



# Technical Assistance Worksheets Table of Contents

*These worksheets are designed to be used as helpful guides for organizations planning real estate projects. They are by no means exhaustive, but are intended to introduce you to the complex world of real estate, and to assist you in asking the right questions. While we have numbered the worksheets, there is no correct sequence for using them.*

*Real estate projects are non-linear and you will likely repeat many steps along the way to a completed facility. Remain flexible, and if you ever have any questions, call us at 312-629-0060. We'll be more than happy to explain worksheet topics in more detail and help you with your project.*

---

## Before You Begin Your Real Estate Project

### Readiness

*Technical Assistance Worksheet #1*  
Assessing Your Organization's Program and Facilities Needs

### Affordability

*Technical Assistance Worksheet #2*  
Projecting New Operations and Monthly Cash Flow

*Technical Assistance Worksheet #3*  
Paying for a Real Estate Project

*Technical Assistance Worksheet #4*  
Selecting a Capital Campaign Consultant

*Technical Assistance Worksheet #5*  
Determining How Much Your Organization Can Borrow

### Moving Forward

*Technical Assistance Worksheet #6*  
Making a Facility Decision

## Managing Your Real Estate Project

### Overview

*Technical Assistance Worksheet #7*  
Approaching a Real Estate Project

### Budgeting

*Technical Assistance Worksheet #8*  
Creating a Project Development Budget

### Selecting the Members of the Development Team

*Technical Assistance Worksheet #9*  
Selecting a Project Manager

*Technical Assistance Worksheet #10*  
Selecting an Architect

*Technical Assistance Worksheet #11*  
Selecting a General Contractor

### The Property

*Technical Assistance Worksheet #12*  
Fundamentals of Purchasing Real Estate

*Technical Assistance Worksheet #13*  
Projecting Your New Occupancy Budget

*Technical Assistance Worksheet #14*  
Applying for Property Tax Exemption



# Assessing Your Organization's Program and Facilities Needs

*This worksheet is designed to help organizations clearly lay out their space needs and determine whether they are well-poised to undertake a real estate development project.*

Programs should drive facilities needs, not the other way around. Too many organizations get excited about a building for sale down the street without evaluating if it is the right space for their programs. Therefore, we recommend that the first step in assessing your organization's facilities needs is to clearly define your organization's **program goals** over the next three to five years and develop a facilities plan that will best enable you to achieve these objectives. The list below provides broad categories with questions for your organization to consider before you begin to consider a real estate project.

## Program Goals

Do you anticipate program growth or decline, or other program changes in the next three to five years?

What is the demand for your services? Evaluate trends in economy, demographics and public policy affecting program demand.

What is your organization's current ability to meet this demand? What would you need to change to meet this demand?

What are your organization's short-, medium- and long-term goals?

## Space and Growth Needs

Does your current space meet your organization's present needs? How much space do you currently use? How much space do you need?

Can you consolidate programs from multiple sites into one location? Would this save costs and enhance programs?

If you determined that your organization's programs will change in the next three to five years, what space will the program shifts require? Can your current space accommodate these future needs?

Do your programs require specialized space (e.g., for privacy, flexibility, traffic flow, circulation)?

## Board Commitment

Does your Board participate in the long-term strategic planning process? Are they committed to the organization's short-, medium- and long-term goals defined above? Is there consensus to undertake a real estate development project?

Are Board members willing to provide leadership and support to achieve facilities goals? Are they willing to serve on a facilities planning committee?

Does the Board have experience undertaking a capital campaign? Are they prepared to commit additional time and resources for training, planning and funds solicitation?

Will the Board support taking on debt to finance the project?



---

### Revenue Stream and Financial Stability

Does your organization have secure revenues that would allow you to cover long-term debt payments (e.g., program fees, government grants and contracts)?

Will your government contracts reimburse you for mortgage principal payments? Interest payments? Depreciation expense?

Are you running large deficits or surpluses at the end of the year?

Are you able to meet expenses on a regular basis?

Are you dipping into unrestricted net assets at the end of the year?

Do you have a source of cash, line of credit or cash reserve to meet timing and cash flow issues?

How your organization answers the questions above will determine if it makes sense to consider a real estate project. It is critical for your organization to be in a stable financial position and to have a strategic vision about future programs before moving ahead with a real estate project. For instance, if your organization's current space cannot accommodate program objectives and you have clearly defined programmatic goals, Board commitment and ample revenue support, then you are well-positioned to proceed with additional analysis for a real estate project.



# Projecting New Operations and Monthly Cash Flow

*This worksheet and the following template are designed to assist organizations with budgeting for operations in contemplating a new real estate project.*

When planning a real estate project, it is critical to project monthly revenues and expenses for the first year of operations to determine if the proposed site is affordable and makes sense for your organization. Because many projects are driven by growth, planning for the sources, amounts and timing of new revenues and expenses are critical to launching and operating a successful program. Use the following questions to estimate the impact the project will have on your current revenues and expenses. Test the assumptions you are using. Then, consider timing of cash revenues and expenses throughout the year and complete the attached monthly cash flow statement template. This planning tool will indicate if your proposed program revenues can cover expenses each month, which is critical to determining if you should move forward with the proposed project.

## **Operating Budget Upon Completion of the Project**

### *Revenues*

Will your organization be able to access new revenue sources as the number of clients served increases? Or as services change?

Can government contract amounts or foundation grants increase if you provide more services, or do they have a maximum cap?

Will you be able to access new fundraising sources due to the changed programs?

How long will it take to get the new programs running at full capacity? What is a realistic rate of growth?

If your organization is running deficits, what are your plans to increase revenues? Will this project bring in revenues or reduce costs to help your organization's financial condition?

### *Expenses*

Are your program costs tied one for one to the number of clients served or can savings be realized by spreading overhead and other related expenses over service increases?

Do your government contracts have restrictions on the types of costs that can be covered (e.g., mortgage interest, principal, general overhead or administrative expenses)?

Are cost savings anticipated in other areas such as operating efficiencies?

What are the one-time startup costs of launching operations in the new facility?

Will the improvements to your facility result in more energy-efficient systems that will save on utilities? Reduced maintenance expenses?

Will the consolidation of your operations result in reduced lease payments?

*Ensuring the accuracy of projections requires continued oversight and review. Make sure your systems produce timely and accurate monthly financial reports and your CFO, CEO and Board of Directors provide strong financial oversight.*



### Monthly Cash Flow Upon Completion of the Project

The attached template will assist your organization in projecting your monthly cash position once the real estate project is finished and you are fully operational in your new space. Only with these projections can you accurately evaluate if the facility proposal makes sense for your organization. When estimating on a monthly basis, be sure to take into account how the following factors will have an impact on your revenues and expenses:

*Ramp Up:* What are realistic growth projections for gradually achieving full client service levels and corresponding receipt of revenues? What expenses will need to be incurred before revenues are received?

*Seasonality:* How do issues like the school year and season impact your ramp up, ongoing service levels and ability to meet the needs? When is it most appropriate to expect contributions and special events to be realized? Is there a cyclical pattern to the timing of reimbursements that you can expect every year?

*Timing of Reimbursements:* How much of a delay do you currently experience? Will that change as a result of this project? If you have upfront costs and more delays in payments, you will need to set up reserves or a line of credit until funds are in hand.

### Instructions for Completing the Cash Flow Statement

*The following instructions correspond to the attached cash flow template.*

Months 1-12 are the first 12 months of program operations at your new facility project site only, **once the project is complete**. Estimate when during the year it is likely you will be in operation (Month 1).

### Beginning Cash

The beginning cash is the amount of money the organization has on hand for program operations at the site upon completion of the project.

Enter that amount in Beginning Cash, Month 1 and Beginning Cash, Total.

Leave Beginning Cash, Months 2-12 blank for now.

### Cash Revenues

Estimate the cash that will come into your organization from various sources once the project is complete. These sources should be based on existing and/or projected revenues that will result from the project. Revenues should accurately reflect actual cash receipts taking into account delays in reimbursements and service fees, monthly draws on contracts or contributions during a specific month from fundraising activities. It is unlikely that cash receipts are identical every month. In the early months, be sure to plan for startup delays and additional reimbursement lags.

### Cash Expenses

Base monthly expenses on previous operating experience and be sure to include projected expenses that result from the project and/or new facility. Expenses should take into account fixed monthly costs (e.g., rent, salary) as well as seasonal variations (e.g., heat, snow removal).

### Cash Surplus/Deficit

The cash surplus or deficit is the amount of cash revenues above or below cash expenses. Calculate this number for each month by subtracting Total Cash Expenses from Total Cash Revenues for each month. It is acceptable to see monthly cash deficits in the early months. However, continuing cash deficits indicate that the programs at the site are not self-supporting and cash revenues and cash expenses should be revised.

### Ending Cash

The ending cash is the remaining money for program operations at the project site at the end of each month.

Calculate for Month 1 by adding Month 1 Cash Surplus/Deficit to Month 1 Beginning Cash. This equals Month 1 Ending Cash.



---

Then enter that amount in Month 2 Beginning Cash (Month 1 Ending Cash = Month 2 Beginning Cash).

Continue calculating each month's Ending Cash and enter it as Beginning Cash for the next month.

