URBAN INSTITUTE

Using Real Estate to Grow Nonprofit Sustainability

A Case Study of Whitman-Walker

Brett Theodos, Rebecca Marx, and Tanay Nunna

January 2023

Community-based nonprofit organizations fill crucial gaps in neighborhoods across the United States by advocating for and providing vital resources to underresourced communities. Yet for many, keeping the lights on and the doors open poses a serious organizational challenge (Nonprofit Finance Fund 2018). Nonprofits have an array of options to expand their financial sustainability. One underexplored opportunity is leveraging the value of the land they own. Nonprofits with landholdings often face pressures to cash in on their holdings, but an alternative exists: redeveloping land into revenue-generating assets. In this brief, we analyze a case study of how Whitman-Walker, a Washington, DC–based community health and research center, converted an outdated and underinvested real estate asset into a multiuse development that will financially support the organization's mission.

Funding Challenges

Despite their enormous social value, community-based nonprofit organizations face significant operational challenges in meeting their mission-driven goals. Because their core operations do not typically generate revenues that cover these expenses, nonprofits are complex organizations to manage and finance. Many human services nonprofits rely on government funding for a large share of their revenues. And although reported funding levels for nonprofits increased in the years leading up to the pandemic (Faulk et al. 2021), this increase in resources did not match the rise in demand for services. In one survey, 80 percent of nonprofits reported increased demand for their services, but only 45 percent reported that they had the capacity to meet clients' needs (Nonprofit Finance Fund 2018).

Many nonprofits are cash-strapped, meaning that they tend to allocate funding toward immediate needs rather than long-term sustainability and growth. In 2018, 65 percent of nonprofits reported that they did not have more than six months' worth of cash reserves, and 62 percent reported that financial sustainability was their top operational challenge (Nonprofit Finance Fund 2018). Thus, even before the pandemic, many nonprofits struggled to maintain viability. Although data on the impacts of the pandemic are limited, early data indicate that the pandemic exacerbated viability challenges, particularly for small nonprofits and nonprofits working in high-poverty neighborhoods. A 2021 survey found that during the pandemic, small nonprofits (defined as organizations with less than $1 million in annual income) and nonprofits based in high-poverty neighborhoods reported declines in funding from both individual donors and fee-for-service income (Faulk et al. 2021). As a result, nonprofits are in critical need of long-term funding sources to cover the costs of current operations and drive strategic planning and expansion of resources.

Financially Sustainable Nonprofits

Nonprofits are increasingly aiming to fund human services operations in more creative ways and create more reliable and sustainable programming by generating revenue and aligning profit-making strategies with their social missions. Some social and environmental impact–focused practitioners have abandoned their nonprofit status altogether and operate as for-profit social enterprises. Social enterprises—for-profit entities with specific social objectives—have grown in popularity in the United States since the 1980s (Kerlin 2006). Their public-oriented purposes result in a "fiduciary hybridity," or responsibilities to both shareholders and the public (Gold and Milner 2017). Social enterprises can be classified by mission orientation (mission-centric, mission-related, or business activities unrelated to mission) or by the level of integration between social programs and business activities (enterprising activities are embedded, integrated, or external to social programs).[1]

Some enterprises operate with hybrid business models, wherein for-profit operations help fund charitable operations. Hybrid funding models may face the risk of financial return–generating priorities outweighing the social mission or the for-profit arm being unable to support the nonprofit. But some organizations with "two heads" have learned to work together, such as the Freelancers Insurance Company, owned by Freelancers Union, which was launched by the nonprofit Working Today. Freelancers Union offers independent workers affordable health insurance plans. By starting the for-profit Freelancer Insurance Company, members of the union can stay with an insurance carrier that the nonprofit owns and controls.[2]

Some traditional nonprofits have launched earned-income activities to help fund their work. Under this hybrid model, a for-profit enterprise generates revenue for the nonprofit arm of the operation. For example, the nonprofit DC Central Kitchen solicits philanthropic funding to collect surplus food from restaurants and local farms to distribute as meals and runs a culinary jobs training program for people facing high barriers to employment. Revenue from DC Central Kitchen's catering business partially supports this work and also provides transitional employment for culinary training program graduates.[3] Other interesting examples include an international aid group licensing its name and logo to retailers to generate unrestricted revenue and an adult day care nonprofit launching premium elder care services to seniors with middle and high incomes to help subsidize its mission-based work.[4]

A fourth strategy for generating revenue involves nonprofits becoming investors in for-profit entities that are entirely independent of their operation. Investing in local businesses, for example, can both generate revenues and support mission-oriented outcomes that help meet community members' needs. For example, philanthropic donations helped the Greater Auburn Gresham Development Corporation purchase a stake in a neighborhood-based, profit-generating anaerobic digestion business that, in addition to generating profits, will lead to brownfield remediation, waste-to-energy services, and local compost production (Theodos, Marx, and Nunna 2021).

Nonprofits Using Land

In addition to the models described above, a new approach is possible. Nonprofits are finding more ways to generate revenues from their landholdings—a strategy that has not seen frequent use in previous decades (Landes, Foster, Kim, and Christiansen 2009).

Nonprofits can take useful lessons about the strategic use of land from large anchor-driven development, such as that advanced by universities, hospitals, or churches. However, most community-based organizations have small endowments or reserves and need to be more creative in finding ways to both generate operating finances and serve their communities. Faced with urgent financial needs and excess land resources, some community-based organizations feel pressure to sell their real estate for immediate cash in hand. Yet longstanding community-based institutions may have a hard time letting go of their historical connections to a building or neighborhood, organizations may still need to serve clients in their neighborhoods, or the sale of certain land or property may prove divisive within the community.[5] Organizations facing these challenges can consider a more optimal alternative to selling: leveraging their landholdings to create long-term revenue-generating assets.

Land assets have the potential to help nonprofits advance their missions. Institutions such as universities, hospitals, and churches have benefited from their excess land for generations. They often use their land assets in ways that provide direct benefits to the community—for example, by building affordable housing—or, in the case of Catholic Charities, using land value to build a new usable space or generate revenues.[6] Organizations with financial needs as well as a sense of duty to the people they serve can embrace creative uses of real estate as a source of income for the institution and a resource for the community.

