Co-location Feasibility Analysis

Key Elements for Consideration

Background - Rationale

Today more than ever, non-profit organizations find it increasingly difficult to secure and maintain quality work environments – space that is stable and affordable and also enhances the mission and operations of tenant organizations.

- Increasing visibility – Co-locations provide a tangible, visible expression of the essential work done by the not-for-profit sector. In doing so they increase not only the credibility of tenant organizations but those of the entire sector.
- Lowering overhead costs – affordable space means more money is available throughout the sector for direct program and service delivery.
- Pioneering new initiatives – Co-locations are leading the way into new territory for the not-for-profit sector. As a social enterprise, this model builds on the best practices of both the for-profit and non-profit sectors, laying the groundwork for other social venture initiatives. As economic development catalysts, important employers, and community assets, they are establishing new models of community development. They are also some of the most exciting new examples of sustainable 'green' building design.

Co-locations have obvious benefits for organizational tenants through providing:

- Stability – Co-locations are developed for the purpose of providing a long term home for not-for-profit organizations - not as a "quick sell" capital gains investment. Owners do not look toward increasing rents as a source of cash to fund further investments. As such they provide a cushion against the capricious nature of the for-profit real estate market.
- Affordability – Even the few co-location centers that operate at market rate rents facilitate economic efficiency and cost sharing through providing collaborative facilities and back office infrastructure (such as shared conference rooms, IT services, and reception areas). These alone can produce great financial savings for tenant organizations.
- Mission enhancement – Cross-organizational collaboration and synergy, such as sharing office support services and developing multi-stakeholder initiatives, as well as enhanced exposure to neighbouring tenant's stakeholder networks through center supported public programs or gallery space, are just a few of the mission enhancing benefits of co-location centers.
- Providing community resources – public open space, low-cost or free meeting venues, historic and environmental displays, public galleries that display community artists, affordable performance and rehearsal space, socially responsible retail and restaurant choices, training for local residents, multi-sector networking events, and professional and organizational development training are just a few of the public services possible.

We are proposing a model that revolves on a single property and professional management system. There will be a single organization responsible for property management as well as shared programming and services.

- Enhanced space and physical infrastructure: along with providing enhanced physical amenities such as announcement boards, ATM, storage rooms, bike parking/storage, wash-up facilities, and shared kitchens comes the responsibility to service these areas or at least facilitate tenant participation in servicing the areas. Tasks such as removing old flyers from bulletin boards, posting recycling information in the kitchens, and mediating who gets how much storage space will require someone's time.
- Shared multipurpose space: having this type of space for small conferences, workshops, special events, and board meetings was listed as a keen desire of the not-for-profits we surveyed. However, just creating the space is not enough. Coordinating room reservations, supporting their use and maintenance, and collecting fees may be a full time position. Some tenants with private conference rooms may choose to share their space with neighbors on an ad-hoc basis, while others find staffing this community contribution quite burdensome. Providing enough staff to actually attract and service public use of your shared space is also a great way to provide a much needed community service to other not-for-profit organizations as well as increase public awareness of both the Co-location and its tenant organizations.

Based on the desires of our survey respondents, the Vancouver Co-location will likely also extend into providing or facilitating operational support services such as:

- Reception and clerical services: cost-saving can be found in shared reception services and clerical staff; however, it will be important to negotiate up-front who these folks report to and how the cost is shared.
- Integrated staffing services: in addition to reception and clerical positions, other common services include: IT support, database management, mail/copy/supply room staff, and some programmatic personnel if coordinated client services is a goal.
- Resource sharing and pooling: this category includes such things as a/v equipment, copiers, printers, purchasing clubs, memberships, and hospitality equipment like tables, chairs, coffee makers etc. As well, our survey respondents would like to explore shared health, dental and extended benefits plans that improve their packages for staff.

Everyone needs storage;

- almost everyone needs access to a meeting room - some more often than others;
- half of the groups need lunch and copy rooms.
- Reception areas: Shared reception space will be preferred.
- Shared multipurpose space: The ability to hold small conferences, workshops, special events, board meetings etc. onsite is our preference although will be space and schedule dependent.
- Tenant services: showers/lockers, lunch areas, kitchens, supply/storage/copier rooms, broadband access, announcement boards, parking lots and bike lockers etc. is each desired yet subjective to availability, space and budget.

