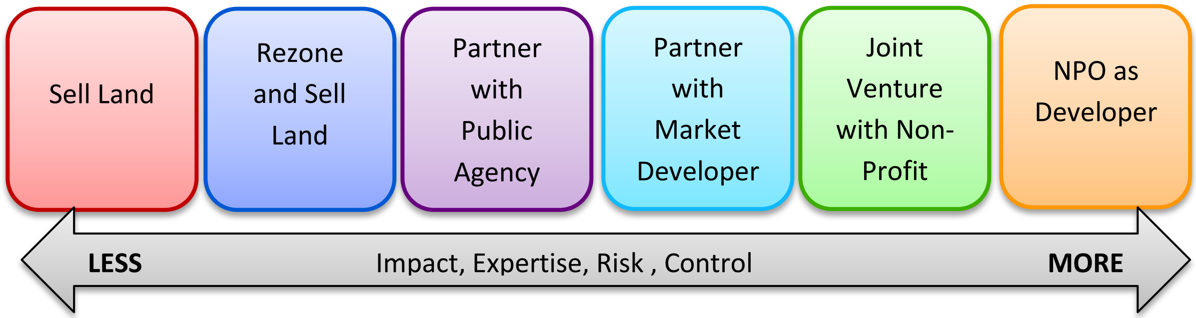
g) **Political risk:** the risk that the project encounters problems due to a change in government, regulations, etc.

h) **Partner risk:** the risk that a partner in the project cannot meet its obligations or disagrees on the way forward.

i) **Legal risk:** this covers a broad area of topics: possible objections against changes in zoning, liability risks or contracts which have not been drawn up correctly. It also concerns the risk of not obtaining the required permits and the risks involved with buying existing companies to acquire land positions. Tax risk is also included in the legal risk.

[1] Based on Boris Agranovich, "How Realestate Developers Manage Their Risk," Global Risk Consult, webpage accessed December 1, 2014 <www.globalriskconsult.com/article-6-real-estate.php>

Development options can be grouped along a continuum that shows increasing impact, expertise, risk and control from the non-profit organization's perspective.



We discuss each of these in turn. If you are unfamiliar with the terms used, please consult the *Development Terminology* info sheet that is part of the *Building it Right Toolkit.*

NPO as Developer

Your organization takes on all aspects of ownership and development. You own/buy the land, hire on a development manager, take on debt, hold contracts with real estate professionals and construction company, cover overruns, fully manage the completed building, and take care of maintenance and repairs.

Pros

- Full control of development from vision through to operations
- Retain ownership of the asset
- Receive all the cash flow from the building

Cons

- Take on all the risk
- Requires equity to finance the project
- Need to hire expertise to develop building
- Significant time and capacity requirement

Joint Venture with Non-Profit

Your organization can enter into a joint venture with a non-profit or social purpose developer that may be more aligned with your values. These developers work together with you to create additional social (and/or environmental) impacts; it's collaborative so we call it a joint venture. Both parties bring equity, sharing a proportional piece of the asset. So you share the risk and reward – you have a proportional stake in any profits as much as losses.

Pros

- Vision alignment is more likely
- Shared income generation from asset
- Developer can potentially bring in impact investors to support the project
- Developer brings expertise to the project

Cons

- Limited role for NPO, not expected to bring real estate development expertise
- Challenging to find this kind of development partner
- Shared risk

Partner with Public Agency

Your organization may choose to partner with a public agency (like BC Housing, municipalities, Health Authorities) to develop your space. Your role is restricted to program management /delivery and the public agency brings the land, manages the development, and usually retains ownership over the space or instates a convenent to control the use.

Pros
- Risk is transferred off NPO
- Public agency funds the project
- Public agency brings development expertise

Cons
- Public agencies are facing tightening budgets and are unlikely to have subsidies to provide
- Loss of control over development, operations, etc.

Partner with Market Developer

Your organization can enter into a partnership with a market developer like Bosa Properties or Wall Financial. You will have to bring equity (cash or land) and will receive a space built specifically for your needs in return. The developer will design and construct the building that would include your space along with other space (likely market condo units) that the developer will build and sell for a profit.

Pros
- Risk is transferred away from NPO
- Developer can bring equity to the project
- Developer brings development expertise

Cons
- Most Developers will not share your values, and as a result the functions of the building may not be aligned
- NPO has minimal role in the development process
- Loss of ownership, fully or partially

Rezone and Sell Land

If your organization owns land, you can go through a rezoning process (where possible) before selling in order to maximize the value of the land. This requires hiring professionals to work through the munipality's rezoning process and manage the neighbours' participation. Funds from the sale can be invested, put toward your operating costs, or to buy another asset.

Pros
- Maximize cash received

Cons
- Capacity required to rezone
- Potential for neighbourhood opposition
- Loss of land asset

Vancity Community Foundation

Sell Land

If your organization owns land, you have the option of selling it to another community group or the highest bidder. The sale will provide a cash lump sum that you can invest, use toward your operating costs, or buy another asset.

Pros

- Simple transaction, limited risk
- Limited time and expertise required
- Cash

Cons

- Loss of land asset
- Cash will only sustain the NPO for so long unless reinvested
- The purchaser will benefit from the increase in land value from rezoning and/or developing