**Important:** It is of concern to see a negative ending cash amount in any month. If you get a negative number for ending cash, that indicates a need for additional financing. One option for covering shortfalls is securing a line of credit. Use the Line of Credit Draws line in the Cash Revenues section of this template to account for draws the organization will make to cover cash shortfalls. Use the Line of Credit Repayment line in the Cash Expenses section to account for monthly payments on outstanding line of credit draws. Plan the line of credit draws appropriately so the organization is not drawing funds each month.

#### **Final Instructions**

Complete the Total column for the year by adding across the monthly totals from the Cash Revenues and Cash Expenses sections.

Calculate Total Cash Surplus/Deficit by subtracting Total Cash Expenses from Total Cash Revenues.

Finally, calculate Total Ending Cash by adding Total Cash Surplus/Deficit to Total Beginning Cash.

#### **Assumptions**

Keep track of and explain how you arrived at the figures for each line item. Include a list of assumptions that explain the basis for all expense and revenue items. For example, break down grant funds by source and utilities by water, electricity or gas.

The IFF can email the attached spreadsheets to you upon request.



# Completing a Cash Flow Statement

|   | Jan | Feb | Mar | Apr | May | June | July | Aug | Sept | Oct | Nov | Dec | Total | Assumptions |
|---|-----|-----|-----|-----|-----|------|------|-----|------|-----|-----|-----|-------|-------------|
| Beginning Cash (A)  |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| <b>Cash Revenues:</b>   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Government Grants—State, Federal, Local, HUD, DHS   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Government Contracts—lump sum, voucher, pro-rata  |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Service Fees—private pay, third party, Social Security  |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Private Contributions—UW, foundations, individuals, events  |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Line of Credit Draws  |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Interest Income—investments, endowments   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Other—rental, membership dues   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Total (B)   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| <b>Cash Expenses:</b>   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Salaries and Benefits—payroll taxes/FICA withholdings, unemployment, medical, retirement, fringe, insurance |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Professional Fees—legal, audit, payroll, consultants  |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Program—supplies, food, client transportation   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Administrative—overhead, advertising, liability, D&O insurance  |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Occupancy   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Rent  |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Mortgage  |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Utilities   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Repairs and Maintenance   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Property Insurance  |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Real Estate Taxes   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Line of Credit Repayment  |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Equipment—purchase, repair, maintenance, rental   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Other—travel, transportation, membership dues   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Total (C)   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Surplus/(Deficit) (D)=(B)-(C)   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |
| Ending Cash (E)=(A)+(D)   |     |     |     |     |     |      |      |     |      |     |     |     |       |             |



# Paying for a Real Estate Project

*This worksheet is designed to help organizations think through all the different sources of funding that are available for a real estate project.*

Most real estate projects require multiple sources of funding—usually a combination of equity (organization cash and grants) and debt (loan dollars). Only with organization equity in the form of cash or grants (i.e., down payment) can a nonprofit organization borrow funds (debt financing) needed to complete a project. So it is worthwhile for your organization to begin earmarking funds as early as possible to put towards the early predevelopment costs associated with virtually any project. As you know, you should go after as much free grant money as you can, but be aware that those funds can take a long time to come in and to add up to enough to cover the total project costs. Using a construction loan is often a timely and affordable way to complete your project financing.

The following list details possible sources to help pay for a project and/or various project costs:

## Agency Cash

Money from reserves or operations is needed for upfront and predevelopment costs, such as:

- Earnest money (down payment on purchase of land or a building)
- Legal fees
- Down payment
- Predevelopment costs—inspections
- Real estate taxes until property obtains exempt status

## Foundation Grants

Seek predevelopment funds from private, corporate and family funders. Do your research: many foundations are exclusively interested in supporting bricks and mortar investments in nonprofit organizations. Others may have restrictions on what those funds need to be used for.

## Capital Fundraising Campaign

It is critical to plan and assess, with the assistance of a consultant, how much your organization can fundraise (see *Worksheet #4: "Selecting a Capital Campaign Consultant"*). It is important to examine your organization's current funding base, Board relationships, presence in the community and potential access to capital funds. Capital campaigns can take three, five or ten years to complete. Keep in mind that funders that traditionally support your annual operations may not make capital contributions; likewise, those that do may have policies on giving to the same organization for operations and capital in the same year. By asking for money for your building, you may sacrifice an operating grant. Your organization should also plan for the costs associated with raising funds (i.e., fees for a capital campaign consultant).



---

### Government Resources

Specific state, local and federal monies for capital projects are earmarked by geographic region (e.g., CDBG), funding sources (e.g., Head Start) and project purpose (e.g., energy efficiency). Some awards can be accessed through political representatives and others have lengthy and competitive approval processes. Be advised that there may be restrictions on how these funds are spent and the timing of how these funds will flow. These considerations should be taken into account when planning the overall project financing.

### Use of Debt

Contact your current banker first—your existing relationship and business counts! Community banks are making financing available for projects in their own backyards. It is still a good idea, however, to shop the deal—fees, terms and rates will vary. A slightly lower interest rate, on the other hand, is not the only element to look for. The length of the term of the loan will also have an impact on your monthly mortgage payments. Be prepared to provide potential funders and lenders with as much information as you can about the project, your development team, and your organization's financial statements (*see Worksheet #5: "Determining How Much Your Organization Can Borrow"*).

Community Development Financial Institutions (CDFIs) were created with the mission to provide funds to make projects happen in communities. Certain CDFIs are targeted for geographic regions and/or project type. Again, do your research and evaluate all your financing options.



# Selecting a Capital Campaign Consultant

*This worksheet is designed to assist organizations with the selection and hiring of a consultant to direct a capital campaign fundraising effort for a real estate project.*

Raising funds for a one-time capital project is not the same as seeking annual operating support. It is well worth your organization's time and money to hire a consultant who specializes in nonprofit capital campaigns. As with any professional your organization hires, a key determinant of the consultant's success lies in selecting an individual who fits with your organization's mission, goals and Board. The success of the campaign is not only critical to the completion of the facility project, but it also has an impact on the financial health of the organization long after the project is finished. It is essential to be thorough in the selection process and to involve key staff and Board members who will be directly involved in working with the consultant. Be sure to follow up with references—there is no substitute for firsthand experience!

## **Designate a group or committee that will be responsible for selecting the capital campaign consultant**

Set up a Board selection committee. This committee should be comprised of a combination of members from the resource development and facilities committees, as well as development staff members. Seek committee members with connections and who desire to own the process.

## **Decide on a selection process and issue a Request for Proposal**

Determine the process, timeline and criteria for selection. See below for suggested selection criteria. Issue a request for proposals and ask fellow organizations for referrals.

## **Suggested Selection Criteria**

When selecting candidates, it is critical that your organization only seeks out proposals from consultants who fit the relevant experience listed below. It is your committee's job to keep the secondary and more detailed criteria in mind as you review proposals from and interview qualified candidates.

## **Preliminary Qualifications and Relevant Experience**

The right capital campaign consultant for the job should:

- Understand the role of your organization in the community.
- Have experience working with similar organizations.
- Have previous successes of building a capital campaign from scratch for similar organizations.
- Know the local funding community.
- Be sensitive to the culture/race/gender of your organization's target population.

## **Analyze the Candidate's Strategy**

Through proposals and interviews, your selection committee must determine candidates' qualifications and fit with your organization. Consider the following criteria for making a decision:

- How does he/she approach working with clients—both Board and staff? Ask candidate to describe an example of how he or she has worked with Board members both individually and as a group to achieve program goals?
- What has his/her experience been with public relations, communication and marketing and how does he/she see those efforts affecting fundraising for a capital campaign?
- How would he/she integrate a capital campaign with existing corporate and foundation operating support efforts?



What role has prospect research played in these efforts?

What strategy would he/she recommend to this organization in launching a capital campaign?

What are the factors that contribute to achieving campaign goals quickly, or can objectives be met quickly at all?

How soon would he/she develop a work plan? What would that plan include? What checkpoints would be set up as the consultant worked with staff and Board on implementation?

How involved would he/she be with plan elements, such as prospect research? How much will be demanded of organization staff time?

What are the natural links and divisions between consultant and staff tasks? How would he/she involve staff in the campaign? What are some examples of the kinds of things staff will need to do?

What Board training will be included? How much time will be spent training and preparing the Board?

What specific challenges and opportunities does he/she see for your organization?

#### **Assess the Timeline**

Compare the consultant's proposed timeline to that of similar campaigns.

Ask for examples of ways the consultant can sustain momentum for a multi-year campaign.

Find out how much time the consultant will spend on your campaign through its various phases.

#### **Understand the Fee Structure**

Are costs based on a flat fee or an hourly rate?

What are the consultant's payment expectations? Is payment tied to achieving agreed-upon milestones?

Are administrative expenses covered in the fee? What percentage of these fees will be covered by organization operations?

#### **Check References**

This final step is critical. Your principal question should be aimed at discerning whether the previous client would use the same consultant again, and why or why not.

#### **Negotiate a Contract**

Select your consultant based on the criteria set forth above.

Take into consideration the goals of your campaign, the selected candidate's strategy, timeline and fee structure to negotiate a contract that will meet your goals on time and on budget.

Consider milestones for payment and incentives for reaching goals ahead of schedule.

Have the contract reviewed by a qualified attorney or Board member with previous experience.



