



# NYC Nonprofits Face Real Estate Challenges and Tough Questions

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[f](#) [1] [t](#) [2] [in](#) [3] [v](#) [4] [p](#) [5] [v](#) [6] [s](#) [7] [r](#) [8]



## Martin Lenarz-Geisen

*NFF's [Community Resilience Fund](#) [9] (CRF) provided deep consulting services and change capital grants to help 17 New York City-based human services nonprofits strengthen their business models and financial resilience. This latest post in our [CRF blog series](#) [10] highlights the challenges and opportunities nonprofits face when navigating the city's real-estate market. Coming soon: the comprehensive findings of the CRF initiative.*

If you find yourself at a conversational impasse with a New Yorker, bring up the City's real estate market. To varying degrees, we are all witness to the effect the City's economic growth has on affordable housing. Opinions on the topic are as diverse as the City itself, but ongoing pressure on the housing market, and fact that New Yorkers are spending more than ever to cover their housing costs, is not in question.

We see the same pressures on New York City nonprofits; affordable facilities are one of the [systemic issues that threaten the stability of our local nonprofit sector](#) [11]. In the New York City market, rents for buildings that are

accessible, affordable, and professional have grown by nearly 30% from 2011-2015. And as of 2015, the overall vacancy rate stands below 5%, making it challenging to find affordable space at all. (Denham Wolf Real Estate Services, 2016).

At NFF, many of our clients are grappling with the mission and financial implications of real estate decisions. Through the [Community Resilience Fund \(CRF\) initiative](#) [12], we partnered with several New York City human service organizations that faced a variety of issues, including finding and keeping affordable and appropriate real estate. We asked several of our CRF cohort members for their reflections on tough real estate questions.

**Reliability: Will this space be available – and affordable – for the time we need it?**

[African Services Committee \(ASC\)](#) [13] – a multiservice agency assisting immigrants, refugees, and asylees – saw the gentrification of Harlem result in rent increases that affected both its clients and the organization itself.

“To serve our mission, we need a space that can house all of our programs and be located near a transportation hub, for our clients to be able to reach us. With our lease in West Harlem expiring within two years, and sharply rising rents, ASC has been searching for new space. We are focusing our search on the Bronx, with plans to open a new, exciting community space funded through a \$5.1 million capital campaign kicking off this September,” said Kim Nichols, Co-Executive Director at ASC. “Five years ago, we saw our target population beginning to move to the Bronx – before then about 25% of our clients were in that area, now it is well over 50%. This is an opportunity for ASC to meet our target population where they are, and where there are the some of the worst health outcomes in the US – we will be in the nexus of need.”

While ASC is able to relocate its services to better serve its community from a more affordable location, other organizations must face the burden of drastic rent increases in order to stay within the communities they serve. Sometimes, City contracts require an organization to provide services in a specific location. In these instances, leadership can consider ways to include inevitable rent increases in budgeting practices in order to clearly articulate this challenge when communicating with funders and advocating for resources to support this financial reality (particularly in locations that are gentrifying).

In the face of increasing rent, one seemingly attractive option for NYC nonprofits is to bid on the use of city-owned, rent-free spaces. While the prospect of occupying a rent-free facility is an exciting one for many nonprofits, there are many implications and strategic questions that leaders must address before embarking on this journey. For example, what are the risks of rent-free occupation to the organization's business model and capital structure?

### [The Center for Alternative Sentencing and Employment Services](#)

(CASES) [14], seeks to increase public safety through services that reduce crime and incarceration, improve behavioral health, promote recovery and rehabilitation, and create opportunities for success in the community. CASES had operated out of a city-owned space in Lower Manhattan for 40 years until the City sold the building, prompting CASES to relocate.

"Relocating CASES from Lower Manhattan presented significant challenges for our work, clients, staff, and of course our financial model, but the move also presented opportunities. While our previous site was located by the courts, where thousands of clients had access to CASES' programs, our new Central Harlem and Downtown Brooklyn locations are more embedded in the communities CASES serves. Whereas our staff were previously co-located, our staff are now increasingly mobile, and we have created systems and processes to support collaboration in this approach to human services work in NYC. It has ultimately been a three- or four-year transition," said Joel Copperman, President and CEO of CASES.

