

Nonprofit Co-location and Opportunities for Community Development Financial Institutions

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A nonprofit co-located facility (nonprofit center) is a physical space, generally a building or a campus, where mission-driven organizations intentionally share spaces and resources for mutual benefit. Beginning in the California Bay Area in the early 2000s, nonprofit centers have since proliferated across Canada and the United States, with concentrations in New York City; Washington, D.C.; Denver, Colo.; Dallas, Texas; Houston, Texas; Seattle, Wash.; and areas in Michigan, California and Oregon. There are also concentrations of nonprofit centers in the Federal Reserve's Eighth District (i.e., Louisville, Ky.; Memphis, Tenn.; and areas in Arkansas and Mississippi). The typical nonprofit center encompasses 35,000 square feet with approximately 12 tenants and \$500,000 in gross revenue. Generally, one or more employees are dedicated to the daily operation of the center.¹

Co-location and nonprofit collaboration create a space for inventive people to converge in imaginative spaces, resulting in a passionate community of social entrepreneurs and innovators. St. Louis is home to Cortex, a co-location of a different sector. Cortex, an innovation community spanning a 200-acre campus, houses people working in an estimated 3,800 tech-related jobs leveraging cross-organizational collaboration. Close proximity of various nonprofits, as Cortex does in the biotech sector, creates an environment that brings together a diverse community of innovators and problem solvers.

Benefits of Nonprofit Co-location

The development of nonprofit centers has caught on, in part due to the many benefits co-location offers to nonprofits, including enhanced programming, cost saving and increased collaboration. The structure varies depending on the needs of the partner organizations and the community. Richer partnerships develop and resources are more easily shared, which benefits organizations, their clients and the community as a whole.²

Research suggests that there are three primary benefits of nonprofit co-location: 1) improved quality of services; 2) reduced financial burden on the organization; and 3) the potential positive effect of nonprofit centers on the surrounding geographic location.

Improved Quality of Services

Several organizations such as Serve Denton (Denton, Texas), Family Partnership Center (Poughkeepsie, N.Y.) and The Commons on Merton (Memphis, Tenn.) have commissioned impact studies with the goal of measuring the effect of co-location on quality of services and programming. Co-locating nonprofits hope to improve quality of services and enhance client access by integrating services in one shared location.²

Measurable benefits of co-location include increased use of services, easier access for clients and ease of establishing a continuum of care. Co-locating agencies must therefore: 1) share the same service populations or demographic; 2) offer complementary services; 3) choose locations that are proximate to their service population and sources of transportation; and 4) rent, rebuild or renovate buildings to enhance public access and to align with service needs (e.g., accommodating children or protecting the anonymity of victims of domestic violence).²

In 2013, the Family Partnership Center commissioned an impact assessment to measure the scope and impact of their nonprofit center.³ The report captured data that illustrate the role that the center plays in maintaining the health and resiliency of the community served and summarized findings related to the experiences of clients, tenants, staff and the community. Many of the center's clients cited an improved quality of life and reported that accessing multiple services offered at the center helped them make better and more informed decisions. Clients noted that improved information is the biggest benefit of accessing multiple services at one location.

According to research conducted by The Nonprofit Centers Network, there also have been improvements in staff morale, recruitment and retention at nonprofit centers. According to survey participants, 75 percent said that staff morale had improved as a result of a nonprofit center, 55 percent reported improvements in the ability to recruit new employees and 50 percent noted an improvement in the ability to retain existing employees. Bringing together agencies and staff from different organizations can stimulate an environment ripe for new connections and collaborations, creative thinking and innovation.² This phenomenon is widely demonstrated in the business sector (e.g., St. Louis' Cortex) and can be nurtured through nonprofit co-location requiring proximity, density and organizational supports for staff.² Opportunities for collaboration, increased staff morale, improved continuity of care and the ability to address multiple needs under one roof allow for overall improved services, programming and satisfaction for clients.

Amy Moritz of The Commons on Merton in Memphis, Tenn., speaks of the need to foster an environment of mutual respect focusing on collaboration across nonprofit tenants. In order to combat a sense of isolation, Moritz implemented a monthly lunch for staff members in order to build relationships and foster a sense of community. Cultivating an environment of mutual respect allows for organic collaboration to occur in a meaningful way, positively affecting client outcomes and services received. As a result, nonprofit tenant employees operate in a collaborative community, directly contributing to continuum of care for clients with quarterly potlucks instead of monthly lunches.⁴

Reduced Financial Burden

Many individuals who manage or are involved with nonprofit co-located facilities speak of the center's ability to help nonprofits stretch dollars through shared space and services. While differing revenue structures exist from center to center (e.g., rent varies depending on the function and need of the nonprofit), all are marked by a shared cost of operation, which ultimately decreases the financial burden on the organization. Reducing this burden allows nonprofits to focus more resources on the provision of services to clients.

