Ten Keys to a Successful Real Estate Project

For ten years, Build with Purpose, a national leader in real estate development, has been working on the development of real estate for other nonprofits. We have completed the development of dozens of school projects and hundreds of units of affordable and supportive housing and our work has taught us a thing or two about what makes for a successful project. Most people would say money is the most important ingredient to a successful development project. While it is important, in fact, very important , we have found there are many other factors of equal or greater importance.

We at Build with Purpose are happy to share our knowledge and experience in the hope that it will help to build stronger organizations and communities.

10 Keys to a Successful Real Estate Project:

1) **There is sufficient real estate stock to meet the project's objectives.**

    We at Build with Purpose were once asked about the possibilities of building an equestrian field/park in a heavily populated urban area. Needless to say, there was not sufficient land available to meet the objective. So when considering your real estate project take a look at the community you intend to develop in and determine if that community has sufficient land/buildings to meet your needs.

2) **Management and board are on the same page regarding the project's outcomes.**

    Real estate development is a long and tough road to hoe so it is important that management and the board of any organization are equally committed to the project and share the same vision for its outcomes. This shared vision and commitment will help focus the organization and its professionals on what is important. It will help to reduce distractions and smooth over the bumps in the road that are inevitable in any real estate project.

3) **The client is reasonable and demonstrates an understanding of the many factors associated with the development of their project.**

    Dreams are wonderful but unless they are rooted in reality they will remain just that - dreams. We at Build with Purpose don't mean to discourage organizations from dreaming or working toward a lofty goal but we have seen many groups expense a great deal of time and money on projects that are unlikely to ever be developed. So many of these organizations will point to a project that was recently in the news and how it was funded completely by grants and how they want to do the same. We think that is great but we also know that the reality is that these kinds of projects make the news because they are not typical. Organizations should look at their projects from a conventional real estate development point of view. They should determine

how much can be funded by traditional lenders - the most abundant source of capital available- and then look for the "free" money if needed. A project is more likely to be developed if it is financeable in the traditional markets than through grants.

4) **The client has a track record and can demonstrate that they provide quality product/services.**

Regardless of whether you intend to finance your real estate project with grants or debt financing, those providing the funding will want to ensure the money will be well managed, meet the objective and be repaid. If your organization is a startup (less than five years old) and you can't demonstrate a track record and evidence the quality of your product or service you provide it is not likely that lenders or foundations are going to be interested in providing you with money. If you fall into this category it is our belief as real estate professionals that the time is not right for you to embark on a real estate project. Try and find leased space and work to create great programs, a sound financial track record and save some money until such time that your organization has matured and can prove with historical data the ability to repay debt.

5) **The proposed project does not require extraordinary efforts to succeed.**

Even the simplest real estate transactions are complicated. The very fact that your organization is a nonprofit further complicates things so keep things as simple as possible. If your real estate transaction requires a major highway to be moved, the relocation of cemetery plots or the cleanup of a highly contaminated property, it is unlikely to be developed anytime soon. Our opinion on this has nothing to do with the worthiness or the merits of your project; it is simply based on pragmatism. The more challenges a project faces the less likely it is to be developed. Keep it simple.

6) **The project's development budget (Loan to Value Ratios, Debt to Equity Ratios, etc.) is in line with industry standards**

Nearly every real estate project requires equity (a cash contribution by the owner and/or tenant). While it is possible to get 100% financing for your project it will make it more challenging to develop and will add time. Lenders are unlikely to lend money in excess of the value of the property and most likely will lend less, much less. Additionally, you have to evidence you can repay the loan and that can't be based on projections alone. It has to be based on historical revenue and industry averages. Ask lenders what their Loan to Value and Debt to Equity Ratio requirements are and how that will affect your project.

7) **The project's/client's operating budget (Debt Coverage Ratios, Escalation Factor, etc.) is in line with industry standards.**

Your organization will need to show it can repay the loan and will need to be based on historical financial data, realistic future projections and industry standards. If you are a startup nonprofit and/or have overly optimistic revenue projections that are not in line with the industry, a lender is not going to see your project as viable. Lenders are in the business of lending money, meaning they want/need to get repaid. Lenders are cautious people, they don't like unnecessary risk so make sure your revenue projections are sound.

8) **The organization has been in business for at least 5 years.**

According to the Small Business Administration (SBA) over 50% of all businesses fail in the first year. But those are only the ones financed by the SBA. Other sources estimate that nearly 80% of all businesses fail in the first 5 years.

While your organization and board should be focused on success, too many lenders have been burned by businesses that close up shop early on and will see your organization in that same light. Lenders like to lend to successful businesses and one of the best ways to evidence success is your track record. Additionally an organization is more likely to be successful if it is focused on it's mission, core services and prudent financial management and real estate development is a distraction from this. Real estate development is hard and time consuming and should only be taken on once an organization is stable and can commit the needed resources to ensure its success, otherwise it could be the downfall of your non-profit. If you can rent space- even if it is not ideal- for the first five years do that and spend this time building an outstanding organization. Then in time you can consider a real estate project.

9) **There is a reasonable amount of time to develop the project.**

Everything takes time and for something to be done well you need to allot sufficient time to it. Organizations spend a great deal of time discussing how long construction will take and granted construction is a big chunk of time but there are many steps in the development process that collectively can take as much or more time than construction. This includes securing financing, obtaining land use approvals if necessary, securing building permits and project design. It is important to be realistic about how much time your project will take because it can't be rushed. We would also recommend that your organization plan for delays.

10) **The project has a champion/lead in-house.**

No matter how good your project professionals might be -architect, attorney, real estate consultant, etc.- they are not a replacement for knowledgeable people within your own organization. Professionals can and will guide you through the process and do a lot of the heavy lifting regarding the day to day development of the project but the organization will need a champion or leader to manage the project's development in-house. This person needs the capability and willingness to make timely decisions, balance mission with cost and manage the organization's staff and board to ensure the project's completion. This person does not need to be a real estate expert but they do need to know how to manage people and projects.