While the organization benefitted from this long tenure in a rent-free space, and the City was gracious and patient as CASES transitioned to a new space, it nonetheless meant that CASES had not included the cost of rent in its business model or strategic plans for the future. Leadership had to navigate a quick shift from operating at a single location to operating at multiple locations citywide – a transition that, along with planning for rent expenses, required developing and adopting a new business model.

### **Flexibility: Can we make the necessary updates to better serve our clients?**

[Grand St. Settlement](#) [15] (GSS) provides culturally-relevant services to low-income families and seniors that support community building, advocacy, self-determination, and an enriched quality of life. GSS is headquartered in a NYC Housing Authority building that is over 40 years old. The building has had minimal repairs and alterations since 1971 and stands in need of a full

renovation. Prior to negotiating a long-term lease, GSS occupied the building without knowing how long the space would be available.

While GSS wanted to make facility improvements, there were city-imposed limitations on doing so, and the uncertainty of how long the space would be available created a disincentive for investment.

“After over a decade of attempts, management negotiated and executed a 20+20-year lease of our Lower East Side hub. Because of this we have finalized a three-phase capital plan and budget to address the deferred maintenance of the building,” said Robert Cordero, Executive Director of GSS. “Our vision is to update the old building to make it a bright, welcoming place for our neighbors to bring their children and their parents. Larger, tech-friendly multi-purpose spaces will accommodate more people and more sophisticated programs. A big gym with wooden floors and skylights will keep teens safe and active on hot summer days and cold winter nights. Updated classrooms designed for small children and those with special needs will give our youngest neighbors a better head start in life. Wired offices and upgraded workspaces will help retain our best and brightest staffers.”

**Viability: Can we afford the full cost of this space, including long-term updates and repairs?**

For some nonprofits, like the [Women’s Housing and Economic Development Corporation \(WHEDco\)](#) [16], the burden of real estate costs can become a matter of mission over financial viability. WHEDco’s flagship affordable housing development, Urban Horizons, is an adaptive re-use of the former Morrisania public hospital in the South Bronx – a building heralded for its architectural beauty that WHEDco fought to preserve when rehabilitating the structure for multi-use affordable housing in the 1990s. While the building is not city-owned or rent-free, the organization’s experience struggling to attract capital to cover facility operating costs is not unique for facility-owning nonprofits – especially those organizations rehabilitating structures for adapted uses. WHEDco is seeking a refinancing deal that will allow the organization to make major capital upgrades to the building that will last for another 30 years and maintain the building as a high-quality, healthy, and beautiful place for low-income residents to call home.

“Urban Horizons is a stunning building that symbolizes not only WHEDco’s mission to demonstrate that affordable housing in low-income communities can and should be beautiful places to live, but also the importance of place and memory in the revitalization of a community. The old hospital building is

an icon – people remember coming here when it was a hospital; members of our staff were born here,” remarked Nancy Biberman, Founder and President of WHEDco. “The unfortunate downside of this equation is that current affordable housing financing sources do not allow for this type of building: architecturally complex, well maintained but in need of capital repairs that naturally arise over a 20-year period, and unique in its needs for financing. WHEDco is committed to maintaining this building, but is struggling to reach a financing deal that will meet its – and the organization’s – needs over the long term.”

## Recommendations

- **Reliability:** When evaluating facility options, consider the timeframe by which you can reasonably expect to operate out of a given space, and plan for scenarios where increased rent and/or relocation costs are part of the expense dynamics in your business model. Lead with the criteria that a facility is ultimately a means to meet client needs.
- **Flexibility:** Consider any restrictions that limit your ability to modify a space to meet mission needs, and have a clear understanding of the financial implications that repurposing a space will have on your organization.
- **Viability:** Understand the [full costs](#) [17] connected to the facility you occupy, and evaluate revenue streams that might cover current and long-term facility operating costs.

Despite challenges with affordable real estate in New York City, these CRF clients are adapting to find or preserve the best possible home for their organization’s missions. This adaptability and resilience has helped ensure that the people they serve have continued access to much needed human services in New York City.

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