There are measurable benefits to nonprofit co-location that can lower costs and gain “back of house” supports, including accounting, human resources and risk management.² Centers allow for the sharing of day-to-day operational expenses (e.g., copiers, conference rooms, Wi-Fi) and other business operational requirements that the organization would otherwise have to undertake individually. Through co-location, nonprofits are able to split these costs, allowing more resources to be dedicated to staff development and enhancement of services. Nonprofits see an increase in operational efficiency, lower costs and the ability to strengthen capacity.² These benefits prove to be particularly helpful for smaller or newer nonprofit organizations seeking to leverage their impact. Co-locating agencies seeking to reduce their financial burden must: 1) share a need for operational support or the ability to provide such support; 2) choose a location near current and potential tenants’ clients or one that enhances customer access; and 3) rent, build or renovate buildings that offer a variety of space configurations capable of meeting current and future tenant requirements.²

Serve Denton reports a decreased financial burden among their nonprofit tenants by reducing operating expenses by approximately \$18,000 annually, allowing the organizations to redirect funding to hire and train more staff.⁵ As a result of these types of savings, organizations have been able to significantly increase the number of clients served and ultimately are better able to fulfill their mission.

Economic Impact on the Community

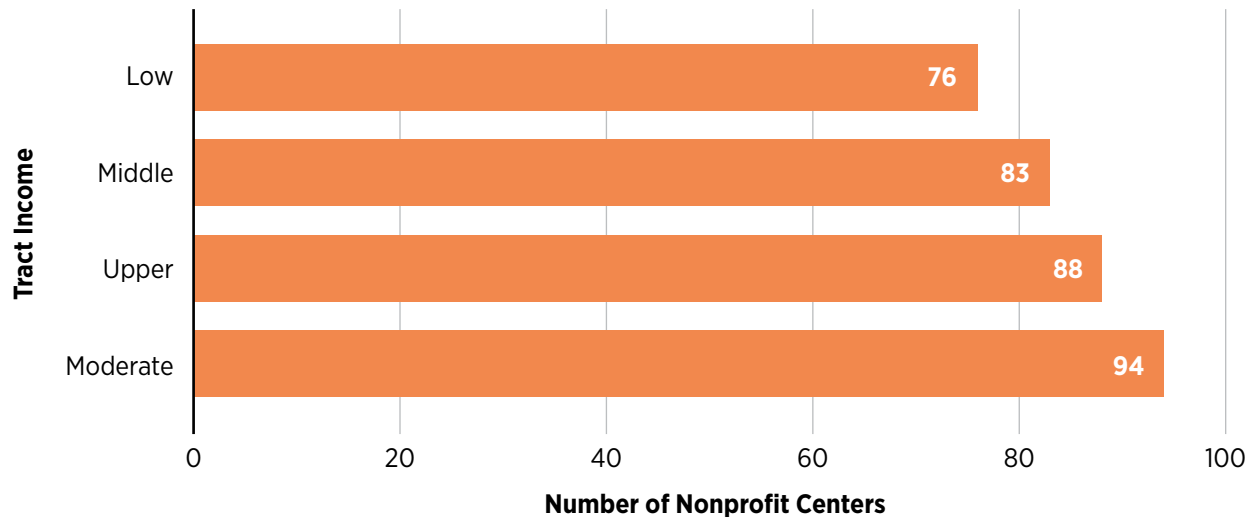
In addition to mitigating financial burden and improving access to and quality of services, nonprofit centers have the potential to improve the surrounding area in which they are located. Because of the center’s location in the community, residents can benefit from economic development, historic preservation, strengthened neighborhoods and improved living environments.² Initial research suggests that new property development and renovation of businesses located near the nonprofit centers are two potential neighborhood improvements. In a recent report generated by The Nonprofit Centers Network, approximately 75 percent of respondents reported new property development near nonprofit co-location centers. More than 80 percent of participants also reported property renovation in nearby areas. New business expansion associated with nonprofit co-location was reported by nearly 80 percent of participants. Additionally, 60 percent reported expansion of existing businesses. A similar percentage of participants reported increased public infrastructure or investments in amenities.⁶

While there are many positives associated with nonprofit co-location, there are potential negative consequences as well. It must be acknowledged that any attempt to aid neighborhood development alone, without careful consideration of the mission benefit associated with nonprofit co-location, can have a profoundly negative effect for both the organization and the community it serves.² It is not out of the realm of possibility that nonprofits could be compelled to relocate to a shared facility that does not enhance their ability to deliver on mission. An organization relocating for the wrong reasons is likely to result in an unsustainable project and departure from mission, which would negatively impact the community served by that organization.

In addition, relocation of multiple nonprofits to a new, shared facility may leave behind a vacuum in the neighborhoods where the nonprofits were previously located. The current economic conditions of a community need to be taken into consideration, such as whether a nonprofit relocated from a low-income area to a middle- or upper-income area (or vice versa) will have a positive net benefit. As Figure 1 illustrates, approximately half of nonprofit co-location centers are located in low- or moderate-income census tracts, where the median income is less than 80 percent of the area median income. In short, more research is needed to determine the net economic impact of a nonprofit center on a community.

FIGURE 1

Location of Nonprofit Co-location Centers



Why Focus on Community Development Financial Institutions?

