DOES YOUR ASSOCIATION WANT TO OWN A BUILDING?

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Your association has just completed another successful year and you have been able to build up a good size reserve fund. You sit down with your Board and go over the budget for 2008. As you point with pride at the growing reserve fund, a hand is raised. You know what's coming. "Your director asks: Why don't we take some money from our reserve fund and buy a building?"

When push comes to shove, most of your Board members and most of your staff will admit that the best investment they have ever made is the home that they live in. They are able to deduct the interest on their mortgage and their real estate taxes from the taxable income that they have to report to the IRS. Over a 20 year span of time, value of real estate has skyrocketed. The appreciation on their real estate has enabled them to in effect live "rent free" and get a significant return on the original capital they invested as a down payment on their home. If this is a common experience that most people recognize, why shouldn't the association take advantage of the same type of opportunity and buy an office building?

Many associations have bought buildings with excellent results. Most of these associations have been able to stay in their buildings for a significant amount of time. These associations bought a building with excess funds that they knew would not be needed for other purposes. Their building was in a location that was convenient for both members and the association staff. These associations had stability and recognized that there would be no need to relocate the association offices. They bought a building that was large enough to cover the association's expansion, but not so large as to create tax problems with regard to rental income. And, perhaps most important, they followed the three keys to successful real estate investment, location, location, and location.

Other associations have had bad experiences with real estate investments. Some associations found that the required "down payment" was so large that it negatively affected the ability of the association to utilize reserves to fund some necessary industry programs. Other associations found that their initial financial analysis was flawed. The building cost more than had been anticipated. Operating expenses exceeded what had been projected. Rental income was less than had been budgeted. Staff time devoted to building maintenance issues was more significant than had been anticipated. The association "outgrew" the building before it had a chance to digest up front occupancy expenses such as a new telephone system, moving expenses, cost of rebuilding the space, real estate broker fees, etc.

As association managers, we know that one constant faced by all associations is "change." For the typical association, change can be dictated by a myriad of causes. There is rotation on your Board of Directors and the new Board thinks differently than the old Board. The industry consolidates and you have fewer members, but larger members with different needs. Your association merges with a sister association. Evolving technology dictates a new focus for your organization. Government regulations change the way your members do business. The list is endless.

In order to deal with change, associations need to be flexible. You must ask, does buying a building decrease your flexibility to the extent that it inhibits your ability to deal with change?

As you sit at the Board table and listen to the Board member who argues that the real estate market is low and that this a wonderful opportunity to pick up a property at a fairly low price, you should ask yourself what if you currently owned that property and the Board was telling you that there is a need to move to another city? You might have to sell the building at a loss or try to rent the building and face the tax consequences. You might even have to go back to your Board and explain that because of the fact that the association bought the building 2 years ago, the association is stuck at its present location and cannot afford to sell or move out.

We have had many association executives report to us that in situations where an association bought a building, used it to their advantage for many years, and then sold it at a significant profit, the consensus of the Board was that the industry or profession owed the Chairman of the Board and the Board that was in power at the time the purchase was made, a vote of appreciation for the excellent job that they did in pushing the association to buy the building. By contrast, when the association is faced with a real estate deal that has gone sour, the consensus of the Board is that the Chief Staff Officer, who was in office at the time that the purchase was made, used terrible judgment and misguided the Board.

Before making a decision on whether to buy a building, make sure that the required down payment and carrying costs will not seriously stretch your association's financial capabilities and that your association has the necessary staying power to last out downturns to the real estate market. Above all, remember: "Location, location, location." Get an experienced real estate broker with a good track record representing non-profit organizations. Be careful. If you look at a real estate opportunity and find that it is too expensive, you may be faced with a situation where one or more Board members suggest that they form a partnership with the Association and buy the building together. Avoid this situation like the plague. It is a cesspool of potential conflicts of interest. It is bad business for the Association and a "lose – lose" position for you as an Association Manager.

Buying a building is not always a panacea. Look around you. There are many good reasons why most of your association colleagues are still paying rent.