Building Operations
The fundamental business of the Vancouver Co-location is mission-driven property management. Achieving stable, affordable, mission-enhancing space and developing a collaborative community of tenants begins after the trash is taken out, the gutters are cleaned, and the heating/cooling system is operating at maximum efficiency. Thus, the efficient and effective operations of the Co-location will be the responsibility of a single central organization created or retained to see those duties fulfilled.

Finding Your Space

Location
Your location will depend primarily on the nature of the target tenants and the clients they serve. Provincially-based organizations will be more flexible in location needs than community-service agencies. As well, real estate prices may dictate both location and the tenants who will occupy the centre. Other location considerations include access to transit, parking, food services, etc (please see chart above).

Types of Centres
Affordable office and program space: the most basic, yet least cohesive, type of center simply provides a real estate haven for nonprofit organizations. Often focused primarily on office facilities for a single anchor tenant with subtenant leases, these types of Centers may also include: program delivery space, event/conference space, exhibit space, concession space, or other facilities used by both tenant organizations as well as the public. Often the Center revolves around the real estate - a high-profile or landmark building.
Multi-service centres: provides a one-stop service option for a targeted population. programmatic theme centres; organizations focused on a common cause such as the environment, the arts, or children
Foundation- created centres: provides a home for a specific group of grantee organizations supported by a foundation.
Community economic development and historic preservation: renovates aging or historic buildings as part of a plan for community economic revitalization or base conversion.
Shared Amenities
Determining the ideal and essential shared amenities will assist in assessing space and renovations requirements. One word of warning is that the space perceived is never enough- especially considering storage- and difficult to anticipate. MTNC can range from 10,000 – 150, 000 sq. feet and the size of space does not reflect the number of tenants. When possible, look for space that can be re-figured easily or has possibility for future expansion.

Ownership Models
The most significant decision to be made is the ownership model that will structure the MTNC. Potentially the biggest question is: ***should we employ a for-profit or non-for-profit structure?*** Each has its advantages and disadvantages:

For Profit Ownership Structure

Advantages

- access to private market capital much larger pot of $
- access to government tax credits and incentives
- may run more efficiently
- social enterprise mentality incorporated from onset
- opportunity to make money and become self-financing
- no dependency on funders

Disadvantages

- need to pay taxes
- NFP may be uncomfortable with a for-profit structure
- Not able to access funding for social purpose aspects of centre
- Need to ensure a viable business plan
- May not be a money-making venture and therefore more risky

Not-for-profit Ownership Structure

Advantages

- social mission might benefit from social ownership
- access funding, donations and capital campaign dollars for centre
- funder provide a safe-guard against future crisis
- no taxes
- able to integrate social vision within structure
- may have more good will from community
- can re-invest any surplus into centre
- NFP are familiar and comfortable with NFP governance models

Disadvantages

- Funding dollars are shrinking and unstable
- May exist within dependency mindset
- Equity-building may be more difficult to incorporate

The following 6 ownership models are not a comprehensive list of options, but represent the most commonly used. They have been placed along a non-profit to for-profit continuum. Each will be explored in more detail, the benefits and challenges to each model, the type of financing available and accompanying appendices specific to each ownership structure.

- Single NFP ownership
- Lease with equity shares

- Cooperative/NFP co-ownership
- For profit partnership
- Condominium
- 3rd party developer/owner

NFP Ownership

The NFP ownership model can be structured in two ways:

a) Owner-occupier with sub-tenants is where an existing organization that services as neutral convener owns and manages the property, or acts as an anchor tenant to lease the space, and subsequently subleases to other NFP

b) Incorporate a NFP specifically to own and manage the building with co-ownership, tenant-based or neutral board. Ownership by an independent non-profit entity is the most common legal ownership structure of MTNC.

NFP Lease/ Ownership with Equity Shares

Lease or ownership with equity shares has a central owner with the opportunity for tenants to purchase/ obtain equity shares in the property. The shares can be sold when tenants leave the building, either back to the core owner or to the new tenant, or all parties benefit if and when the property is sold.

Cooperative- For Profit or Not For Profit

A cooperative can be incorporated as either a non-profit or for profit structure and can involve/ create different membership classes, including investors. The BC Cooperative Association is a good resource for determining the benefits and challenges of for-profit vs. non-profit cooperative ownership; www.bcca.coop. As well, there are a number of initiatives and funds that support the specific development of the cooperative sector; http://coop.gc.ca.

