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Hot Real-Estate Market Pounds Nonprofit Renters and Rewards Owners

By Rebecca Koenig

BRYAN THOMAS, THE NEW YORK TIMES, REDUX

The Church Missions House in New York, which housed the Federation of Protestant Welfare Agencies, sold for $50 million and will be converted into retail and updated office space. The federation moved to lower Manhattan.

Rocky Mountain Microfinance Institute has had three offices in 12 months.

The Denver nonprofit first rented space for $2,800 in a shared office facility in the heart of a gentrifying arts district until a new building owner proposed a lease that would have raised rent beyond what it could afford.

Priced out, the institute accepted an offer from a nonprofit partner to relocate temporarily to a downtown building for $250 a month. Executive director Rob Smith welcomed the reprieve, even though it was not a permanent solution. Among other issues: His staff and clients couldn't afford the downtown parking rates.

So when the Mile High United Way offered the microfinance institute, which helps entrepreneurs hone their business plans, a lease of $1,980 a month in its new building, Mr. Smith jumped at the offer.

It was a lucky break. Rising rents are hitting nonprofits hard all over the country. While New York and San Francisco have long been expensive places to conduct business, groups in metropolitan areas such as Denver and Seattle are also feeling the heat as landlords ramp up their asking price per square foot.

It amounts to a "nonprofit displacement crisis," says Kim Sarnecki, director of administration and real estate at the Tides Foundation.

But there's a flip side. For charities that own office buildings in coveted urban neighborhoods, hot commercial real-estate markets can be a boon. A dozen major charities in New York alone have made millions by selling, and they've poured that money into programs and endowments.

Other sellers, like the Mile High United Way, were able to finance a big upgrade in facilities. It sold its Denver headquarters in 2013 for $10 million. With the help of a capital campaign and New Market Tax Credits, it turned its windfall into a new, $26 million facility on the outskirts of the city, where it leases space to smaller nonprofits like Rocky Mountain.

Doubled Rents

Real-estate development and gentrification have upended the nonprofit world in several ways, says Barry Stenger, executive director at St. Anthony Foundation, a San Francisco nonprofit that serves meals and runs a health clinic and a clothing-distribution center for low-income families.

They've led to increased demand for human services, since poor people who have to pay more in rent have less to spend on food and other necessities. They've pushed charity employees farther and farther from their offices because they can't afford high-rent areas on modest salaries.

And now they're affecting nonprofit offices themselves, Mr. Stenger says: "They learn from the landlord that their lease is going up double for the same square footage."

In San Francisco, an influx of tech companies has driven up average office-lease prices by nearly 130 percent since 2009, according to the CBRE Group's 2016 San Francisco Techbook.

In Midtown Manhattan, technology companies are also driving up commercial rents, says Ira Schuman, executive vice president at the law firm Savills Studley and legal counsel to several of the city's big nonprofits.

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Mile High United Way in Denver constructed this new building after selling its old one for $10 million.

Philanthropy Won't Pay

Denver nonprofits negotiating new leases are finding significantly higher rates, according to the 2014 Colorado Nonprofit Facilities Survey, created by Nonprofit Centers Network and Denver Shared Spaces, two organizations that support shared office spaces.

Nonprofits in the Mile High City face an additional, unique real-estate problem: tighter competition for industrial space due to the legal-marijuana industry. Since legalization took effect in January 2014, marijuana has contributed to decreased warehouse vacancy and increased rent, according to a special CBRE report, although it accounts for an average of only 4.9 percent of warehouse space in its top four Denver markets. That hurts groups like food banks that need ample storage, says Lara Jakubowski, executive director of the Nonprofit Centers Network.

While corporations may be able to cope with rising rent by reducing the amount of space each employee has, it's rarely an option for charities, Mr. Schuman says.

"They've already done that squeezing," he says. "They've been squeezed since day one."

And in an era when some donors are reluctant to cover overhead costs, rent increases further burden nonprofits already struggling to find funding.

"It's alarming to us in the industry, but we haven't seen as much interest and attention being paid by the philanthropic community and the foundation community," says Megan Devenport, program manager at Denver Shared Spaces.

Coping Mechanisms

When rents get too high, many nonprofits move into offices in less popular neighborhoods. Relocating administrative staff is often simpler than moving programs, Ms. Sarnecki says: "I think there's a higher crisis for direct human-services organizations that need to stay in communities."

Many San Francisco nonprofits have crammed into undesirable spaces like basements and trailers. Others, including CompassPoint; the Center on Race, Poverty & the Environment; and Transgender Law Center, are coping by moving to nearby Oakland, where rent is cheaper.

Some charities have found new homes through old-fashioned networking. During Denver meetings about real-estate concerns, some nonprofit leaders discovered that other area organizations had extra room for them to sublet, Ms. Jakubowski says.