Nonprofits in some markets own valuable real estate. Rather than sell, place-based institutions such as churches and NGOs have found ways to leverage their landholdings to rebuild their spaces or earn a revenue stream to extend their missions. One notable example is the Lynn Valley United Church in Vancouver, British Columbia, which had a shrinking congregation and a 65-year-old building in need of repair. Rather than abandon the building, the church approached a developer. In a joint venture, the church and Macron Developments redeveloped the building into a smaller church and transformed the parking lot into a four-story, 75-unit condo building.[7] In this unusual partnership, the church shared the profit and risk, which was low due to the property's desirable location.[8] Similarly, a church in Washington, DC, in a rapidly appreciating neighborhood converted part of its property into market-rate housing, which supported the redevelopment of a new sanctuary and office space.[9] Even government does this from time to time, such as when a Brooklyn Heights public library in disrepair was sold to The Hudson Companies in 2014 and rebuilt as part of a 38-story multipurpose building in an agreement between the developer and New York City agencies. Proceeds generated by the transaction allowed the city to make improvements at other library branches across the city and build a NYC Department of Education–operated STEM lab.[10] Chicago government also took a co-location approach by developing affordable housing projects alongside public libraries.[11]

History of Whitman-Walker and the Elizabeth Taylor Medical Center

Whitman-Walker is a clear example of a nonprofit realizing an opportunity to leverage its valuable land to advance the goal of long-term sustainability. By employing this emerging model, the organization redeveloped its flagship health center, the Elizabeth Taylor Medical Center, to create a revenue-generating asset. In this section, we provide an overview of the history of Whitman-Walker, the events that precipitated the decision to redevelop the health center, and the timeline of the redevelopment project. The project's financing details, including the sourcing of debt and equity financing and the capital stack of the project, are provided in the following section.

Founded in 1973, Whitman-Walker started as a small nonprofit community organization chartered to support health and wellness among the lesbian and gay community in Washington, DC. In the early stages of the HIV/AIDS epidemic, Whitman-Walker emerged as a leader in HIV/AIDS education, prevention, diagnosis, and treatment. Over the years, Whitman-Walker has significantly expanded its primary care services, including by physically expanding to other health centers located across DC. Its main administrative offices are located at the new Elizabeth Taylor Medical Center (colloquially referred to as "LIZ") at 14th and R Streets NW, and its health center is located down the street at 1525 14th Street NW.

As a community-based nonprofit, Whitman-Walker has faced considerable financial challenges over the years. As treatment modalities changed for people living with HIV, Congress stalled funding levels for the Ryan White Care Act, which was a major source of support for Whitman-Walker. This shift, coupled with decreased philanthropic donations, forced Whitman-Walker to downsize throughout the 2000s and focus on building a different model. At times, the organization had trouble meeting payroll, and people outside the organization had to step forward to help meet it. However, Whitman-Walker's restructuring and revised business model allowed the health center to pay off its debts in 2010.

In truth, the financial condition was dire…If we had been for profit, we probably would have gone out of businesses. [We] did not want to be on that precipice again.
—Former Whitman-Walker board member

Only five years out from an acute financial crisis, then-CEO Don Blanchon and Whitman-Walker's board were tasked with making sure a similar crisis never happened again. This meant identifying funding to sustain operations and support growth of the health center over the long term and finding a way to smooth out the year-to-year volatility of their funding sources, which varied according to community and market conditions. Whitman-Walker's leadership realized that their business model could not grow over time and that without significant investment, the previous Elizabeth Taylor Medical Center did not suit the organization's mission and would be expensive to maintain into the future. They needed to determine what to do with their most valuable asset—the property on 14th Street—and where they could most effectively carry out their vital health care operations. Knowing that the property on 14th Street had appreciated rapidly following the 2008 recession, Whitman-Walker began to consider how it could leverage the clinic building and land to create an ongoing source of revenue for the organization. Events following this point are outlined in the timeline below (figure 1).

Through the process of research and concept development, Whitman-Walker's leadership articulated four options, evaluated by the board of directors over the course of one year: 1) continue to hold the property, 2) sell the property to a developer, 3) lease the land to a developer, or 4) launch a joint venture with a developer and redevelop the property.

A priority for board members was expanding the existing portfolio of Whitman-Walker's services into neighborhoods across the Anacostia River, which motivated them to pursue an option that would free up the equity in the 14th Street property to support this long-term growth. After much consultation, discussion, and concept formation with external partners, the board elected to redevelop the parcel despite the appeal of immediate cash on hand that a sale would have provided. The advantage, as the organization saw it, was establishing a sustainable source of income over time, providing annual infusions of revenue in lieu of a single lump sum. This option appealed to Whitman-Walker leadership and the board as a solution that placed an emphasis on fiscal discipline and sustainability for the future.

The board could have sought to diversify financially by selling the property and investing the proceeds, specifying investment and distribution rules for future boards in advance of the sale. Investing sale proceeds in a conservative portfolio could have generated 4 to 8 percent in annual interest gains to reinvest in operations. However, future boards can legally, and in many cases might, vote to remove such restrictions. In addition, the joint venture was projected to outperform a conservative investment portfolio over a 30-year period. Although it was admittedly a riskier transaction, Whitman-Walker elected to pursue the joint venture because it was expected to perform better, offered more ownership control, and offered more business and budget discipline for future boards through a de facto restricted annual income stream.

[We] could have done all sorts of cool things but reached the conclusion that that wasn't the goal. The goal was sustainability.
—Former Whitman-Walker board member

After finalizing this decision, Whitman-Walker's board of directors issued a request for proposal in 2014 for a joint venture project. Whitman-Walker began by approaching 12 real estate firms and received 8 proposals. (One firm dropped out when Whitman-Walker indicated their interest in a joint venture.) In the next phase of the proposal selection process, Whitman-Walker made clear to firms that a key priority was for the board to remain the majority shareholder in the joint venture so that it could maintain decisionmaking authority and ensure the nonprofit's interests would take precedence. An additional two firms dropped out because of this provision, and another two firms failed to address Whitman-Walker's needs in their proposal, leaving the group with three options.

