Paying for a Real Estate Project

This worksheet is designed to help organizations think through all the different sources of funding that are available for a real estate project.

Most real estate projects require multiple sources of funding—usually a combination of equity (organization cash and grants) and debt (loan dollars). Only with organization equity in the form of cash or grants (i.e., down payment) can a nonprofit organization borrow funds (debt financing) needed to complete a project. So it is worthwhile for your organization to begin earmarking funds as early as possible to put towards the early predevelopment costs associated with virtually any project. As you know, you should go after as much free grant money as you can, but be aware that those funds can take a long time to come in and to add up to enough to cover the total project costs. Using a construction loan is often a timely and affordable way to complete your project financing.

The following list details possible sources to help pay for a project and/or various project costs:

Agency Cash
Money from reserves or operations is needed for upfront and predevelopment costs, such as:

- Earnest money (down payment on purchase of land or a building)
- Legal fees
- Down payment
- Predevelopment costs—inspections
- Real estate taxes until property obtains exempt status

Foundation Grants
Seek predevelopment funds from private, corporate and family funders. Do your research: many foundations are exclusively interested in supporting bricks and mortar investments in nonprofit organizations. Others may have restrictions on what those funds need to be used for.

Capital Fundraising Campaign
It is critical to plan and assess, with the assistance of a consultant, how much your organization can fundraise (*see Worksheet #4: "Selecting a Capital Campaign Consultant"*). It is important to examine your organization's current funding base, Board relationships, presence in the community and potential access to capital funds. Capital campaigns can take three, five or ten years to complete. Keep in mind that funders that traditionally support your annual operations may not make capital contributions; likewise, those that do may have policies on giving to the same organization for operations and capital in the same year. By asking for money for your building, you may sacrifice an operating grant. Your organization should also plan for the costs associated with raising funds (i.e., fees for a capital campaign consultant).

Government Resources
Specific state, local and federal monies for capital projects are earmarked by geographic region (e.g., CDBG), funding sources (e.g., Head Start) and project purpose (e.g., energy efficiency). Some awards can be accessed through political representatives and others have lengthy and competitive approval processes. Be advised that there may be restrictions on how these funds are spent and the timing of how these funds will flow. These considerations should be taken into account when planning the overall project financing.

Use of Debt
Contact your current banker first—your existing relationship and business counts! Community banks are making financing available for projects in their own backyards. It is still a good idea, however, to shop the deal—fees, terms and rates will vary. A slightly lower interest rate, on the other hand, is not the only element to look for. The length of the term of the loan will also have an impact on your monthly mortgage payments. Be prepared to provide potential funders and lenders with as much information as you can about the project, your development team, and your organization's financial statements (*see Worksheet #5: "Determining How Much Your Organization Can Borrow"*).

Community Development Financial Institutions (CDFIs) were created with the mission to provide funds to make projects happen in communities. Certain CDFIs are targeted for geographic regions and/or project type. Again, do your research and evaluate all your financing options.