# Determining How Much Your Organization Can Borrow

*This worksheet is designed to assist organizations with calculating how much debt they can afford for a real estate project.*

Once your organization has decided to undertake a real estate project, and you have looked at potential capital funding sources (see *Worksheet #3: "Paying for a Real Estate Project"*), the next step is to determine how much your organization could afford to borrow to finance the rest of your project if there are not sufficient capital sources or if a capital campaign will take too long. Whether you are taking out a loan for the purchase of a new building or to make renovations to your existing facility, this calculation is critical in assessing the type and size of project your organization can afford.

## Budgeting for a Real Estate Project

Determining how much your organization can borrow is only one piece of paying for a real estate project (see *Worksheet #3: "Paying for a Real Estate Project"*). Your organization must also have equity to contribute to the financing package in the form of a down payment. Assuming your organization has the required equity contribution to get a loan, the following exercise will help determine how much your organization can borrow for a project.

### Step 1: What does your organization spend now for occupancy costs?

Isolate what you spend annually on utilities and maintenance from other occupancy costs such as rent to determine what is available for loan payments.

*Example:*

|           |                         |
|-----------|-------------------------|
| \$110,000 | Gross Occupancy Costs   |
| – 20,000  | Utilities & Maintenance |
| \$ 90,000 | Net Occupancy Expenses  |

Occupancy costs—It is good to target at 10% of your organization's total operating budget.

Gross occupancy costs—include rent, utilities, mortgage payments, repairs, maintenance, general building costs and sometimes property taxes.

### Step 2: How much money does your organization have available to repay a real estate loan annually?

Subtract your Annual Expenses (not including the Net Occupancy amount in step #1) from Annual Revenues = \_\_\_\_\_ (a)

*Example:* Revenues—Expenses (not including net occupancy): \$1,100,000 – \$1,004,663 = \$95,337 (a)

### Step 3: What portion of this amount can reasonably be used for loan payments annually (debt coverage)?

Divide (a) by 1.2 = \_\_\_\_\_(b)

Debt coverage shows how much cash you have remaining to pay your debt after paying your other expenses—building in a cushion in case your revenues come in less than projected. Typically lenders want to see that you have at least 1.2 times the amount of your annual property debt payment.

*Example:* \$95,337/1.2 = \$79,448 (b)

### Step 4: What payments could you afford per month?

Divide (b) by 12 months per year: (b)/12 = \_\_\_\_\_ (c)

*Example:* \$79,448/12 = \$6,621/month (c)



**Step 5:**

**What could that monthly payment afford you in terms of a total loan amount?**

That depends on the *interest rate* and the *term* (number of years over which you have to repay the loan).

Using a financial calculator or spreadsheet program formula, solve for the present value of the loan: use (c) as your payment and vary the rate and term depending on your options.

*Example:* If your organization can afford \$6,621 (c) in monthly property debt payments, then depending on the terms of your loan, you could afford to borrow the following principal amounts:

Loan Amount

| Interest Rate | Term of Loan |           |           |
|---------------|--------------|-----------|-----------|
|               | 5            | 10        | 15        |
| 5%            | \$350,851    | \$624,237 | \$837,260 |
| 7%            | \$334,374    | \$570,243 | \$736,626 |
| 9%            | \$318,956    | \$522,673 | \$652,787 |

As your organization seeks debt financing, aim for the terms and rates that make the most financial sense for your organization in the short- and long-term. Interest rates are not the only factor to consider: the longer the term and amortization, the lower your monthly mortgage payments.

As you can see, the term of your loan affects the total amount of debt you can afford to borrow more than the interest rate does.



# 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   |
|--|---|
| <p><b>Upfront</b></p> <ul style="list-style-type: none"> <li>● Acquisition costs and down payment</li> <li>● Appraisal and inspection fees</li> <li>● Environmental report</li> <li>● Renovations               <ul style="list-style-type: none"> <li><i>Hard construction costs</i></li> <li><i>Soft costs (contingency, insurance, architect fee)</i></li> </ul> </li> <li>● Financing fees</li> <li>● Legal/closing fees</li> <li>● Title insurance</li> <li>● Survey</li> <li>● Furnishings</li> </ul>  | <p><b>Upfront</b></p> <ul style="list-style-type: none"> <li>● Renovations               <ul style="list-style-type: none"> <li><i>Hard construction costs</i></li> <li><i>Soft costs (contingency, insurance, architect fee)</i></li> </ul> </li> <li>● Financing fees (if borrowing funds to pay for improvements)</li> <li>● Legal/closing fees</li> <br/> <li>● Furnishings</li> </ul>  |
| <p><b>Ongoing</b></p> <ul style="list-style-type: none"> <li>● Mortgage payments—It is critical to ascertain if your government revenue sources restrict mortgage and principal payments.</li> <li>● Utilities</li> <li>● Maintenance               <ul style="list-style-type: none"> <li><i>Janitorial/engineer payroll</i></li> <li><i>Repairs</i></li> <li><i>Future capital improvements</i></li> <li><i>Extermination</i></li> <li><i>Garbage/snow removal</i></li> <li><i>Security system/fire alarm</i></li> <li><i>HVAC maintenance</i></li> <li><i>Janitorial supplies</i></li> <li><i>Landscaping</i></li> </ul> </li> <li>● Property insurance</li> <li>● 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?</li> <li>● 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.</li> </ul> | <p><b>Ongoing</b></p> <ul style="list-style-type: none"> <li>● Rent payments</li> <br/> <li>● 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.</li> <br/> <li>● Property insurance—This may be included in your lease rate or your landlord may require you to pay separately.</li> <br/> <li>● Property taxes—Unless you will be renting from a nonprofit, you will likely pay property taxes.</li> </ul> |



## Table 1: Benefits

---

### Buy

- Building equity and assets for your organization
- Long-term strategy for property control
- Potential for property value appreciation
- Potential for control of occupancy costs by eliminating rent increases
- Asset can be pledged as collateral (for line of credit, equipment purchases, other facilities)
- Possible savings from real estate tax exemption (in lease situations, for-profit landlords can pass real estate taxes on to the nonprofit tenant)

### Lease

- Flexibility to accommodate future growth—  
Can walk away within specified time and for lower costs
- Less responsibility for property management
- Short-term obligations
- More budget certainty
- Potential for lower occupancy costs due to fewer costs for property management
- 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.



# Approaching a Real Estate Project

*This worksheet is designed to help an organization approach and plan a real estate project. It serves as a general overview to the entire real estate development project. Other worksheets in this series provide more detail on the*

*steps outlined below; these worksheets are referenced when appropriate. This worksheet is useful once you have assessed your organization's project readiness (refer to the worksheet series listed under "Before You Begin Your Real Estate Project").*

While every real estate project is different, there are elements that most successful projects have in common. The process outlined below defines a general sequence of how to approach a real estate development project, but keep in mind that many of the components can be worked on simultaneously: these projects are not linear—there is no single correct step-by-step guide to real estate development. Another helpful tip is to use the expertise of professionals. A project manager, for example, will see the bigger picture and be aware of how the individual project team members and components work together. Finally, as your project moves further along, pay close attention as more specific information becomes available: it is critical to continuously refine your numbers.

## Determine Project Parameters

It is important to define your space needs before you begin searching for property. Assuming your organization has already defined its program goals, assessed its need for a new facility and its financial means, your next steps should be:

*Determine the location of the project*—every organization has a target area within which to provide its services. Your organization should establish, through a formal decision-making process, the search boundaries for your new facility's location;

*Determine the size of the project (range of square feet)*—facilitate a process to determine how much space you will need in your new facility. Many organizations use consultants or architects to help determine appropriate space requirements;

*Determine your price range*—if you have projected new operating revenues for your new site, you should be able to determine how much debt you can take on (see *Worksheet #5: "Determining How Much Your Organization Can Borrow"*);

*Make a lease vs. purchase decision*—your organization may decide that you want to look for both leasable space and space you can purchase. Refer to *Worksheet #6: "Making a Facility Decision"* to think through the pros and cons of both options.

*Determine other requirements* of your facility that will have an impact on your search criteria. For example, you may decide your facility must be close to public transportation or that it must be on the first floor. Knowing these criteria will help make your search more efficient.

Once your organization has defined these project parameters, you can begin looking for new space, whether it's vacant land, an existing building or leasable space.

## Designate Project Leaders

Designate an internal point person or committee who will provide leadership and make decisions throughout the course of the project.

Determine whether you need to hire a project manager. Many organizations use a project manager so that key program staff are not pulled away from their regular responsibilities. If you choose to use a project manager, that individual is responsible for keeping the project moving and should coordinate the remaining steps. However, your organization still must designate an internal person or committee to make decisions or give feedback to the project manager in a timely manner. See *Worksheet #9: "Selecting a Project Manager"* for assistance on hiring this kind of consultant.



It is important to bring in a competent team that will be responsible for all components of your real estate project. The development team will include a project manager (if you choose to use one), an architect and a general contractor. Typically an architect and a contractor are hired later in the real estate development process (*see below*).

### **Plan for Project Funding**

As your organization moves forward with a real estate project, be sure to identify sources of predevelopment and project funding. Begin discussions with foundations and/or capital campaign consultants to raise money, and with financial institutions for debt financing.

Cash from your budget or special grant funds are needed for inspections, fees and other predevelopment items. Be sure to keep careful track of the costs: it should be clearly stated that these expenses will later be repaid from capital campaign or debt.