Community development financial institutions (CDFIs), particularly those engaged in commercial real estate activities, are uniquely positioned to add value to the planning and financing of nonprofit co-location centers. Partnership with a CDFI allows a nonprofit to leverage real estate and financial expertise that the organization does not generally possess. Additionally, CDFIs are strongly mission-centered, a characteristic not usually associated with traditional lending sources but definitely shared by nonprofits. The mission-first approach of CDFIs can justify the additional time, effort and creativity required of lending sources and development advocates to plan for and finance a nonprofit co-location center. Just as a mission-benefit approach is critical to the development and success of nonprofit organizations associated with the centers, the same is true for CDFI partners who are mission-centered. In short, CDFIs possess flexibility, real estate expertise and a strong sense of mission that position them as critical team players for developing nonprofit co-location centers.

CDFIs also have a unique relationship with the philanthropic sector, enhancing joint fundraising to fill funding gaps that might otherwise prevent a co-location project from happening. Housing Development Center (HDC) in Portland, Ore.—a CDFI that operates as both a developer and funder of nonprofit co-location centers—frequently employs capital campaigns in concert with lending. From time to time, the capital campaign is not complete at the time construction or renovation of the facility begins. With traditional lending sources, this often brings the project to a halt. However, HDC, as a CDFI, is able to bridge the funding gap.⁷ CDFIs offer the flexibility, fluidity and “long-haul” mentality needed to get projects underway that traditional lenders do not necessarily have.

Northern California Community Loan Fund (NCCLF)—another CDFI involved in nonprofit co-location—primarily provides capital and technical real-estate assistance.⁸ According to Stephaney Kipple of NCCLF, technical assistance is particularly vital in areas where there is a tight real estate market. This allows co-located nonprofit organizations to improve delivery of their mission while ensuring that financial objectives pertaining to real-estate costs and development are met.

CDFIs also possess a greater ability to work with nonprofits due to a nuanced and intimate understanding of the structure of these organizations. Examples include working with and helping a nonprofit's board of directors to better understand the nature of the co-location development and the capacity to answer questions regarding why co-location is beneficial.⁷ CDFIs are able to go the extra mile as trusted partners in pursuit of the project and overall mission in ways that traditional financing partners may not.

How Is Nonprofit Co-location Happening?

Nonprofit co-location is happening in many different ways, typically dependent on the financial structure of the development, the building, the needs of the community and the different organizations involved. Center tenants range from two organizations to 10 or more and can involve an entire organization or only a portion of it (e.g., program staff) who co-locate in a facility. A nonprofit center can include same-sector nonprofits (e.g., only education-based organizations) or cross-sectional nonprofits spanning a wide variety of organizations. Depending on the situation, all types of organizations can develop nonprofit centers, including government, foundations, for-profit real-estate developers and existing nonprofits where one organization sublets to other organizations or a new nonprofit creates a legal structure that owns the shared space. Due to the unique needs of nonprofit co-location centers, development and function of the center can be difficult to accomplish successfully in a homogenous fashion.

CDFI employees actively involved in the funding of nonprofit co-location centers speak to the need for one nonprofit to be the project's "champion." NCCLF, tasked with persuading funders that investing in nonprofit co-location projects is beneficial to their mission and greater community, emphasized this theme.⁸ NCCLF's Kipple generally finds that a successful project is one that has a champion nonprofit, deemed traditionally creditworthy, to bear the burden of the project. This champion is critical; the organization is tasked as the lead sponsor and shoulders the majority of the risk. A champion is also useful when soliciting philanthropic donors and other such funding sources associated with capital campaigns.

Additionally, rent from the organizations—one of the most common sources of revenue—is dependent on the structure of the center and needs of the tenants. Some centers charge their nonprofit tenants market-rate rents. Others, such as Serve Denton and The Commons on Merton, subsidize rent, allowing nonprofits to realize additional cost savings through nonprofit co-location.

Commonly, buildings used as co-location centers require a certain amount of renovation (e.g., The Commons on Merton building required renovations totaling approximately \$350,000). HDC's projects generally take a different form, with commercial space on the street level of the building used for the nonprofit center and affordable housing located above, using condominium zoning.⁷ The development of nonprofit co-location in partnership with CDFIs often ultimately depends on who will own the building, which dictates the form and function of the center.

Conclusion

As co-location centers proliferate across the United States, more and more clients, partners and communities are experiencing the benefits of shared space. While the structure of nonprofit centers varies depending on the needs of the nonprofits, the clients and the greater community, the central benefits of nonprofit co-location remain.

CDFIs are uniquely well-positioned to partner as sources of funding and development in the creation and maintenance of nonprofit co-location centers. They bring expertise, flexibility in funding, a strong mission orientation, and a general understanding of the structure and bottom line of a nonprofit organization.

Nonprofit co-location is happening in many different ways with a range of tenants, partners, funding, structure, rent subsidies and facilities. Future trends include an increased emphasis on program-related investment due to philanthropic pressure on nonprofits to be more efficient and have a greater impact. As a result, CDFIs should continue and expand their involvement in planning, developing and partnering with nonprofit centers.

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