Partnership- (generally for-profit)

Developing a partnership organization can range from creating informal alliances to merging operations. In assessing partnership options for ownership, it is more likely that the following four integrated partnership operations will apply:

- A **management service organization (MSO)** is an integration that includes the creation of a new organization in order to integrate administrative functions, and thus to increase the administrative efficiency of participating organizations.
- A **joint venture corporation** is an integration that includes the creation of a new organization to further a specific administrative or programmatic end of two or more organizations. Partner organizations share governance of the new organization.
- A **parent-subsidiary** structure is an integration that integrates some administrative functions and programmatic services. The goal is to increase the administrative efficiency and program quality of one or more organizations through the creation of a

new organization(s) or designation of an existing organization(s) (parent) to oversee administrative functions and programmatic services of other organization(s) (subsidiary). Although the visibility and identity of the original organizations often remain intact in a parent-subsidiary relationship, some organizations involved in such restructurings consolidate to the point where they look and function much like a merged organization.

- A **merger** is an integration that includes the integration of all programmatic and administrative functions to increase the administrative efficiency and program quality of one or more organizations. Mergers occur when one or more organizations dissolve and become part of another organization's structure. The surviving organization may keep or change its name. A merger also occurs when two or more organizations dissolve and establish a new structure that includes some or all of the resources and programs of the original organizations.

Condominium/ Strata Ownership
Strata title property is a form of ownership in which a property owner owns their individual unit, plus a share of the common areas of the site, or "common property". Residential, commercial, industrial and other types of buildings may be subdivided by way of a strata plan. Each development is managed by its own "strata corporation", although some strata corporations may choose to hire a property manager. The owner of each strata lot has one vote in the strata corporation, and generally pays monthly maintenance fees to cover shared expenses related to common property and to provide for a contingency fund, used for repairs and maintenance of common property. The strata corporation can pass strata by-laws (building regulations), and must hold a general meeting of all owners at least once a year, when the annual budget is approved, the "strata council" is elected, and special resolutions, if requested, are voted on.

Third party developer/ owner
The third party developer/ owner model is when a NFP secures a long-term lease and manages the building. This is the most viable option outside of ownership. The owner can be private developers, foundations or city-owned properties. The owner may provide financing or property, but does not necessarily physically participate in space or property management. The owner may still play a role in ownership and governance.

Operations/ Management Models
As mentioned above, joint ownership does not equal creating a collaborative workspace. For many MTNC, collaboration and community-building is found in the management and governance structure of the shared space. An essential aspect of building collaborative space is providing the ability for contribution towards and 'ownership' of the space's culture. In creating a governance structure for MTNC, the following questions need to be answered:

Who governs it?
Who staffs it?
Who programs it?
Who maintains it?
In-house or contract for an external property manager?
Who provides the services?

a) Central management
b) Outside contractor
c) Tenants for each other
d) Tenants groups to advise building governance

Who pays for the services?

a) Part of the rent
b) Fee for service
c) Pro-bono (usually supported by a foundation)
d) No rent, but monthly associate fee that covers operating costs

Some issues to consider in making these decisions are:

- How much time are tenants willing/ able to contribute beyond the regular work of their organization?
- What is the connection between decision-making and finances?

This section will look at several options and tools for governance, including:

- Participatory Governance
- Tenant Selection
- Leases
- Rules, Regulations & Building Policies
- Property Management
- Insurance
- Budgeting
- Staffing

Participatory Governance

When looking at fostering in-centre collaboration, three types of collaboration have been identified: center-led and supported, tenant-driven collaboration, and tenant/non-tenant or external collaborations. Collaboration is mainly focused on the provision of shared services and building relationships between tenants. There is collaboration around centre decision making, communication and information, organizational and staff development, service delivery and community relationships. Deeper collaborations include:

- **Administrative consolidation** assists in the sharing, exchanging, or contracting of administrative functions to increase the administrative efficiency of one or more of the organizations.
- **Joint programming** is the joint launching and managing of one or more programs to further the programmatic mission of the participating organizations.