### **Develop a Space Plan**

Management, staff, Board and your project manager (if you hire one) should review the space requirements of your programs and determine the building specifications that will best meet the needs of the organization. This “program” will serve as a guide for the architect.

### **Conduct Site Search and Selection Process**

Hire a broker or independently look for space that meets the project parameters. Base the broker decision on the amount of time staff has to dedicate to a property search; a good broker can save time by narrowing the field to your preset criteria. Broker fees are typically paid by the seller or landlord, not the buyer or tenant.

Visit buildings that meet your criteria and determine appropriateness of the space. Can you move into the space as-is?

**or:**

Do renovations or cosmetic improvements need to be done? If so, how extensively? Don't let raw space discourage you.

If the building meets your criteria and you need to have work done, you should hire an architect or contractor to walk through it and provide you with a rough estimate of renovation costs.

If you're renting, the landlord may be able to do the renovation work needed. Check with him or her and negotiate this as part of your lease.

Choose two or three spaces to look at with the same architect or contractor (*see below: Select an Architect*).

Retain a contractor or architect that has experience with your type of project and program and make him or her aware of your proposed program and budget (*see below: Select a Contractor*).

### **Create an Initial Development Budget**

For each property that you are seriously considering, develop an initial budget of applicable development costs including purchase price, construction costs and other soft costs (legal, accounting, appraisal, etc.). This will be a preliminary budget and will not necessarily represent final project costs. See *Worksheet #8: “Creating a Project Development Budget”* for a step-by-step guide on this process.

### **Determine Preliminary Sources of Funding**

Determine how you will finance the purchase of your new facility: How much cash do you have on hand? How much can you borrow? See *Worksheet #3: “Paying for a Real Estate Project”* for more information on sources of project funding.



---

### **Make an Offer**

Determine which building, space and/or land meets your needs for the best value, (see *Worksheet #12: "Fundamentals of Purchasing Real Estate"*).

If you have not hired a broker, do research to determine comparable sales prices or lease rates for similar property and/or land before making the offer.

### **Enter Into a Lease or Purchase Agreement**

Hire an attorney to review and/or negotiate the lease contract or purchase agreement.

If purchasing, be sure to include in the contract a "due diligence" period during which you can conduct thorough building inspections and secure financing (see *Worksheet #12: "Fundamentals of Purchasing Real Estate"*). A due diligence period should be at least 30 days, but preferably 60-90 days.

### **Select an Architect**

Refer to the "*Selecting an Architect*" worksheet for guidance on how to choose the right architect for your project.

Some organizations hire an architect to help them select the right building or land for their real estate project. The architect you use to design your new facility may or may not be the same one who helped you determine your space plan.

Your architect can help with your decision to select a contractor and should play an active role in the construction phase of the project.

### **Finalize Program Space Plan**

Even if you have already developed a space plan, when you have selected a facility to purchase, you, your staff and/or Board should review the space requirements of the building with your architect and determine the final program. This program will guide the architect in his or her design development. The program plan includes the number of clients you propose to serve, number and type of staffing required, and revenue sources.

### **Select a General Contractor**

Refer to the "*Selecting a General Contractor*" worksheet for guidance on how to secure bids from general contractors and choose the right contractor for your project.

Some organizations (during the "due diligence" period) hire a contractor to help them estimate the costs of building or renovating a facility before they purchase a property. The contractor you use to build your new facility may or may not be the same one who helped you estimate the costs of the facility.

Your architect and project manager should assist you in the process of selecting a general contractor.

### **Enter Into a Contract with Your General Contractor**

Finalize your contract price and pay special attention to exclusions within the contract. Be clear as to what is or is not included in the price.

### **Apply for a Permit**

Construction cannot begin without a permit. In some cases, the permitting process can take several months. Permit expeditors are available for a fee to handle the permit process.



---

### **Finalize Development Budget Based on Contractor Pricing**

Once you have a final construction price from your general contractor, revise your development budget. Your total project costs should be very close to final at this point.

### **Confirm Sources of Funding and Financing**

Once you have a final development budget, reconfirm where your sources of project financing are coming from. How much agency cash are you using? How much will come from foundation and corporate grants? How much from government? How much from debt?

Be sure that you have sufficient funding to cover your total project costs before you start construction on your project.

### **Schedule Closing on Construction Financing**

If debt is a source of your project financing, you will need to “close” on the construction financing. Your attorney and project manager should help you coordinate the closing.

### **Begin Construction**

Once you have closed, you should be able to start construction.

Your architect and project manager should manage the construction process on your behalf.

### **Close-out Project**

When construction is coming to an end, your architect should determine the date of substantial completion. This is when you may secure your occupancy permit and business license.

Your architect and project manager will develop a “punchlist” of items that must be completed by the general contractor before the project is closed-out. You should not pay your contractor the final five to ten percent of his or her contract price until the architect has told you that all punchlist items have been completed.



# Creating a Project Development Budget

*This worksheet is designed to help organizations estimate the total costs of their real estate project. The worksheet provides a step-by-step guide to creating a budget—a blank budget template is attached, which the IFF can email to you as a Microsoft Excel document with formulas.*

The attached development budget template is intended to encourage organizations to think through all the expenses associated with a real estate development project—from acquiring a building or vacant land through renovation or new construction of a facility—and to estimate all the costs associated with their project. With a comprehensive understanding of all the costs of a development project, your organization can determine the true feasibility and affordability of the project. Adjustments can be made to the project scope to bring the budget in line with your organization's means. A development budget is an ever-changing document until you have final bids from a contractor. It is critical to continuously update the budget as estimates become actual costs and to balance the total project costs with the total funds you have available to complete the project. The tendency is for all parties to low-ball estimates. Always, always include a contingency (*see definition below*)!

## **Explanation of Development Budget Line Item Terms (Refer to the attached spreadsheet—we can email a spreadsheet to you upon request.)**

### **A: Acquisition**

#### *Building/Land*

Enter the acquisition price of the land or building.

#### *Building Inspections*

Enter an estimate of the total costs of your due diligence inspections. It is recommended that the following inspections be conducted to determine the condition and potential cost to repair the following items before you make an offer to purchase a building:

- Electrical
- Plumbing
- Mechanical
- Roofing
- Structural

*These worksheets are meant to provide introductory information and are not to replace the assistance of hired consultants and professionals.*

### **B: Construction (also known as Hard Costs)**

#### *Renovation Costs*

Enter the cost per square foot for renovating an existing building as estimated by an architect, project manager, estimator or general contractor.

#### *New Construction Costs*

Enter the cost per square foot for new construction of a building as estimated by an architect, engineer or general contractor.

#### *Construction Contingency*

This is a set-aside for cost overruns. No project is ever designed perfectly—there will always be unforeseen conditions or mistakes in your drawings that will require a construction “change order”. A contingency budget for these unknown additions to your project. Fifteen percent of the construction budget is recommended as the amount of contingency for renovation projects. Ten percent of the construction costs is recommended as the amount of contingency for new construction projects.

#### *Environmental Clean-up*

If a Phase 2 (*see definition below under Section C*) environmental report indicates the need for environmental remediation of your building or land, enter the estimate from your environmental consultant or contractor.

#### *Permit Fees, Tap Fees, Utility Charges*

Contact your local building department and utility companies to inquire about these charges. Some municipalities waive permit fees for nonprofits.



---

## **C: Professional Fees**

### *Architecture and Engineering*

This cost covers the design of the building, preparation of construction documents and construction oversight, and is based on a percentage of the construction costs. You should negotiate a fee with your architect.

### *Architecture and Engineering Reimbursables*

An estimate for direct, non-personnel costs incurred by the architects and engineers during the project for expenses such as travel and printing. Set a limit on these costs with your architect.

### *Phase 1 Environmental Consultant*

A Phase 1 environmental report is an initial evaluation of a property or vacant land to determine the potential for environmental concerns such as underground storage tanks, soil contamination, lead paint or asbestos. A Phase 1 is usually required by lenders for commercial or industrial properties.

### *Phase 2 Environmental Consultant*

If the Phase 1 report raises environmental concerns, a Phase 2 environmental report must be performed. The work usually entails additional sampling and testing, and the report offers recommendations for removal and corrective actions of any environmental concerns. Fees for such reports depend on the number of tests and the type of analysis performed.

### *Geotechnical Exploration*

*For new construction projects*—Geotechnical work is conducted by engineers to examine the foundation and soil conditions of your site. This helps determine if your site can support the design and construction of your project. Fees for such services depend on the number of soil borings performed.

### *Testing and Inspection Services*

These are services employed during construction by specialized engineering firms to test materials that support the overall structure of the building. Fees for such services depend on the type and number of tests called for by your architect.

### *Legal Fees*

Enter an estimate of fees for your organization's legal services for the project. These may include review of loan documents, an escrow agreement, and contracts between your organization and a project manager, architect and contractor.

### *Developer/Project Management Services*

The cost of an individual or firm that assumes responsibility on behalf of your organization for coordination, management and oversight of the project.

### *Construction Estimator*

The cost of hiring a general contractor or estimator to provide a detailed estimate of your project's construction costs prior to bidding the project. Using an estimator helps you budget more efficiently and prevents surprises when construction bids are received. Fees depend on the size of the project and the number of estimates provided.

