# Making a Facility Decision

*The purpose of this worksheet is to assist organizations with identifying the issues that lead to deciding to relocate from their current space and whether to lease or buy property.*

Once your organization's program goals are clearly defined and you know what you can afford to spend on a real estate project (*see Worksheet #1: "Assessing Your Organization's Program and Facilities Needs" and Worksheet #3: "Paying for a Real Estate Project"*), the time is right to determine what type of real estate project makes the most sense for your organization. The following questions will help you evaluate the costs and benefits associated with improving on your existing space, leasing another space or purchasing a facility. When answering the following questions, it is often helpful to list out the pros and cons of each choice to help make a decision.

**The Decision to Stay or Move**

The first step in determining what facility makes the most sense for your organization is to evaluate your current site and how it meets your organization's current and future program needs. The following questions identify the issues that will help your organization decide if it makes sense to stay in your current space.

- Are there external factors that will force you to relocate (e.g., rising rents, redevelopment, sale of property)?
- Are you strategically located with respect to your client base?
- Is your Board committed to staying in the community?
- Are there adequate funding sources available for projects like the one you are contemplating for the space?
- Do you have sufficient control of your property to meet your organization's needs for the next five years? Do you have a good relationship with your landlord? Can you obtain a long-term lease with options to renew? Can you reduce the uncertainty around rent increases and other building costs?
- Are the costs of improving your current space affordable? Refer back to the assessment of your organization's facilities needs to determine if your present facility has the potential to meet these goals. Is improving on your current space cost-effective financially and organizationally?
- What will the ongoing maintenance costs be? (*See Worksheet #13: "Projecting Your New Occupancy Budget"*).
- Do you need specialized space (e.g., offices vs. cubicles, soundproofing, outdoor space)?

How your organization answers the above questions will determine if it makes sense to stay or move. For instance, if your organization is feeling pressure from outside forces to relocate, does not have substantial control over its current property, or cannot improve on its existing space at a reasonable cost, then it may be the right time for your organization to consider moving to another location.

**The Decision to Buy or Lease**

The tables on the following page identify the costs and benefits your organization should compare when deciding to rent or own property. A more detailed explanation of the line items and rough cost estimates for the upfront expenses is included in *Worksheet #8: "Creating a Project Development Budget,"* and for the ongoing expenses in *Worksheet #13: "Projecting Your New Occupancy Budget."* It is not necessary for your organization to decide whether to lease or own a facility before beginning the site selection process: assessing possible rental and ownership options may actually help your organization make the lease versus buy decision. You should quantify each item to determine which structure makes sense for your organization. In addition to the numbers, it is also important to ensure that your Board of Directors will support the organization in becoming property owners and taking on debt, as well as the costs associated with ownership.

# Table 1: Costs

| Buy | Lease |
| --- | --- |
| **Upfront** | **Upfront** |
| • Acquisition costs and down payment | |
| • Appraisal and inspection fees | |
| • Environmental report | |
| • Renovations | • Renovations |
| *Hard construction costs* | *Hard construction costs* |
| *Soft costs (contingency, insurance, architect fee)* | *Soft costs (contingency, insurance, architect fee)* |
| • Financing fees | • Financing fees (if borrowing funds to pay for improvements) |
| • Legal/closing fees | • Legal/closing fees |
| • Title insurance | |
| • Survey | |
| • Furnishings | • Furnishings |
| **Ongoing** | **Ongoing** |
| • Mortgage payments—It is critical to ascertain if your government revenue sources restrict mortgage and principal payments. | • Rent payments |
| • Utilities | • Utilities—Depending on the terms of your lease, the landlord may pass on to tenants the costs of owning the building, such as a portion of maintenance expenses, property taxes and/or utilities. |
| • Maintenance | |
| *Janitorial/engineer payroll* | |
| *Repairs* | |
| *Future capital improvements* | |
| *Extermination* | |
| *Garbage/snow removal* | |
| *Security system/fire alarm* | |
| *HVAC maintenance* | |
| *Janitorial supplies* | |
| *Landscaping* | |
| • Property insurance | • Property insurance—This may be included in your lease rate or your landlord may require you to pay separately. |
| • Property management—Do you have staff expertise and time to manage the property? If not, are you prepared to contract with a property management firm or hire a property manager? | |
| • Property taxes—You could secure property tax exemption, but it is necessary to set aside funds to cover the taxes due before your organization is granted exemption. | • Property taxes—Unless you will be renting from a nonprofit, you will likely pay property taxes. |

# Table 1: Benefits

| Buy | Lease |
| --- | --- |
| • Building equity and assets for your organization<br>• Long-term strategy for property control<br>• Potential for property value appreciation<br>• Potential for control of occupancy costs by eliminating rent increases<br>• Asset can be pledged as collateral (for line of credit, equipment purchases, other facilities)<br>• Possible savings from real estate tax exemption (in lease situations, for-profit landlords can pass real estate taxes on to the nonprofit tenant) | • Flexibility to accommodate future growth—Can walk away within specified time and for lower costs<br>• Less responsibility for property management<br>• Short-term obligations<br>• More budget certainty<br>• Potential for lower occupancy costs due to fewer costs for property management<br>• Does not require as much upfront capital |

**Making the Decisions**
Every scenario is different and, as you can see, involves many factors. We encourage you to call the IFF at 312-629-0060 to talk through your situation, but some good guidelines to assist you in making these decisions are:

- If your organization has been experiencing rapid growth or expects to grow significantly over the next five years, you should lease space until operations and the associated facilities needs have stabilized.

- Conversely, if your organization has stable programs, has occupied the same space for the past 15 years, and has a good idea of what kind of facility would satisfy its goals and budget, then consider buying.

- The availability of a building in and of itself is NOT a good reason to start thinking about buying or moving. Real estate projects should be well planned and not entered into without considering the program and financial implications on your organization.

- The final decision to lease or purchase cannot be made until specific property, size, location, operating costs and numerous other factors are identified.

- Remember: always find out what is included in your lease terms. Landlords use terms such as gross or net leases—they can vary significantly. Make sure you take into account all the costs that you will be responsible for.