Tenant Selection

Creating a certain culture within a space starts with the selection criteria for tenants. The type of centre identified may create a selection criteria in itself, yet other factors also need to be considered such as need, financial stability, size of tenant, mission-compatible to Centre (Centre achieves its mission through acceptance of client) and mission- harmony to Centre (societal/ programmatic mission match).

Here are the selection criteria and process of 5 other MTNC:

- *By application; prospective residents must be non-profit organizations whose primary purpose is cultural.*
- *By application; criteria – artistic merit, innovation of programs, evidence of solid income and human resource bases, commitment to organizational development, fiscal accountability*
- *By application; process tests readiness to fully utilize space, minimum budget of $25,000, minimum staff of 20 hours per week*
- *By application or staff support grant through Arts Council' criteria – commitment to organizational development, fiscal accountability and readiness to fully utilize opportunity*
- *By individual interview; criteria – commitment to incubation process*

Leases

NFP with less that $1 million in annual expenditures face infrastructure challenges and may have more difficulty in participating in management and governance of the MTNC. As well, leases and rents may want to take into consideration the percentage of organizational budget dedicated to administration and rents in determining rates and services provided. Centers create supportive environments for new organizations, those undergoing change, or those most subject to fluctuations in funding. Yet, they also provide long-term stability to established organizations, enabling them to plan soundly for longer periods, ensure stability to employees and clients and create a place based identity that enhances awareness of their work. Over two-thirds of MTNC employ a mix of lease lengths ranging from month-to-month to ten years. This approach to mixed leasing helps create a dynamic and flexible mix for collaboration, learning, mentoring, and resource exchange. Approximately 30% of Centers require that tenants collaborate with each other as a condition in their lease terms.
The rates that Centers are charging on average per square foot are as much as 75% lower than the standard market rate for their communities. 16 of 31 Centers actually have a stated policy to keep rents below the standard market rent in their areas.
When developing the lease terms, you will need to determine what is included within the rent/ lease:

- Triple net
- Full service
- What expenses are covered
- Rent escalator
- Expense escalator
- How much common area is included? Is this free or a shared cost?
- Janitorial, etc

Due to the legal nature of leasing agreements, it is highly recommended that professional legal assistance is obtained to develop the MTNC lease and that each tenant is covered in a lease agreement.

Rules, Regulations & Building Policies

Beyond leases, or in some instances, included in leases, are the rules, regulations and building policies that govern the community within. These can include collaboration clauses, community charters, participation agreements, health and safety guidelines and so on. The development and updating of rules and regulations is fertile ground for collaboration.

- Tenant emergency guidelines
- Building Rules and Regulations
- Thoreau Centre Community Charter
- Elements of a Collaboration Agreement

Property Management

NFP can choose to manage the property themselves or contract out the work. Either way, facility operations include:

- Repairs and maintenance
- Accounting
- Insurance
- Long-term capital improvement planning
- Tenant selection
- Lease negotiation and terms
- Marketing
- Tenant improvements
- Janitorial (optional)

The advantages to obtaining property management services is the company's ability to use their economies of scale to gain optimal prices, use of best practices, accompanying expertise, avoidance of mission-drift/ tapping of existing organization's resources, and trained staff.
The disadvantages are lack of control, may be expensive, company may underperform and liability for building is that of owner.

Overall, the advice from MTNC already established is:

- ***Managing a building is managing a separate business***
- ***most recommend hiring a property manager***
- ***put effort into hiring a management company, not learning how to manage***

Insurance

Generally, there are two types of insurance: insurance carried by the building owner and insurance carried by the tenant. Insurance carried by the building owner is fairly standard, but insurance carried by tenants is variable and part of your selection criteria.

Carried by building owner:

- Catastrophic events – Earthquake, Flood, Terrorism
- Loss of Rental Income
- Policy conditions – valuation; deductibles;
- Coinsurance; policy warranties
- Liability limits – what limit is adequate?
- Security and Protection – card key entry, visitor passes, alarms, employee ID's, property manager
- Changes in building laws and codes
- New construction and renovations

Carried by tenant:

- All business personal property, tenants improvements and business income
- Liability coverage to comply with lease requirements (Landlord always an additional insured)
- Automobile coverage for, at a minimum, owned vehicles or employees use of non-owned vehicles
- Workers Compensation as required by province
- D&O liability/Employment Practices Liability
- Additional coverage as necessary based on program activities

Shop around for the best coverage, competitive prices and company track record in paying out claims.