And there's been growing interest among nonprofits in sharing office space to cut rent, technology costs, and other expenses, Ms. Sarnecki says. From 2011 to 2015, the number of nonprofit shared-space centers in the United States and Canada rose from 212 to 393, according to the Nonprofit Centers Network's 2015 annual survey.

The Tides Foundation's Thoreau Center in San Francisco, which leases offices to 75 nonprofits at about 20 percent below market rate, has a waiting list. Nonprofits that can't afford their current offices call every week, Ms. Sarnecki says.

Cashing In

On the other end of the spectrum, charities with significant real-estate holdings have enjoyed huge cash infusions by selling to developers hungry to build retail space and luxury housing.

The math is simple, Mr. Schuman says: "If they can find ways to get money out of real estate and into services, that is a useful enterprise."

In recent years, at least a dozen venerable New York City charities have sold properties — some iconic buildings — and moved. Rather than purchase new buildings, many have opted to sign 30-year leases with favorable terms.

The United Charities Building in Manhattan's Flatiron District sold for $128 million in 2014. Constructed in 1892, it was home to Community Service Society of New York, Children's Aid Society, and New York City Mission Society. A Chinese developer plans to add nine stories and convert the structure into condos. The three charities parted ways: Community Service Society moved a mile uptown and bought an office floor, Children's Aid Society rents space slighter farther uptown, and New York City Mission Society moved into other property it already owned in Harlem.

Across the street, the Church Missions House sold for $50 million. Built from 1892 to 1894 on land donated by J. Pierpont Morgan, it housed the Federation of Protestant Welfare Agencies. The building will be converted into retail and updated office space, and the federation moved to lower Manhattan, where it bought a commercial condo space.

And down the block, United Cerebral Palsy made $135 million in 2013 when it sold the building it had owned since 1973 to luxury home developers. It signed a 30-year lease on a building on the Upper West Side.

The practice is not limited to Manhattan. Central Union Mission, a homeless shelter in Washington, D.C., sold its headquarters of nearly 30 years to a developer for $7 million in 2013. The space was turned into condos and stores. The shelter now operates closer to downtown — and closer to its clients — in a building it paid millions to restore and rents from the city for $1 per year with a 40-year lease.

Goodwill of San Francisco sold its building to a housing developer for an estimated $60 million in 2014. It bought a new headquarters several miles away for $16 million.

It's an appealing option for nonprofits that can do more with the money from a big sale than with the building itself, Mr. Stenger says. He says the property St. Anthony Foundation owns in a popular neighborhood, an inconvenient distance away from its main campus, would be of keen interest if the nonprofit ever considered selling it.

Opposition to Selling

Selling property is not always a popular decision with the public. To start, there's concern about the social implications of the shifting urban landscape, where nonprofits are replaced with luxury condos.

Even donors who benefit from the rise of the real-estate market understand that it "drives out any kind of diversity" from the city, Mr. Stenger says. "There's a point that people kind of get that this is the canary in the coal mine, that this might not be all that good for us."

And particular cases can rankle a nonprofit's staff, supporters, and the people it serves.

In Seattle, the Children's Home Society of Washington sold its campus in 2013 for more than $15 million to move into leased space several miles away. Some board and staff members were initially reluctant to sell the property because the charity had occupied it for more than a century, says Sharon Osborne, chief executive.

But they were excited about the opportunity to use the money to establish an endowment, the annual interest from which goes to support programs.

"It was hard to do emotionally, but quite frankly it was one of the best business decisions we ever made," Ms. Osborne says. "We think it's quite a progressive move, especially for a social-services organization."

A Real-Estate Solution

In some cases, gentrification provides nonprofits with a real-estate solution.

Once home to working Latino families, the Denver neighborhood where Mi Casa Resource Center has its headquarters has seen a decade of gentrification. Many of the people the nonprofit serves have been pushed out, says executive director Monique Lovato.

So Mi Casa happily agreed when an affordable-housing developer invited the nonprofit to relocate to a new low-rent apartment complex in the city's southwest corner, home to many Latinos. The group's old building is now for sale.

The plan provided the developer with tax credits and the nonprofit with ownership of a new office condo. The price tag? Ten bucks, plus furnishings.

Most important, it gave Latino families a new source of affordable housing and better access to services.

"The community identified a need for affordable housing and work-force development and employment opportunities and small-business support," Ms. Devenport says. "Mi Casa has a clear mandate from the community to make those strong connections."

Still, Ms. Jakubowski and others continue to worry that rapidly rising property values in urban areas are for the majority of nonprofits a major threat, not an opportunity.

"I’m hoping there will be more conversations between nonprofits and public-policy folks," Ms. Jakubowski says. "We can’t just stick our heads in the sand and say this won’t be a problem."

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