The board ultimately selected Fivesquares Development (Fivesquares) from the semifinalists. Fivesquares was a well-suited partner for Whitman-Walker because of its personal and professional familiarity with Whitman-Walker, commitment to mission-oriented development and projects that create social value, and previous experience working with nonprofits. Fivesquares understood and contributed to the health care center's joint venture vision and committed to helping the health care center achieve its mission-aligned goals. Fivesquares is a for-profit developer interested in achieving economic returns. However, Fivesquares accepted financial returns lower than what a real-estate developer might expect from comparable developments and, most importantly, agreed to provide technical and financial support to guide the health care center through the redevelopment project. With Whitman-Walker's approval and oversight, Fivesquares took responsibility for managing all aspects of the development process, including finding contractors and seeking equity investors for the project.

Whose idea was the equity retention? There was no single author. [The executive director] thought about retaining value of land. [The developer] had done a lot of deals with nonprofits where they capture value. It took time. We really wanted to get the model right. There was a lot of pressure to sell. This was not an easy decision. Not just 'put out a bid and put in a number.' Most brokers will steer you there because it's easier. This was very much an iterative process.
—Project stakeholder

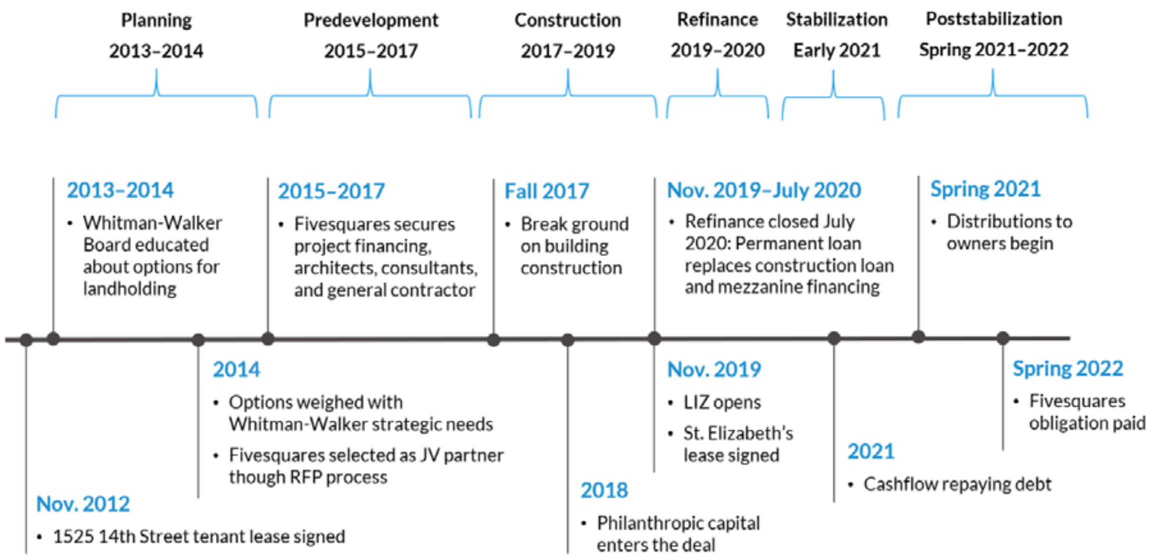
Formally, Whitman-Walker placed the Elizabeth Taylor Medical Center into a new LLC, of which Fivesquares and Whitman-Walker were the limited partners. This began an iterative and collaborative phase during which Fivesquares, Whitman-Walker, philanthropic partners, and legal experts developed and refined an innovative and transformative plan for the 14th Street property. The partners redeveloped the parcel into a mixed-use development that would continue to feature the health care center as a rent-paying tenant, in addition to ground-level retail topped by luxury and affordable inclusionary housing units per DC requirements. The mixed-use design met Whitman-Walker's goals of retaining a presence in the neighborhood that was core to their mission and converting a financial risk to the organization (an asset that generated no cash) into a revenue-generating asset. Having agreed on the concept, the team began putting together a strategy for financing the project.

Although the joint venture appeared riskier than a simple sale, it appealed to the board because it established a predictable future source of funding. The board felt that maintaining a majority share in the joint venture was a key priority. Moreover, the land value supported the board's long-term plan to invest in the St. Elizabeth's project in the Ward 8 Congress Heights neighborhood—part of the organization's vision of bringing Whitman-Walker closer to the community where it is expanding its portfolio of services. This decision was not rushed but rather the result of a long, deliberative process and the determination of individual champions who drove the board's learning efforts.

After securing a construction loan and equity financing, construction for the project began in 2017, with the first tenant moving into the completed property in 2019. By 2020, the development had stabilized, and the joint venture refinanced the project.