## **D: Project Financing Fees and Costs**

### *Property Survey*

A document provided by a surveying company with the legal description of a property, actual dimensions of a building or vacant land, topographical information, and utility and easement information. Lenders and title companies require surveys. Fees vary depending on the size of the land or building and the level of detail of the survey.

### *Appraisal*

An opinion of a property's value provided by an appraisal company. Appraisals are usually required by lenders before financing is approved. Fees usually range from \$2,000 to \$5,000.

### *Title and Recording Costs*

Services provided by a title company to record mortgages and provide title insurance to you and your lender, which protects you from liens. Fees vary depending on the number of documents that must be recorded and the number of title "endorsements" required by your attorney and your lender.



#### *Construction Escrow Fees*

Services provided by a title company for overseeing your construction escrow account, which manages payments to contractors and subcontractors, and maintains title insurance during construction. Fees vary based on the size of the construction budget and number of construction payments. You can call a title company directly to inquire about costs for this service.

#### *Application Fees*

Fees that a lending institution charges for submitting a loan application.

#### *Financing Fees*

A mortgage fee that covers the lending institution's expenses. This fee is sometimes stated in points, with each point being equal to one percent of the loan amount.

#### *Construction Interest*

The amount of current interest due on your construction loan. For each loan disbursement that is made during your project, interest will become due. The amount you should budget depends on the loan amount, the interest rate and the number of months of construction.

#### *Lender Inspecting Architect Fees*

A separate inspector other than your architect required by the lender to review all work completed during the course of construction. Check with your lender for an estimate of these fees.

#### *Lender Legal Fees*

The lender's legal costs associated with preparation and review of loan transaction documents. Check with your lender for an estimate of these fees.

### **E: Miscellaneous Expenses**

#### *Real Estate Taxes*

Property taxes may become due and payable during the course of the construction project. If taxes are unpaid during construction, the title company will not provide title insurance to you or the lenders. Because taxes are usually due in arrears, you should always budget for

property taxes and should seek a property tax exemption and reimbursement at a later date (*see Worksheet #14: "Applying for Property Tax Exemption"*).

#### *Insurance*

Insurance should be carried during the course of construction. Lenders also require insurance. The cost of insurance depends on the size of your project. You should call your insurance carrier for a quote.

- General Liability—covers your organization for general insurance claims
- Property Insurance—covers your organization for property loss
- Builder's Risk—covers the replacement value of improvements to your property as they are being made

### **F: Furnishings and Equipment**

#### *Program Equipment*

Administrative and office equipment needed for operations. You should determine your needs and an estimate of costs.

#### *Data and Communication Equipment*

The costs of phone and computer cabling and equipment, if these costs are not part of your construction budget.

#### *Security Equipment*

The costs of equipment and cabling for a security system for your facility.

#### *Other Furnishings*

Other necessary furnishings for operations in the facility.



# Creating a Project Development Budget

| Development Budget                         | Notes  | Total Cost  |
|--|--|-------------|
| <b>A. Acquisition</b>                      |  |             |
| Building/Land                              | Purchase Price                               |             |
| Building Inspections                       | Estimate                                     |             |
| <b>B. Construction (Hard Costs)</b>        |  |             |
| Renovation Costs                           | Per square foot                              |             |
| New Construction                           | Per square foot                              |             |
| Construction Contingency                   | % of Construction Costs                      |             |
| Environmental Clean-up                     | Estimate                                     |             |
| Permit fees, tap fees, utility charges     | Estimate                                     |             |
| <b>C. Professional Fees</b>                |  |             |
| Architecture & Engineering                 | % of Construction Costs                      |             |
| A&E Reimbursables                          | Estimate                                     |             |
| Phase 1 Environmental Consultant           | Estimate                                     |             |
| Phase 2 Environmental Consultant           | (If necessary)                               |             |
| Geotechnical Exploration                   | For New Construction                         |             |
| Testing and Inspection Services            | For Renovation or New Construction           |             |
| Legal Fees                                 | Estimate                                     |             |
| Developer/Project Manager Services         | % of project costs                           |             |
| Construction Estimator                     |  |             |
| <b>D. Project Financing Fees and Costs</b> |  |             |
| Property Survey                            | Estimate                                     |             |
| Appraisal                                  | Estimate                                     |             |
| Title and Recording                        | Estimate                                     |             |
| Construction Escrow Fees                   | Estimate                                     |             |
| Application Fees                           | Estimate                                     |             |
| Financing Fees                             | % of Loan                                    |             |
| Construction Interest                      | Amount of Bank Loan used during construction |             |
| Lender Inspecting Architect                | Estimate                                     |             |
| Lender Legal Fees                          | Estimate                                     |             |
| <b>E. Miscellaneous</b>                    |  |             |
| Real Estate Taxes                          | Based on tax records                         |             |
| Property / Builder's Risk Insurance        | Estimate                                     |             |
| <b>F. Furnishings and Equipment</b>        |  |             |
| Program Equipment                          | Estimate                                     |             |
| Data & Communication Equipment             | Estimate                                     |             |
| Security Equipment                         | Estimate                                     |             |
| Other Furnishings                          | Estimate                                     |             |
| Other                                      |  |             |
|  | <b>Subtotal Furnishings and Equipment</b>    |             |
|  | <b>Total Development Cost Estimate</b>       | <b>\$ -</b> |



# Selecting a Project Manager

*This worksheet is designed to help organizations select a project manager—the person who will oversee the project from start to finish.*

A real estate project can be a complicated and time-consuming venture. If you do not have expertise in real estate or are not able to make a large time commitment to your development project, it may be prudent to hire a project manager. There are many project management firms with varying degrees of capacity and specialization. It is important to select a project manager that understands your organization, your mission, your budget and the project goals. A project manager may be hired in the planning stages, during the project feasibility stage, during the predevelopment or preconstruction stage or during construction.

Project managers can offer any of the following services:

- Identifying and recommending qualified architects, leasing agents, contractors and other professionals for work on the project.
- Overseeing the development of architectural plans.
- Developing project budgets reflecting the estimated hard and soft costs required to achieve the plan for facility development.
- Developing pro-forma operating projections that integrate program revenues and expenses with the costs of operating the new facility.
- Soliciting construction bids and ensuring receipt of building permits.
- Overseeing all project-related contracts, bids, change orders, lien waiver collection, and payout requests.

- Managing the architect and general contractor.
- Preparing monthly progress reports as to the status of the project, including comparisons of actual expenditures to the project budget, and actual progress to the project timeline.
- Furnishing consultation and advice related to the construction or rehabilitation of the project.

## Decide on a Selection Process

Determine the process, timeline and criteria for selection. See below for suggested selection criteria.

Issue a Request for Proposals or a Request for Qualifications to your list of candidates.

The Request for Proposal and/or Request for Qualifications is typically followed up with interviews.

## Collect a List of Candidates

Ask other organizations for recommendations or contact groups that have recently completed projects that involved project managers. Pre-qualify project managers according to your criteria, such as:

- The reputation and relevant experience of the firm.
- The track record of the candidate as confirmed by referrals.
- Evidence of repeat clients and the candidate's recent project history.



---

### **Solicit and Review the Proposals**

When reviewing RFP responses, it is important that the committee considers:

- The proposed project team, including the qualifications of specific individuals assigned to the project within the firm.
- The reputation and relevant experience of the project manager and team members.
- The fee proposal.

### **Interview the Candidates**

When interviewing candidate firms, be sure to ask about:

- The level and type of involvement one can expect from the project's key personnel.
- The firm's approach to ensuring that projects are completed on time and on budget.
- The firm's experience working with nonprofit agencies or relevant projects.

### **Check References**

This final step is critical. Your principal question should be aimed at discerning whether the previous client would use the same project manager again, and why or why not. Other questions to ask references include those listed above under the interview questions.

Feel free to request a tour of facilities projects managed by the project manager.

### **Negotiate a Contract**

Select a firm, then enter into a contract to outline the firm's services.

Review the contract carefully with an attorney familiar with the standard practice of construction.



# Selecting an Architect

*This worksheet is designed to help organizations select the right architect for their real estate project.*

In selecting an architect or architectural firm to design your project, it is important that you consider the overall size, experience, design skills and business approach of each candidate. Your organization should choose the individual architect or firm that best understands your community mission, and brings to the project the optimum balance of experience, positive references and working chemistry. It is worthwhile to begin working with an architect early in the needs assessment process to get a visual representation of how your organization's space plans lay out. The firm hired for the predevelopment drawings does not necessarily have to be selected for the final project. Typically, the architect is responsible for designing a "buildable" building; developing plans, specifications and bidding documents; attending construction meetings; visiting the site; and signing off on work completed and payments to the general contractor.

## **Designate a Selection Committee**

This group should decide how the architect will be chosen (e.g. consensus, majority or executive decision), and should include Board and/or staff and the project's designated project manager. *(This may be a designated staff person or an outside project manager.)*

## **Outline the Project**

The committee should discuss the number and type of rooms needed, as well as project goals, schedule, budget, location and outline. This is called a "program".

The outline should address priorities such as timeframe, cost and design.

Establish the evaluation criteria for judging each applicant equally, based on the priorities of your project.

## **Decide on a Selection Process**

Determine the process, timeline and criteria for selection. See below for suggested selection criteria.

Issue a Request for Proposals or a Request for Qualifications to your list of candidates.

The RFP and/or RFQ is typically followed up with interviews.

## **Collect a List of Candidates**

Ask other organizations for recommendations or contact groups that have recently completed projects that involved architects.

