MAKING REMARKABLE BONUS CHAPTER: REAL ESTATE AND FACILITIES

What is it?	Your real estate and facilities are the space(s) that your organization owns, leases or shares to undertake its work.
Why is it important?	Having the right amount, at the right price, is critical to effectively managing the resources of the organization while delivering on the value proposition and creating a conducive space for the team. Many organizations spend too much on space.
Where do you start?	• Assess your organization's true space needs. • Assess options for that space need.
Remarkable is:	• Use of real estate and facilities that supports your purpose and core business • Having sufficient reserves to cover repairs and renewal, if you own • Efficient and lean, keeping costs low, or driving revenue where possible

"Buy land. They're not making it anymore." Mark Twain

True, but if the current rocket race succeeds, there may be land to inhabit elsewhere in the solar system. But until then, we only have one planet on which to inhabit. And while they may not be making any more land, it doesn't mean that an organization should run out and get some. Let me share why I believe that is the case.

One of the first meetings that I had when I arrived as the new CEO of the Calgary Chamber was with a member who had volunteered to lead an initiative to renovate our 100-year old, 4-storey, somewhat run-down building in downtown Calgary into a crown jewel of a property. I listened to his ideas and began to sink into my chair at the thought of the time and effort needed to not only to convince people it was necessary, and to raise the millions of dollars that would be needed let alone complete the change.

The reality was that the old building needed about $5-6 million worth of repair and renovation at a minimum. It was too large for our specific needs and the unused space was not generating revenue. Owning and operating a building was not at all core to our business and our renewed value proposition. Trying to turn the building from a liability into an asset was going to take a ton of effort, time and money, none of which we had. The project was unlikely to generate a solid ROI. I had to ask the question: would any effort sunk into the rejuvenation of our building make our members more successful? The answer to that was, obviously, no.

I had another idea.

After much consultation, engagement and board review, the Calgary Chamber sold its home of 32 years in 2012, and invested the proceeds for future growth, innovation and organizational renewal. In my view, the stability and capability that comes from focusing on your core business and with having an investment fund far outstrips any benefit from owning a building. Depending on how you may use or need space, the kinds of revenue you can generate and how it aligns to your core business, you may disagree with me. But the reality is that every organization should look at what their real estate needs REALLY are.

ASSESSING OPTIONS

I will state up front that I am “bricks and mortar ownership” averse unless it is critical to the core business of an organization, and/or it creates such significant cost savings or operational benefit that it bequeaths a competitive advantage.

I have been this way ever since my consulting days, having done dozens of feasibility studies for retail, hospitality and tourism facilities across Canada. These studies universally concluded that while there may be opportunity, few would actually pay for themselves over the long-run, for every building needs to be maintained and fixed. Few people build operational dollars, repairs, and improvements into their financial analysis. Often it is the stuff that is needed after the ribbon is cut, or the doors are (re)opened, that is omitted in the analysis—to the detriment and potential ruin of many non-profit organizations.

Many organizations, including chambers and associations, feel strongly that they need a building or facility. My standard response is "Why on earth would you want to do that?" Often, they haven't gone through the analysis to determine whether it is the right fit.

An assessment of building or buying a building should include some direct questions:

1. Is real estate core to your business? Is it needed to deliver your value proposition?

2. Are there no suitable alternatives to owning or building?

3. Will owning real estate truly add value to your organization and make the value proposition better? How is that?

4. Will the annual costs of operations, capital maintenance and reserve fund contributions be more or less than your current real estate costs, or other leasing options? Have you done 10- or 20-year pro formas using conservative assumptions? Does it work out net positive?

5. How will your customers react when time and attention, and even money that should be going to them, is being diverted to owning, running and operating a facility?

6. Will you be the only tenant? Do you generate enough revenue to cover all the costs of the building?

7. If there is additional space excess to your needs, will it be revenue generating? If not, how will you pay to operate that space?

8. Is a street front or certain physical presence really that important to you and your customer? Have they told you this?

9. How feasible or difficult will it be to raise the money needed?

10. Will you require a mortgage or loan? Is paying down debt the best use of your customers'/members' money?

11. Where should you be located to best meet the needs of your customer or members?

12. Does this reinforce or increase the need for customers/members to come to you versus you going to the customer/member?

13. Could this money be deployed in ways that could better enhance your value proposition, such as technology to add greater value to members?

Answering these questions will give you a sense of whether you have a need or benefit to owning versus leasing or operating in a certain location. It can also give you insight into the issues or questions, such as repairs and maintenance funds that may arise later that should be planned for in advance.

FACILITY DECISIONS

A CEO will want to examine their real estate and facility needs carefully. All real estate options, including the current location, should be evaluated for suitability against the Remarkability Agenda, purpose, brand, core business, staffing complement and value proposition. Look at market rates of current spaces versus other options and conducting a lease-versus-own analysis is a good idea.

The most important points to consider in a real estate analysis are:

- You will always think you need more space than you do.
- Being a landlord is expensive and not much fun.
- You may convince yourself that you need a certain space in which to deliver events or programs, but you really don't need it and can use other space in the community.
- Members don't really care as much about the space as you think they do.

- The costs of owning space are always higher than you estimate them to be.

- Excess space is an expense if it isn't generating revenue 100% of the time.

While you don't want too much, you still should have enough space to ensure a good, high quality and productive work environment for staff which can contribute to staff collaboration and retention. I encourage CEOs to weigh the need/desire for physical space against the value that people in this digital world place on receiving value without having to show up. Putting money into physical quarters as opposed to your digital home looks increasingly antiquated. Be cautious and thoughtful about the real estate you lock your organization into, and the opportunity costs of those commitments.

RESOURCE KIT

ASK THIS – BONUS DIAGNOSTIC

1. Real Estate and Facilities
    a. Is your real estate optimized? Do you have only what you need?
    b. Are you spending only what you need to on real estate?
    c. If you own, do you have a reserve fund for the building?
    d. If you own, and have excess space, is it generating revenue?
    e. If you rent, is your lease optimized for least cost? Is it competitive in the market?

DO THIS TO BE REMARKABLE

- Be honest with yourself.
    - Assess your true real estate needs, based on fact, data and usage. Don't get carried away. Buildings are not solutions to struggling organizations. They are amplifiers for that.
    - Get only the real estate that you really need.
    - Carefully assess ownership options; it isn't always the great choice it looks to be at a distance.
    - If you own, plan for repairs, maintenance, tenant allowances and reserves.

REVIEW THIS

- Orange Group Commercial Real Estate White Papers: www.orangegroup.ca/copy-of-services
- Pacific Continental – Purchasing Real Estate as a Non-Profit White Paper: https://www.therightbank.com/sites/www.therightbank.com/files/files/Business%20Resources/White%20Papers/Nonprofit/white-paper-purchasing-real-estate-as-nonprofit.pdf
- Business Development Bank Canada - Buy or lease commercial real estate: https://www.bdc.ca/en/articles-tools/money-finance/buy-lease-commercial-real-estate/pages/default.aspx
- CBRE Non-Profit Practice Group – Trends Video: https://www.youtube.com/watch?v=lq_HZGWlZck

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