FIGURE 1

LIZ Development Timeline



URBAN INSTITUTE

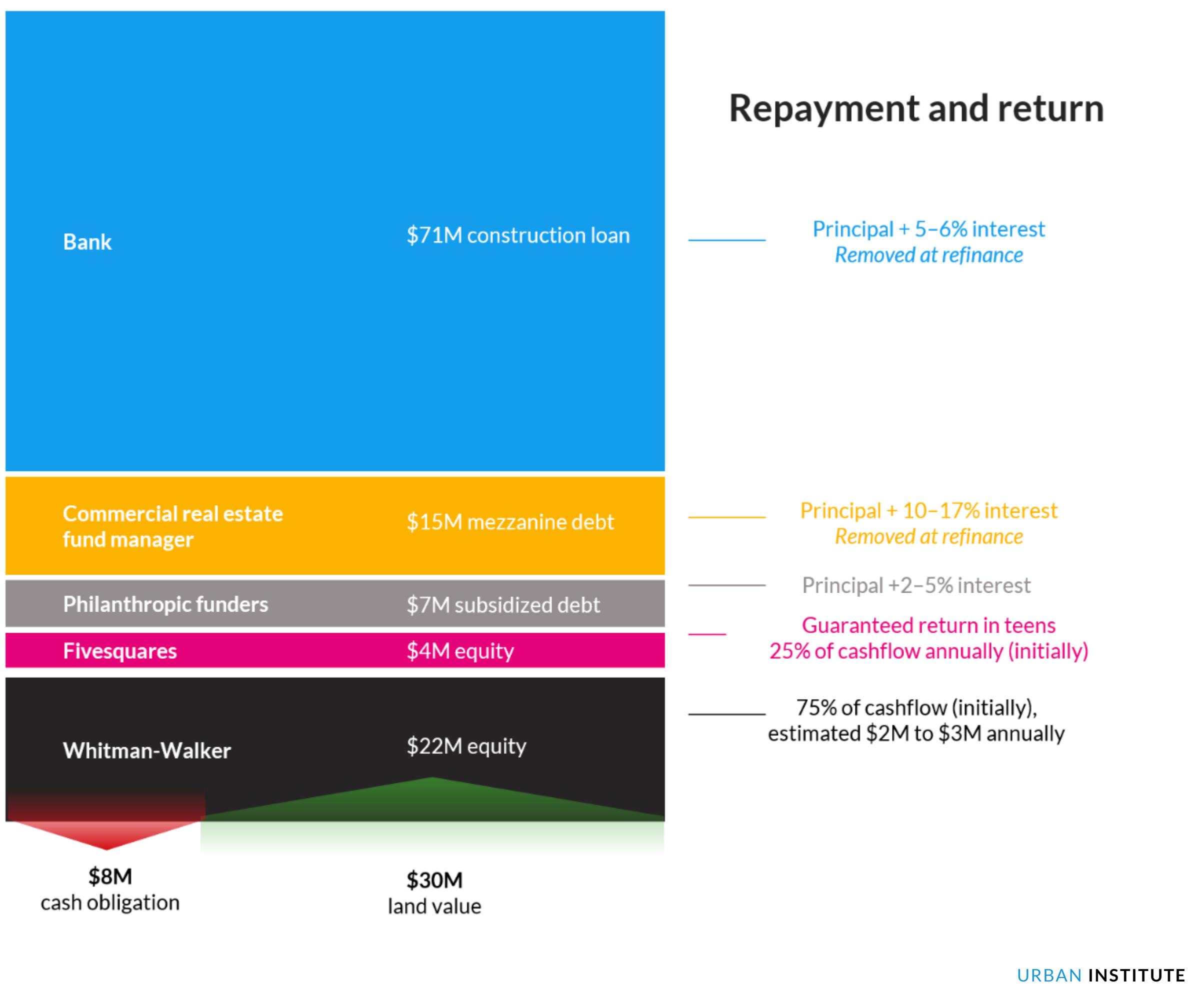
Source: Authors based on stakeholder interviews.
Note: LIZ is the Elizabeth Taylor Medical Center.

Project Financing

The following section describes the distinctive components of the project's financing, visualized below in figure 2.

FIGURE 2

LIZ Development Financing Sources



Source: Authors based on stakeholder interviews.
Note: LIZ is the Elizabeth Taylor Medical Center.

The project received in-kind and cash financing from multiple sources: Whitman-Walker and Fivesquares made contributions through a joint venture entity, and the project also received financing from a bank, a commercial real estate fund manager, and philanthropic funders.

- **Whitman-Walker** contributed $22 million in land value to the joint venture entity, or nearly three-fourths of the value of the real estate (roughly $30 million). The $8 million of land value that Whitman-Walker did not contribute was paid out in the form of an obligation from Fivesquares to Whitman-Walker. This diversification strategy helped support Whitman-Walker's current and future cash needs. The funds paid for other projects, including $5 million for tenant improvements at a new location, also on 14th Street NW. Whitman-Walker planned to use the last $3 million to support other organizational priorities critical to its mission. Whitman-Walker wanted to contribute a large share of the land value so that it could have a majority stake in the development, contributing approximately 45 percent of the in-kind and cash financing that went into the joint venture entity. In exchange, Whitman-Walker received an initial 75 percent equity stake in LIZ, entitling it to 75 percent of all operating dividends until the nonprofit receives $22 million. At that point, its distribution share will switch to 60 percent of all operating dividends.

- **Fivesquares** contributed development expertise and the initial at-risk equity capital required to design the building and achieve the entitlements through building permits. This contribution of cash into the joint venture entity, worth roughly 15 percent of the value of the contributions, entitled Fivesquares to a 25 percent initial equity stake in LIZ. Fivesquares also had a preference in the cash flow waterfall with a rate of return in the low teens, in addition to being entitled to distributions. Under the joint venture agreement, Fivesquares was obligated to use its contacts in the market to obtain the financing, hire the architects and all consultants, and bring on the general contractor to construct the building on the land that Whitman-Walker contributed to the joint venture entity. Fivesquares guaranteed the debt in the deal, meaning that Whitman-Walker did not have to record debt on its books. In addition, given the mission-oriented business plan, Fivesquares agreed to terms where it could expect lower returns on LIZ than it would for a comparable development.

- The joint venture entity accessed conventional **bank debt** from its long-time banker, which was the largest source of capital for the project. The bank provided a $71 million construction loan, which is in the senior position in the capital stack. In other words, the bank was entitled to repayment first among all funders in the event of default. The interest on the bank loan was between 3 and 5 percent.

- A **commercial real estate fund manager** also provided debt financing for construction. Fivesquares secured $15 million in mezzanine financing from a commercial real estate fund manager with an interest rate between 10 and 17 percent. The commercial real estate fund manager held the secondary position in the capital stack.