Search the web for architects with experience in your type of real estate project. Pre-qualify architects according to your criteria, such as:

- The reputation and relevant experience of the firm.
- The track record of the candidate as confirmed by referrals.
- Evidence of repeat clients and the candidate's recent project history.
- The design quality and style of the architectural firm's work.

## **Solicit and Review the Proposals**

When reviewing RFP responses, it is important that the committee considers:

- The proposed project team, including the qualifications of specific individuals assigned to the project within the firm.



- 
- The reputation and relevant experience of the architect and team members.
  - The budget-and-schedule track record of the candidate.
  - The size, area of specialization and length of practice as it corresponds to the size and type of project proposed.
  - The individual or firm's familiarity with local building conditions, codes and approval processes.
  - The proposed construction monitoring process.
  - The fee proposal.
  - What, if any, set procedures the candidate has for solving design problems.
  - The firm's approach to the design of the building.
  - The firm's experience working with nonprofit agencies or relevant projects.
  - Relationships with special technical consultants the project will require.

### Interview the Candidates

When interviewing candidate firms, be sure to ask about:

- The level and type of involvement one can expect from the project's principal architect and key personnel.
- The architect or architectural firm's approach to cost estimating and cost control. Secure evidence that the firm has designed projects that have been on budget; ask about the average number of change orders on projects.
- The firm's experience in getting local approvals. Navigating the building department can be a complicated and challenging process. Individual inspectors interpret the code in a number of different ways. Look for an architect that has experience with similar projects, understands the code, and has a track record of successfully completed projects within your municipality.

### Check References

This final step is critical. Your principal question should be aimed at discerning whether the previous client would use the same architect again, and why or why not. Other questions to ask references include those listed above under the interview questions.

Feel free to request a tour of facilities designed by the architect.

### Negotiate a Contract

Select a firm, then enter into a contract to outline the firm's services.

AIA (American Institute of Architects) contracts are the industry standard, but can be viewed as a starting point.

Review the contract carefully with an attorney familiar with the standard practice of construction.

The contract with the architect governs the relationship and lays out the responsibilities of both parties, cost of the work, instruments of service, change in services, mediation, arbitration, claims for consequential damages, miscellaneous provisions, termination or suspension, payments to architect, scope of services and compensation.



# Selecting a General Contractor

*This worksheet is designed to help organizations choose the right general contractor to build or renovate their new facility.*

In most cases, the contract with the general contractor may be the single largest item in the development budget. A contractor can bring a project in on time and under budget, saving time and money, but can also be responsible for long delays and cost over-runs, costing time and money. In addition to being responsible for the construction of the building, the contractor is responsible for coordinating, supervising; and paying all subcontractors; ordering equipment and materials; submitting paperwork associated with payment requests; and site security. The success or failure of a project can rest on the skill of the contractor. It is critical to carefully select an experienced contractor and to hire an attorney experienced with construction contracts to negotiate on your behalf.

In selecting a contractor to meet your organization's expectations and project demands, it is important that you consider the overall size, experience and business approach possessed by each candidate. Your organization should choose the contractor that has performed well on similar projects, and brings to the project the optimum balance of experience, positive references and working chemistry.

## Decide on the Selection Process and Type of Contract

Your architect or project manager can assist you in prequalifying several contractors by looking at:

- The reputation and relevant experience of the contractor and team members.
- The contractor's experience working with nonprofit organizations.
- The budget-and-schedule track record of the contractor as confirmed by references.
- Evidence of repeat clients as well as the contractor's recent project history.

- The proposed construction monitoring process.
- The quality and durability of the contractor's work.

Decide whether to competitively bid the project or choose a general contractor early to work with your architect to provide a Guaranteed Maximum Price contract (*see below*).

Your architect and project manager should recommend the type of contract you should enter into with the general contractor and manage the bidding and selection process on your behalf.

Competitively bidding usually means securing the best pricing, but not always. The methods for contracting with general contractors are as follows:

- A *Cost Plus Fee* contract requires a lot of time from the designated staff person or project manager. It is an open-ended agreement that requires a strong relationship and a high level of trust between the project manager and the contractor. The contractor will charge for the actual cost of the work plus a fee. This type of contract transfers most of the project risk to you. If possible, negotiate a cap on the total to remain within the project budget.
- A *Guaranteed Maximum Price (GMAX or GMP)* does not require a large time commitment from the designated staff person or project manager. The contractor will provide you with a price that will not be exceeded before drawings and specifications are 100% complete. If the cost of the project is exceeded the contractor is responsible for the additional expense. Savings may be negotiated to go back to or be split with the owner. This type of contract transfers most of the project risk to the contractor. The contractor may price the project higher to ensure that his or her expenses are completely covered.



- A *Lump or Stipulated Sum* may require a substantial time commitment from the designated staff person or project manager. A contractor, upon reviewing completed drawings and specifications, stipulates the sum that he or she will charge to complete the project. The GMP and the lump sum contracts both allow for “change orders”. A change order is a request for additional expenditures and must be approved by both you and your architect. This type of contract transfers most of the risk to the contractor.
- A *Design Build* contract provides for both architectural and contracting services. The level of paperwork and demands on the designated staff person or project manager’s time can be greatly reduced because there is a single point of contact. It is critical to have developed a scope of work and budget early on in the process in order to communicate the project goals to the contractor. The contractor will design and build the project based on your specifications. The disadvantage to the design build contract is that you have less control over the finished product. This type of contract shifts most of the risk to the contractor.

#### **Incorporate Project Goals into the Construction Documents**

Be sure that your architect and project manager understand your project goals and incorporate them into your bidding documents and construction contract. For example:

- *Construction start date:* If the project involves new construction or extensive interior work, consider the potential costs and delays associated with construction in winter.
- *Design priorities:* Determine items that cannot be eliminated or substantially changed through the value-engineering process.
- *Community priorities:* Determine the level, if any, of community participation (such as hiring local residents) the organization desires on the construction project.

- *Organizational priorities:* A construction contract can represent a substantial investment in a community. Set goals at or above funding requirements for MBE/WBE (minority/woman-owned business) participation, if applicable.

#### **Evaluate Bids**

If you decide to competitively bid to select your contractor, your architect and project manager should assist in your review process.

Remember, the lowest price isn’t always the best price.

#### **Interview Contractors**

If bids come in within a close range, you can interview the contractors to help make a decision. In interviewing contractors, be sure to ask about:

- The proposed project team, including the qualifications of specific individuals assigned to the project.
- The level and type of involvement one can expect from the contractor and key personnel (site supervisor, project superintendent, etc.).
- The contractor’s approach to cost control and value-engineering.
- The contractor’s experience in getting local approvals.
- The contractor’s bonding capacity and insurance coverage. What, if any, set procedures the contractor has for solving design problems.
- The contractor’s approach to the construction of the building.



- 
- The contractor's experience working with nonprofit agencies, public financing or relevant projects.
  - The contractor's approach to employment inquiries on site.
  - Participation requirements for your organization. If there are requirements associated with your funding sources, ask about the contractor's history of MBE/WBE (minority/woman-owned business) participation.

#### **Check References**

This final step is critical. Your principal question should be aimed at discerning whether the previous client would use the same contractor again, and why or why not. Other questions to ask references include those listed above under the interview questions.

#### **Negotiate a Contract**

The draft contract should be included in the "bid documents". Before signing a final contract, however, you should consider the following:

- When signing a contract, know that pricing is normally good for 90 days.
- AIA (American Institute for Architects) contracts are the industry standard.
- Review the contract carefully with an attorney familiar with standard construction practices.
- The contract with the contractor governs the relationship and lays out the date of commencement and substantial completion, the contract sum, payments, responsibility for obtaining permits, dispute remedies and termination or suspension.
- If you hire a project manager, the contract should include language authorizing your project manager to act on your behalf.
- The contract must outline any residency, MBE/WBE, and/or wage restrictions associated with the project financing.



# Fundamentals of Purchasing Real Estate

*This worksheet is designed to provide a brief overview of the process for purchasing real estate and to help organizations make an informed evaluation of a property's suitability to meet their needs.*

Once your agency has determined its program goals, facilities needs and financial means, you are ready to begin the process of identifying suitable real estate. It is critical for your organization's Board and staff to clearly define and agree on what target areas, neighborhoods and other geographic requirements will meet your organization's needs for the long term (see *Worksheet #1: "Assessing Your Organization's Program and Facilities Needs"* and *Worksheet #7: "Approaching a Real Estate Project"*). Well before acquiring property or starting construction, you will incur costs for inspections, legal professionals and earnest money. Remember to set aside cash from your operating budget or special grants funds to help pay for these costs.

## Identify and Visit Available Properties

Once you have defined your property criteria (e.g., *target area, size of building, special features*), you can begin a search for your new facility. The property search and identification can be completed by a designated staff person, a project manager (if you have one secured at this point—see *Worksheet #9: "Selecting a Project Manager"*) or a real estate broker. Base the decision to hire a broker on the amount of time staff has to dedicate to a property search. For a fee, which is paid for by the seller of the property, a good broker can save time by narrowing the field to your pre-set criteria. Whether you have hired a broker or are accessing available listings yourself, a property's initial suitability can be determined from the information typically contained on a standard Real Estate Listing Sheet. Your broker or the broker representing the properties for sale can provide you with such listings, which include the following information:

- Address
- Lot Dimensions
- Building Dimensions (Gross Square Footage)
- Room Dimensions (Net Square Footage or Usable Space)

- Selling Price (Total and Cost per Square Foot)
- *Zoning Restrictions*: Zoning is established by local government and designates a building's type and how it may be used, such as residential, commercial and industrial. Determine what classification of use your agency falls into and which zoning designations allow this type of activity. To make this determination, you can contact your local zoning office, reference the local zoning ordinance, or work with a zoning attorney.
- *Taxes*: In addition to the most recent tax information, inquire when the last tax assessment was made and if there are any special assessments regarding roads, streets, sewers, electrical or other public works improvements.
- *Utility Costs*: Recent data on previous expenditures for water, gas and electricity.

If several buildings meet your criteria from the listing sheet, visit potential sites for further investigation.

## Choosing the Best Properties and Entering into a Purchase Agreement

When you have identified a property and determined that it meets initial suitability requirements, you will need to learn more about the condition of the property. Additional research and/or tests usually require access to the property. The seller will typically require you to enter into a purchase agreement before you have access to the building to perform the tests. You should hire an attorney to draft and review your purchase agreement. A purchase agreement, usually secured with earnest money, expresses your interest in purchasing a property, subject to the information you gather during the due diligence period. Earnest money is credited against the final purchase price if the transaction occurs, or is refunded to the purchaser if the deal falls through, or is kept by the seller if the purchaser defaults under the terms of the purchase agreement.



Your earnest money deposit should not exceed 10% of the purchase price; you should offer enough of an earnest money deposit to let the seller know you are serious but keep it affordable for your organization (a \$10,000 deposit can get you pretty far, even if it's far less than 10% of the purchase price).

Sometimes a "letter of intent to purchase," which expresses your interest in purchasing, can establish the terms for the contract; price, due diligence period and closing date are usually spelled out in such letters of intent. Letters of intent are not contracts, but let the seller know that you are interested in the property when you don't have time to wait for your attorney to draft a purchase agreement.

Purchase agreements are created with contingency clauses to allow for time to obtain additional information or perform due diligence. Negotiate at least a 30-day due diligence period; 60 to 90 days is preferable, and 120 days is ideal. Due diligence usually includes building inspections (including roof, structural and systems review), a zoning and parking requirement review, building code review, environmental assessments, and an appraisal. The information gathered during the due diligence period will enable you to make a more informed decision about the property. While the costs of these inspections can add up, the information they reveal can often result in tremendous savings in the long run. Pay special attention to:

*Layout Suitability:* An architect or space planner should look at the current configuration of a building to make an assessment of how easy or difficult it will be to renovate to meet your organization's space needs. Common problems are: load-bearing walls that are not easily moved; plumbing and HVAC (Heating Venting and Air Conditioning) piping that are not easily modified; and stair, door and hallway configurations that are not readily ADA (Americans with Disabilities Act) accessible.

*Condition of Property:* Inspections of the major components of the building should be performed by qualified professionals.

*Structural:* Look for potentially expensive flaws in the structural integrity of the building. These are typically indicated by bowing, sagging or rotting structural elements. Other common indications of problems are cracks in concrete, evidence of termites, drainage problems, and eroded masonry mortar joints.

*Electrical:* Assess whether the current electrical power is sufficient for the proposed work and if it is installed in compliance with current local building codes.

*Mechanical:* A general inspection of the age and condition of the plumbing, heating and air conditioning systems should be performed.

*Roofing:* Determine the type, age and condition of the roof and drainage system and review applicable warranties.

*Environmental Audit:* A Phase I audit conducted by a professional environmental inspector consists of a preliminary site analysis, including examination of public records and surrounding properties, to determine if there is evidence of hazardous waste, underground storage tanks and possible leaks. Lenders are concerned that the security for their loan may be at risk if the property is found to contain hazardous substances. Since lenders could potentially own the property through foreclosure, they will generally require extensive documentation on environmental concerns and how they have been addressed.

### **Establish a Budget**

Once you have obtained considerable additional information on the selected property, your findings need to be factored into the decision of whether to move ahead with the purchase agreement. Often, the due diligence period inspections reveal significant costs that should be incorporated into the purchase price negotiations. You may decide to abandon a property after inspections reveal too many cost-prohibitive problems. Don't be discouraged: it's better to keep looking for the right property than to sink money into a building that's not right for your organization.



Have your architect, project manager or estimator provide you with a probable estimation of costs for the renovation of the property, including the results from the due diligence inspections. This is another cost item that you will incur before you ultimately decide to purchase the property, although you may be able to secure pro bono architectural or other professional services for the estimating expense.

Establish a development budget based on the probable opinion of cost that your architect, project manager or estimator has provided you, and add other soft costs to the budget to get a better of understanding of the project's total costs (see *Worksheet #8: "Creating a Project Development Budget"*).

#### **Secure Financing Commitment**

During your due diligence, you will need to secure a mortgage commitment. Lenders will want to see a development budget, as well as your agency's financial statements and an operating budget showing how their loan would be repaid. Lenders will also want to see your other committed sources of funds for the project.

Lenders typically require the following items before a closing on a purchase can occur. It is critical to secure professional assistance in reviewing these requirements, for they often contain critical information that can significantly delay, complicate or prevent a deal from moving forward.

*Appraisal:* This is a written analysis of the estimated value of real estate prepared by a licensed appraiser. If obtaining a loan, most lenders will require an appraisal to determine the value of their loan. An appraisal will also determine whether you are paying too much for the property. For a preliminary informal evaluation of a building's value, research recent sales of comparable properties.

*Survey:* An ALTA (American Land Title Association) survey is the industry standard. The survey is a drawing of the precise legal boundaries of the real estate (land and lot lines), the location of improvements, easements, rights of way, and encroachments. Title insurance companies and lenders generally require a recent survey; the seller usually provides this.

*Restrictive Covenants:* These are private agreements that limit the use and occupancy of real estate. For example, the purpose of the structure being built, architectural requirements, setbacks, size of structure and aesthetics may be governed by a restrictive covenant. Contact the Recorder of Deeds in your county to learn whether any restrictive covenants have been recorded in connection with your property.

*Condition of Title:* A Title Report is a search of public records of all recorded interests in and/or encumbrances on the property. You should hire a real estate attorney during the review process to investigate any unforeseen encumbrances on the conveyance of title.

*Easements:* This means a right or privilege one party has to the use of another's land for a special purpose consistent with the general use of the land. Easements are commonly given to telephone and electric companies to erect poles and run lines on the property, as well as gas and water companies to lay pipes or run lines on the property. Other easements can be given to people to drive or walk across someone else's land. Contact the Recorder of Deeds to find out what easements exist on the property. They are usually included on the survey.



---

### Closing

If you still want to buy the building after performing the inspections and revising the budget, then schedule a closing.

If you haven't done so already, hire an attorney (or secure pro bono legal services) to coordinate the closing for your purchase of the building. Your attorney should make sure that all outstanding issues (e.g., condition of title, tax liens) regarding the property are resolved before you take ownership.

Once you have closed on the building you will begin to incur holding costs (insurance, property taxes, security, board-up if vacant, etc.). It is critical to keep the development process moving in order to minimize holding costs and other expenses associated with delays.



# Projecting Your New Occupancy Budget

*This worksheet is designed to help organizations plan for the costs of operating a facility.*

As a part of the facility planning process, it is critical to consider all of the costs associated with operating a building. These expenses associated with operations in the new facility, known as occupancy costs, will need to be covered by your organization's annual operating budget. As a rough guide, total occupancy costs should be between 10% and 15% of your annual operating budget. The attached template should assist you with estimating all the components of your occupancy budget. Once you have an estimate of all the potential costs, you should evaluate the feasibility and affordability of the occupancy costs on an annual basis. Certain costs are only associated with ownership of a building and certain costs are specific to renting.

**Explanation of Occupancy Budget Line Item Terms (Refer to the attached spreadsheet—we can email this spreadsheet to you upon request.)**

## Assumptions

On the worksheet, enter the total number of square feet you will be occupying. Also, write in your assumption for each cost estimate you enter.

### A: Mortgage/Taxes/Insurance

#### *Mortgage*

The amount of loan (principal and interest) payments for money borrowed to purchase or renovate the property.

#### *Rent*

If you do not own the property, the amount of your rent. This number may be quoted in annual dollars per square foot. Depending on your lease, taxes, insurance and utilities this may or may not be included as part of your rent. A "triple net lease" arrangement means that you are responsible for paying for all of these costs directly.

#### *Property Taxes*

Unless you are in a triple net lease arrangement, your rent should include property taxes. If you will own, you should try to secure property tax exemption on your building; otherwise, use previous tax records to determine your tax liability (see Worksheet #14: "Applying for Property Tax Exemption").

#### *Property Insurance*

Unless you are in a triple net lease arrangement, your rent should include insurance. If you will own, you should secure a quote for property insurance from your insurance carrier.

### B: Utilities

#### *Gas*

If you are in a triple net lease situation, you are responsible for paying your utilities directly. Budget at least \$1.25 per square foot for your gas and electric charges. If purchasing an existing building, try to secure utility cost information from the seller of the property.

#### *Electric*

If you are in a triple net lease situation, you are responsible for paying your utilities directly. Budget at least \$1.25 per square foot for your gas and electric charges. If purchasing an existing building, try to secure utility cost information from the seller of the property.