- At the suggestion of Fivesquares, and together with Whitman-Walker, the joint venture approached **two philanthropies**, which lent a combined $7 million through Whitman-Walker. The first loan of $2 million had a below-market interest rate of 2 percent. (This loan, a program-related investment,[12] represented 10 percent of the foundation's balance sheet, indicative of the high level of commitment to this project.) The second loan, a mission-related investment[13] of $5 million, had an interest rate of 5 percent. Receiving $7 million in financing from the philanthropies meant that the joint venture entity could reduce the amount of mezzanine financing required from Fivesquares, thereby lowering the overall cost of the project and resulting in considerable cost savings. The philanthropic funders were third in the project's capital stack. Fivesquares and the philanthropic organizations permitted the earlier repayment of Fivesquares' contribution from the joint venture's cash flow, which lowered the cost of capital for the project. The philanthropies deferred the repayment of their interest until the construction loan was refinanced.

After mixed-use projects are built and stabilized—defined as achieving sufficient occupancy and demonstrating financial viability—they typically refinance construction debt with permanent financing. With the project delivered in November 2019, the joint venture entity sought permanent financing with lower interest rates. Although this timing coincided with the onset of the pandemic, the joint venture entity successfully refinanced the project, making it one of the few commercial real estate refinances in the country at the height of the pandemic. Fivesquares intentionally proposed and achieved a diverse income stream through a mix of uses including residential rentals, short-term fully furnished rentals, cultural space, retail space including both credit tenants and local tenants, and significant office space, with one tenant (the Goethe Institute) providing the credit of the German government lease. As a result, despite widespread economic challenges over the past few years, the property performed well during the pandemic.

The joint venture entity refinanced into "permanent" financing—more than $93 million in conventional debt through Whitman-Walker's long-time commercial bank at a 4.35 percent interest rate over 10 years, paying off the bank's senior construction debt and the commercial real estate fund manager's mezzanine debt. The joint venture paid Fivesquares out of the proceeds in partial fulfillment of a return on its investment; Fivesquares then used the proceeds to repay the mezzanine financing. Fivesquares structured the permanent financing as interest only rather than amortized because Whitman-Walker had recently signed the lease for new office space at St. Elizabeth's and needed capital flows in a shorter time frame to support its operations. At refinancing, LIZ appraised at more than $140 million.

Whitman-Walker's Land Contribution

Whitman-Walker's most valuable contribution to LIZ was land: an entire untaxed city block, including an underused parking lot on a highly valuable and visible commercial and transit corridor in Northwest DC. Rather than sell the land where the original Elizabeth Taylor Medical Center sat—as many other Northwest DC service providers had done—Whitman-Walker, Fivesquares, and their partners found a way for the nonprofit to both remain in place and receive payments from the property.[14]

When weighing its options, Whitman-Walker found that the annuity payment earned over time from an ownership stake in this joint venture was greater than the value of selling the land outright in a fee simple sale. When Whitman-Walker starts earning money on the project in 2026, it expects an approximate $2 million to $3 million annual revenue stream. The quarterly dividends will serve as a stable source of operating revenue for the nonprofit. From Whitman-Walker's perspective, this approach provides business discipline. Ongoing funding also helps lighten the burden of raising operating capital from philanthropic or governmental sources, which can be volatile and unreliable. In addition, maintaining ownership of the property preserves the option for Whitman-Walker to sell off portions in the future as needed. In the meantime, the revenue stream can plug gaps in existing services and support Whitman-Walker's goal of expanding services to communities east of the Anacostia River.

Enough pressure was released from the system so that people could then sit back and actually listen and be creative.
—Philanthropic investor

Private Market Partner Alignment

The successful redevelopment of the Elizabeth Taylor Medical Center depended on having the right counterparties at the table—not only philanthropic partners but also the right commercial partners—that were committed to supporting Whitman-Walker and navigating complex issues. Fivesquares, for instance, was consistently favorable to Whitman-Walker's interests and brought critical real estate expertise to the deal. Fivesquares also accommodated a reduced equity investment, allowing the philanthropies' loans to displace some of its capital. Even the commercial real estate fund manager had an affinity for the Whitman-Walker mission. Finally, both Whitman-Walker and Fivesquares had a long-term relationship with the bank that provided the construction loan. The transaction worked in part because of these relationships and because every party to the deal was aligned with the overarching mission and made contributions.

Selecting Fivesquares as the joint venture partner was perhaps one of the board's most critical decisions. By finding an experienced mission-aligned partner, a large array of mission-related benefits became possible: Fivesquares held out for the best-aligned office tenant, turned away tenants that did not share Whitman-Walker's mission orientation, and ultimately worked for years to secure the Goethe-Institut (a German cultural center) as a tenant. Just as importantly, Fivesquares's community and place-making priorities created small public gathering spaces on both R and 14th Streets, as well as outdoor restaurant space before the pandemic that proved prescient and enhanced the building's benefits. From the architectural design that incorporated the health center's original doors to the outward community-focused leasing program, this alignment of concern and purpose beyond the financial returns allowed LIZ to win numerous awards as one of the best new mixed-use buildings developed in Washington, DC.

Other private market actors also aligned with the joint venture and played essential roles in the project. In particular, the Walker Group provided valuable real estate advisory services for Whitman-Walker, and Venable provided legal advisory services.

Role of Philanthropies as Mission-Driven Lenders

The philanthropic partners were not interested in having an equity stake in the joint venture entity or subsidizing the preferred equity lender, but rather in improving the economics of the deal for Whitman-Walker. As such, the philanthropies offered Whitman-Walker loans that the nonprofit could contribute as cash equity in addition to its initial land contribution. Whitman-Walker received the financing just before construction began; the funds were transferred from Whitman-Walker to the joint venture entity upon receipt, thereby minimizing the higher-cost private equity capital that Fivesquares would have provided.

Receiving capital at lower interest rates allowed Whitman-Walker to put cash into a portion of the capital structure that in turn allowed the nonprofit to avoid significantly higher-cost preferred equity expenses at the project level. Contributing cash to the Elizabeth Taylor Medical Center redevelopment both elevated Whitman-Walker's status and substantively improved the deal economics in terms of the cost of capital. The redevelopment would have happened with or without the philanthropy-provided loans, but the presence of a program-related investment and a missions-related investment from mission-driven lenders put Whitman-Walker in a better position, allowing cash from the project to flow to the nonprofit more than two years earlier than it otherwise would have. Such contributions from philanthropic investors can play the role of defying traditional risk-return dynamics, if philanthropies accept a lower rate of return and/or accept higher risk.