#### *Water*

If you are in a triple net lease situation, you are responsible for paying your utilities directly. If purchasing an existing building, try to secure utility cost information from the seller of the property.

### C: Maintenance

#### *Fire and Safety*

Budget for costs associated with routine maintenance of smoke detectors, fire extinguishers and carbon monoxide detectors.



#### *Fire Alarm Maintenance*

Budget for costs associated with your fire alarm maintenance contract.

#### *Exterminating*

Budget for costs associated with exterminating, unless this is provided by your landlord.

#### *Elevator Maintenance*

If you own your facility or are in a triple net lease, and you have an elevator, secure a quote for a maintenance contract.

#### *HVAC Maintenance*

If you own your facility or are in a triple net lease, secure a quote for a maintenance contract.

#### *Snow Removal*

If you own your facility or are in a triple net lease, budget for snow removal.

#### *Garbage Disposal*

If you own your facility or are in a triple net lease, budget for garbage disposal.

#### *Maintenance Repairs*

A guideline set-aside for repairs is about \$.50 per square foot; these may include general improvements for painting or landscaping, or plumbing repairs and work for other unexpected problems that arise.

#### *Capital Improvements*

If you own your facility, estimate at least \$.25 per square foot annually for capital improvements such as roof or system repairs.

#### *Replacements Reserve*

If you own your building, aim to place 3% of your total occupancy budget on an annual basis into a replacement reserve to account for future major capital repairs.

#### *Janitorial Supplies*

Budget for janitorial supplies if you have a janitor, or a cleaning service if you don't.

#### **D: Payroll**

##### *Maintenance Worker/Building Engineer*

If you own your building or are in a triple net lease, budget personnel expenses for building maintenance.

##### *Janitor*

Hiring a janitor or not depends on the size of your staff at the organization; how much the janitor works depends on the size of your building. You may opt to use a cleaning service in lieu of a janitor.

##### *Fringe Benefits*

If you have a maintenance worker, an engineer or a janitor on your payroll, you will need to budget for their fringe benefits.

#### **E: Administration**

##### *Management Fee*

If you own your building and lease to other tenants, we strongly recommend using a management company to manage your building and tenants. This fee is typically 4% of gross revenues of the building (lease payments) and covers costs associated with rent collection, leasing of space and addressing tenant issues.

##### *City Permit Fees*

If you own or are in a triple net lease, budget for these fees, which depend on your municipality. Such fees include driveway and elevator permit fees, or business license renewals.

##### *Bank Charges*

If you maintain a separate bank account for your building, you may have bank fees.

##### *Miscellaneous*

You should always set aside funds as a cushion for unanticipated situations; aim for \$.15 per square foot.



# Projecting Your New Occupancy Budget

*Square Feet in Building:*

| Cost Item                          | Monthly | Annual | Annual Cost per Square Foot | Assumptions                               |
|------------------------------------|---------|--------|-----------------------------|---|
| <b>A: Mortgage/Taxes/Insurance</b> |         |        |                             |   |
| Mortgage/Rent                      |         |        |                             |   |
| Property Taxes                     |         |        |                             |   |
| Property Insurance                 |         |        |                             |   |
| <b>Section B: Utilities</b>        |         |        |                             |   |
| Gas                                |         |        |                             |   |
| Electric                           |         |        |                             |   |
| Water                              |         |        |                             |   |
| <b>C: Maintenance</b>              |         |        |                             |   |
| Fire and Safety                    |         |        |                             |   |
| Fire Alarm Maintenance             |         |        |                             |   |
| Exterminating                      |         |        |                             |   |
| Elevator Maintenance               |         |        |                             |   |
| HVAC Maintenance                   |         |        |                             |   |
| Snow Removal                       |         |        |                             |   |
| Garbage Removal                    |         |        |                             |   |
| Maintenance Repairs                |         |        |                             |   |
| Capital Improvements               |         |        |                             |   |
| Replacements Reserve               |         |        |                             | Approximately 3% of your occupancy costs  |
| Janitorial Supplies                |         |        |                             |   |
| <b>D: Payroll</b>                  |         |        |                             |   |
| Maintenance Worker                 |         |        |                             |   |
| Janitor                            |         |        |                             |   |
| Fringe Benefits                    |         |        |                             |   |
| <b>E: Administration</b>           |         |        |                             |   |
| Management Fee                     |         |        |                             | Approximately 4% of your occupancy budget |
| City Permit Fees                   |         |        |                             |   |
| Bank Charges                       |         |        |                             |   |
| Miscellaneous                      |         |        |                             |   |
| <b>Total Building Expenses</b>     |         |        |                             |   |



# Applying for Property Tax Exemption

*This worksheet is designed to help organizations understand the process of securing real estate tax exemption in Illinois.*

A nonprofit organization is not automatically exempt from paying property taxes. However, if a nonprofit uses a property it owns for charitable purposes, the organization can apply for exemption from real estate taxes. The purpose of this overview is to increase your organization's understanding of the property tax exemption process; it is not intended to take the place of legal counsel. In fact, because of the difficulties many nonprofits experience when seeking property tax exemption, the IFF strongly recommends obtaining legal advice or representation while undertaking the application process.

Filing for property tax exemption can only be done by the owner of the property, so filing cannot occur until a nonprofit is the taxpayer of record. When a corporation buys a property, it immediately becomes responsible for property taxes; therefore, it is a good idea to begin preparing for the application process as soon as possible.

Until you secure your exemption, **pay all property taxes**. If granted an exemption, you can then file a certificate of error to refund the paid property taxes. This process takes between six months and a year. The cash contribution your organization brings to project funding will be needed for these initial tax bills, as well as the legal fees incurred to obtain exemption.

## Qualifications for Exemption

Nonprofits owning property qualify for property tax exemption by demonstrating that they have a charitable purpose. Those organizations with a purpose not specifically named as charitable in the statute must meet the following six-point test:

- The services offered are for an indefinite number of people, not just members of a preferred group.
- The organization carries 501(c)2, 501(c)3 or 501(c)4 status.

- Funds are derived mainly from public or private charity, and are used for the purposes expressed in the charter.
- The charity is dispensed to all who need and apply for it.
- No obstacles are placed in the way of those seeking benefits. A fee-waiver policy outlined in the by-laws is helpful if fees for services are charged.
- The exclusive (primary) use of the property is for charitable purposes.

## The Application

Check with the local county board of reviews to find out when the filing periods are open. The Cook County Board of Review has four filing periods per year and applications are accepted only during those periods. Other counties have similar filing restrictions.

Be comprehensive in preparing the application. Any missing documents or incomplete information can delay the process, and possibly lead to a hearing or a denial of the application. Check with your local county board of reviews for specific instructions and to receive the necessary forms. Cook County requires that the entire application be submitted in duplicate and 12 pieces of supporting documentation be completed and included with each application. A summary of those required items are as follows:

- Application form "Board of Review of [insert name] County [insert tax year] Real Estate Exemption Complaint"
- Illinois Department of Revenue Application for Property Tax Exemption (form PTAX-300 for charitable or educational organizations, or form PTAX-300-R for religious organizations)



- Parsonage/Convent form (for religious organizations)
- Title/Deed (must be in organization's name)
- Corporate Charter
- By-Laws—These can help make your case by outlining policies that fulfill the exemption requirements
- Tax Bills
- Photographs—4 of each building (2 inside and 2 outside)
- Plat of Survey
- Floor Plan
- Internal Revenue Service 501(c) 2 or 501(c) 3 Letter and/or
- Illinois Sales Tax Exempt Letter
- Financial Statement
- Organization newsletters, brochures, etc.

The documentation required may vary by county. Please check with your local county board of review for exact requirements.

#### **The Review Process: The County**

The local Board of Tax Appeals reviews the application and makes a recommendation to the Illinois Department of Revenue. A recommendation for exemption by the county is not a guarantee of exemption. The local Board of Tax Appeals or the Department of Revenue may ask for

additional information or call for a hearing. If a formal hearing is requested, the hearing officer will contact the organization. At this time, the applicant may provide additional information and call witnesses to testify as to the nature of the organization and use of the property in question. Legal counsel is not required at the hearing, but may advise the applicant if desired. If either the Board of Appeals or the Department of Revenue does not have sufficient information to grant exemption, then they are required by law to deny the request.

#### **The Review Process: The State**

The Department of Revenue in Springfield makes the final exemption determination, which usually takes between six months and a year. The Department of Revenue requires that the property in question be owned by a charitable organization and that it is used solely for charitable purposes. If your organization is also a landlord, the corporate status of your tenants will influence whether or not the property is granted partial or full exemption from real estate taxes. When a decision is made, the Department of Revenue notifies the organization, the county clerk, and the Board of Tax Appeals.

#### **Ongoing Obligations**

After an organization is granted a full or partial property tax exemption, an annual affidavit letter will be sent to verify that the use of the property has not changed and the exempt status should remain. ***The notice must be signed and returned to the county assessor's office every year.*** If it is not returned, the property can be added back to the tax roles, and the organization must apply for exemption all over again.

For a more detailed description of this process, please call the IFF at 312.629.0060 for a copy of its *Capacity-Building Digest 2: Property Tax Exemption*.



### Steps in Applying for Property Tax Exemption in Illinois