The philanthropies could have structured the funds as grants but preferred loans for several reasons. For one, participating parties wanted the deal to feel like a commercial structure, even if they lent the money at preferential rates. Second, making a loan is a more financially sustainable approach than grant-making. Third, providing loan capital rather than a grant allowed the philanthropies to provide significantly more financing to the project, generating a larger benefit for Whitman-Walker. Finally, the investment was meant to protect against any potential negative outcomes for the nonprofit and to advocate for terms that were in Whitman-Walker's interest. Even though the philanthropies were not direct partners in the joint venture entity, they needed to give consent to decisions related to the project's financing and could advocate on behalf of Whitman-Walker in the event of a project default.

The benefits of partnering with mission-driven lenders did not end with the funding. The two philanthropies acted as advisers and thought partners throughout the project, offering advice with Whitman-Walker's best interest in mind. They provided insight at various decision points and served as allies to Whitman-Walker when different groups' interests did not always align. For example, when Whitman-Walker and its partners were considering how to refinance the deal, their philanthropic partners helped Whitman-Walker understand why a ground lease model—a lease structure where a real estate investor rents the land—would appeal to their development partners but would not be in the nonprofit's long-term interest. They provided an extra set of eyes to look at the numbers, validate information, and challenge assumptions and contributed legal and financial resources that helped Whitman-Walker improve its position.

Leveraging the Deal

Ultimately, the funding stream from this project will help support Whitman-Walker's expansion of services east of the Anacostia River into Ward 8, delivering equitable health care access to key communities served by the organization. Whitman-Walker signed a lease at St. Elizabeth's within a week of opening the redevelopment project. As a result, more people will benefit from Whitman-Walker's services: the building on the historic campus will house comprehensive primary care and a range of other services such as radiology, group psychotherapy, psychiatry, nursing, dental care, a pharmacy, community-based research, and nutrition.

Lessons Learned

Whitman-Walker's experience of creating an ongoing revenue stream offers lessons in terms of what is possible for nonprofits and what nonprofits should be aware of before embarking on a similar course. Below, we highlight lessons on why nonprofits that own valuable land should consider options other than selling, and what it takes to execute a successful transaction.

Considering a Joint Venture instead of Selling

Nonprofits have options other than selling their land. Although selling may be the best option for nonprofits with limited capacity to invest time and resources into redevelopment or demolition and new construction, as this case study demonstrates, redeveloping can offer several advantages. However, nonprofits must consider both their own market risk tolerance and private developers' willingness to take on the uncertainty of dealing with a nonprofit entity that may be subject to political volatility and changes in board structure, members, and leadership.

Redevelopment can provide a larger net profit than selling. Had Whitman-Walker simply sold its land, the simple sale would have garnered a one-time cash influx of $30 million, and the resulting endowment with conservative investments could have produced up to 5 percent in returns annually for core operations. Now, Whitman-Walker is expected to earn $2 million to $3 million annually, which will be worth more in the long term, and the annual rate of return under the joint venture was assessed at 8 to 10 percent.

It's not all or nothing: monetizing part of land's value can give nonprofits cash in hand. As the Whitman-Walker case demonstrates, one way to source funding for immediate needs is to partition and monetize part of the land value identified for redevelopment. The viability of this approach is context dependent, but nonprofits can pursue this option if an evaluation of the potential impact on mission-aligned objectives and the success of the larger redevelopment project finds that it is feasible and valuable. As the case study illustrates, this method can give nonprofits room to breathe financially and space to focus on their redevelopment projects.

Investing in redevelopment can provide a steady stream of revenue over a long period of time. The $2 million to $3 million annual annuity stream that Whitman-Walker expects to earn provides the nonprofit with a predictable source of funding that some interviewees believe is easier to avoid mismanaging than an equivalent lump sum. Furthermore, an ongoing source of operating revenue helps with long-term planning and "binds future boards to good decisionmaking," as one former Whitman-Walker board member shared, given that unlike spending rules on board-designated investment assets, a joint venture cannot be undone.

Joint ventures allow nonprofits to maintain a presence in neighborhoods and communities they have historically served. In the case of Whitman-Walker, which had outgrown its original 14th Street space, LIZ's development helped Whitman-Walker remain in the neighborhood and take steps toward its core mission of expanding services in Ward 8 without losing the history associated with the building where Whitman-Walker got its start. Whitman-Walker continues to provide primary medical care, dental care, mental health care, addiction treatment, legal services, and many other support services at its health clinic on 14th Street, and it incorporated the architecture of the original Elizabeth Taylor Medical Center—including its original doors—into the new building.

Holding a revenue-generating asset can open doors for new investment opportunities. The investment Whitman-Walker made in the Elizabeth Taylor Medical Center redevelopment proved valuable even before the project started generating returns by allowing the organization to pursue plans for its future. The relative financial certainty of prime real estate holdings can help nonprofits expand their missions.

A majority stake in a landholding can provide future financial assurance. Having a majority stake in a venture is important for decision rights, though it is possible to pursue an analogous approach without the nonprofit retaining this level of control. In the Whitman-Walker case, the reason the board wanted to maintain majority ownership and control was practical as well as emotional. In the long term, if Whitman-Walker faces financial woes, the nonprofit still holds the right to sell off portions of the development for capital.

Nonprofits can avoid assuming significant debt under a joint venture. By setting up a joint venture, Whitman-Walker was able to avoid having the construction debt or permanent financing on its balance sheet because it was obtained by a partner. Keeping debt off their books gives cash-strapped nonprofits more flexibility.

Tips for a Successful Transaction

The process Whitman-Walker and its partners underwent to structure their joint venture was not straightforward or easy. It took effort and time to bring all the stakeholders together. Below are considerations for nonprofits seeking to structure a similar deal.

Know the value of the property. As with all forms of investing, real estate development carries risk. A significant portion of the success in this case study can be attributed to the continued growth of Washington, DC's real estate market and, specifically, the value of the 14th Street location. Before engaging in the redevelopment project, Whitman-Walker conducted rigorous market research to understand the value of its property as well as its projected value given market trends. The nonprofit received input from experts in the real estate field to inform its decision. It is crucial for nonprofits to be aware of both the current and projected values of their land before they engage in similar ventures.

Nonprofits should have stable finances and leadership. Devoting resources to developing a sustainable future revenue stream is challenging. As such, nonprofits should ensure that they are stable in terms of their finances and leadership team. Whitman-Walker's approach required the organization to simultaneously address immediate needs and work out the details of a long-range development project, which at times required committed individuals who understood both the nonprofit's finances and the intricacies of the proposed deal to lead the way and bring others along with them.

Educate and consult the nonprofit's board. The joint venture's success heavily relied on buy-in to the value proposition of the deal from Whitman-Walker's board. The process was consensus driven, but board members fell along a spectrum of comfort with the project. Board members had ample opportunities to voice their concerns, and everyone's opinion was taken seriously. The process was "a very heavy lift" and took "a lot of effort," according to a former board member. In addition to the board's monthly meetings, the partners held extra informational meetings and deeper dives into proposals at various steps along the way.

Everyone had to be engaged and on their A-game for a very long time, and that's not easy for a volunteer board.
—Former board member

Consider a governance structure that allows for streamlined decisionmaking. Whitman-Walker's complicated consensus-building process would have been near impossible with an overly large board. Whitman-Walker's board leadership held clear officer roles and were able to build a level of trust across board members that would have been more difficult for a larger board without delineated roles or an executive committee to support education and decisionmaking. The members leading the process were strategic about keeping the full board engaged, taking their temperature along the way and providing outlets for feedback without doing a deep dive into every decision.

Find a mission-aligned developer with mission-aligned financing. Fivesquares was an invaluable partner for Whitman-Walker because of its real estate expertise and commitment to maximizing both economic and mission-related value for Whitman-Walker. The project would not have been as beneficial to Whitman-Walker had it not been for concessions that Fivesquares made. Most developers were unwilling to treat Whitman-Walker as an equity partner, let alone to agree to Whitman-Walker being the majority owner with decisionmaking authority, but Fivesquares did. A creative and aligned developer willing to explore novel forms of collaboration was critical to the project's success.

It should not be overlooked that the nonprofit's specific mission will play a role in garnering support from outside parties. In the case of Whitman-Walker, a former board member stated, "We happen to be saving lives. It doesn't get more serious than that."

Find and build partnerships built on trust. It is critical that nonprofit organizations and for-profit entities align on both economic and mission-related goals and that the joint venture has a collaborative decisionmaking process. It is important for nonprofits contemplating this alternative model to be able to clearly articulate their goals to a potential partner. In turn, one of the most critical decisions a nonprofit will make is selecting a partner it can trust: the partner should understand and commit to achieving both the economic and noneconomic goals of the nonprofit, as well as demonstrate willingness to make concessions in governance and provide financial flexibility. This requires the nonprofit to dedicate the time and resources necessary to vet potential partners; receive sound advice during the partner selection process; and spend time getting to know them, as the relationships will matter throughout the life of the project.

Seek philanthropic support. Philanthropic support can reduce the risk in a deal or improve the terms for a nonprofit. In Whitman-Walker's case, stakeholders indicated that the project still would have happened without philanthropic involvement, but concessionary loans allowed the nonprofit to realize larger financial returns and realize them sooner in the project's life cycle. The philanthropic organizations provided more value than just financial support: they served as a sounding board for Whitman-Walker and stood behind the nonprofit when it sought better investment terms. The partners provided the extra perspective, advice, and advocacy that was important to securing a successful transaction that retained mission alignment.

Take the time to align partners. Market-oriented developers and investors are generally not used to engaging in joint ventures with mission-first organizations, especially not as minority owners. Structuring a transaction that is attractive to a wide array of actors takes time. In the case of Whitman-Walker, it took coming back to the table to alter the deal with requisite terms for philanthropic participation. Time, money, and legal advice went into creating the final structure of the deal, which required a level of financial sophistication that not all nonprofits or philanthropies have.

---

*You **need more time** to bring private equity and capital providers like us to the table at the same time.*
—Philanthropist

Do not underestimate the complexity or time commitment of a deal. Nonprofits that want to pursue a joint venture should be well advised. Nobody involved in the LIZ redevelopment deal underplayed the fact that it was complicated and challenging at times. As one financial consultant shared, “A 501(c)(3) can’t be over-advised in this.” Furthermore, organizations wishing to pursue this type of deal need to have the financial and leadership resources to sustain such an effort while also seeing to the day-to-day operations of the organization.

Conclusion

Ensuring that nonprofits receive adequate funding is a persistent, longstanding challenge that the pandemic has only intensified. Nonprofits, particularly small organizations, face difficulties accessing funding to cover their immediate operating costs. As a result, many nonprofits have spread their resources thin to meet their clients’ needs, risking their financial viability. Several nonprofits have taken creative measures to adapt to these conditions, developing and engaging in earned-income enterprises, investing in for-profit ventures, and selling or redeveloping valuable land. Based on these diverse strategies, there is clearly no one-size-fits-all approach. The potential for these models to generate sustainable revenue depends on the assets, technical knowledge, and capacity available to nonprofits.

In this brief, we present the case of Whitman-Walker—a community-based nonprofit health center that once found itself on the brink of financial collapse but emerged determined to create a long-term mechanism to financially sustain the organization—pursuing an option to redevelop its flagship health center. This endeavor was neither easy nor straightforward, but by engaging mission-aligned development and financing experts, creating a streamlined governance process for its board, and taking the time to bring together partners, the stakeholders were able to manage the many risks involved.

The result has been a project that provided Whitman-Walker with more flexibility and control and established a sustainable revenue stream to expand services. The success of Whitman-Walker’s redevelopment venture crystallizes several lessons for nonprofits seeking to leverage their land. Additionally, for other stakeholders including developers, commercial capital providers, and philanthropic organizations, this case study serves as an example and call to action to support ventures that meaningfully empower nonprofits.

Notes

[1] "The Four Lenses Strategic Framework," Virtue Ventures LLC, accessed February 18, 2022, http://www.4lenses.org/setypology/classification.

[2] Stephanie Strom, "Hybrid Model for Nonprofits Hits Snags," *New York Times*, October 25, 2020, https://www.nytimes.com/2010/10/26/business/26hybrid.html.

[3] DC Central Kitchen, "We Fight Hunger Differently," DC Central Kitchen, accessed February 2, 2022, https://dccentralkitchen.org/impact/.

[4] "Social Enterprise Unrelated to Mission," Virtue Ventures LLC, accessed February 18, 2022, http://www.4lenses.org/index.php/setypology/seum.

[5] "Florida Churches Consider Creative Uses of Real Estate During Pandemic," *US News & World Report*, May 28, 2021, https://wtop.com/news/2021/05/florida-churches-consider-creative-uses-of-real-estate-during-pandemic/.

[6] Susan Morse, "Hospital Chains Make Big Money in Real Estate by Unloading Properties," *Healthcare Finance*, May 13, 2015, https://www.healthcarefinancenews.com/news/hospital-chains-make-big-money-real-estate-unloading-properties; Catholic Charities USA, "Paths to Project Development: Converting Surplus Church Property into Affordable Housing" (Washington, DC: Catholic Charities USA, 2020), https://www.catholiccharitiesusa.org/wp-content/uploads/2020/08/CCUSA-Surplus-Church-Property-into-Affordable-Housing-Guide.pdf.

[7] Kerry Gold, "Vancouver Churches Unlocking Their Land Value," *Globe and Mail*, January 9, 2015, https://www.theglobeandmail.com/real-estate/vancouver-churches-unlocking-their-land-value/article22381262/.

[8] Ibid.

[9] Julie Zauzmer, "Development on D.C.'s Waterfront Presents Chance for Neighborhood Churches to Cash In," *Washington Post*, January 19, 2017, https://www.washingtonpost.com/news/acts-of-faith/wp/2017/01/19/development-on-d-c-s-waterfront-presents-chance-for-neighborhood-churches-to-cash-in/.

[10] Sebastian Morris, "The Brooklyn Public Library Debuts 26,000-Square-Foot Branch At 286 Cadman Plaza West In Brooklyn Heights, Brooklyn," New York Yimby, June 10, 2022, https://newyorkyimby.com/2022/06/the-brooklyn-public-library-debuts-26000-square-foot-branch-at-286-cadman-plaza-west-in-brooklyn-heights-brooklyn.html.

[11] Michael Kimmelman, "Chicago Finds a Way to Improve Public Housing: Libraries," *New York Times*, May 15, 2019, https://www.nytimes.com/2019/05/15/arts/design/chicago-public-housing.html.

[12] Program-related investments (PRIs) are mission-oriented loans or capital investments that satisfy a philanthropy's 5 percent spending requirement, which is traditionally disbursed in the form of grants.

[13] Mission-related investments (MRIs) are investments typically made from a philanthropy's endowment to advance their philanthropic mission.

[14] Moira E. McLaughlin, "Central Union Mission's Move Means New Condos on 14th Street NW," *Washington Post*, February 12, 2013, https://www.washingtonpost.com/blogs/where-we-live/post/central-union-missions-move-means-new-condos-on-14th-street/2013/02/11/adae3f3e-6fb9-11e2-aa58-243de81040ba_blog.html; Karen Goff, "Martha's Table Has a Buyer for Its 14th Street NW Headquarters," *Washington Business Journal*, June 8, 2017, https://www.bizjournals.com/washington/news/2017/06/08/exclusive-marthas-table-has-a-buyer-for-its-14th.html.

References

Faulk, Lewis, Mirae Kim, Teresa Derrick-Mills, Elizabeth T. Boris, Laura Tomasko, Nora Hakizimana, Tianyu Chen, Minjung Kim, and Layla Nath. 2021. *Nonprofit Trends and Impacts 2021*. Washington, DC: Urban Institute.

Gold, Andrew S., and Paul B. Miller. 2017. "Fiduciary Duties in Social Enterprise." Forthcoming in *The Cambridge Handbook of Social Enterprise Law*, J. Yockey and B. Means, eds. Cambridge, UK: Cambridge University Press.

Kerlin, Janelle A. 2006. "Social Enterprise in the United States and Europe: Understanding and Learning from the Differences." *International Journal of Voluntary and Nonprofit Organizations* 17 (246).

Landes Foster, William, Peter Kim, and Barbara Christianse. 2009. "Ten Nonprofit Funding Models." *Stanford Social Innovation Review* 7 (2): 32–39.

Nonprofit Finance Fund. 2018. *State of the Nonprofit Sector Survey 2018*. New York, NY: Nonprofit Finance Fund.

Theodos, Brett, Rebecca Marx, and Tanay Nunna. 2021. "Always Growing, Auburn Gresham." Washington, DC: Urban Institute.

About the Authors

Brett Theodos is a senior fellow in the Metropolitan Housing and Communities Policy Center at the Urban Institute and director of the Community Economic Development Hub.

Rebecca Marx is a research analyst in the Climate and Communities practice of the Metropolitan Housing and Communities Policy Center. She conducts research at the intersection of the built and natural environment to assess social, economic, and environmental outcomes of community interventions.

Tanay Nunna is a research assistant in the Community and Economic Development practice of the Metropolitan Housing and Communities Policy Center. Nunna's research focuses on evaluating and informing the design of community development approaches that provide equitable access to the resources individuals need to live healthy lives and thrive.

Acknowledgments

This brief was funded by the Emerson Collective. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

500 L'Enfant Plaza SW
Washington, DC 20024

www.urban.org