HOLDING SPACE

Underlying Real Estate Conditions for Nonprofits in the Los Angeles Region

Research Brief

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Executive Summary

Over the past decade, rising real estate costs have led to displacement of low-income residents and small businesses from Los Angeles' changing neighborhoods.[1] This trend raises questions about the long-term ability of nonprofit organizations that operate in these neighborhoods to remain in place. The recent economic downturn related to the COVID-19 pandemic makes understanding the baseline conditions that nonprofits face in the real estate market even more critical. Previous research suggests that some San Francisco Bay Area nonprofits, particularly those that rent operating space, have grappled with displacement pressure in recent years.[2] With inspiration from this work, the Federal Reserve Bank of San Francisco conducted a survey of nonprofits in the Los Angeles metropolitan area to explore whether the same issues are present in another large, high-cost market with many nonprofits. Most nonprofits that responded to the survey experienced an increase in their operating space costs over the previous five years, and some have had to move or adjust their operations as a result. Most respondents were concerned about the potential displacement of their organization because of rising costs, as well as the potential displacement of their clients. The large concentration of visual and performing arts nonprofits in the Los Angeles region was reflected in the survey responses, in addition to other nonprofits serving low-income communities and communities of color.

1 Chapple, Karen, and Anastasia Loukaitou-Sideris. 2019. *Transit-oriented Displacement Or Community Dividends? Understanding the Effects of Smarter Growth on Communities*. Cambridge: MIT Press.

2 Harder + Company Community Research. March 2016. "Status of Bay Area Nonprofit Space and Facilities." Report prepared for Northern California Grantmakers. Accessed February 2020 at https://ncg.org/sites/default/files/files/news/NCG_NPO_survey%20report.pdf

Survey Highlights

Real Estate Costs and Relocation

- Most nonprofits that responded to the survey had an increase in their operating space costs in the previous five years—25% experienced an increase in operating space costs that they would characterize as "significant", and 35% experienced what they consider a "moderate" increase.
- Of nonprofits surveyed that rent, 68% had an increase in operating space costs in the previous five years.
- Of the nonprofits surveyed that experienced a rent increase in the previous five years, 43% relocated during that time.
- Out of all respondents that had relocated in the previous five years, 35% cited the high cost of real estate as a reason for moving and 29% had moved more than once.

Displacement Concerns

- 65% of nonprofits surveyed were concerned about potential displacement of their organization from the community/communities that they serve due to rising costs.
- 88% of nonprofits represented in the survey were concerned about clients and constituents being displaced from their neighborhood due to rising costs.
- 39% of respondents anticipated that their nonprofit may have to reduce the programs or services that they provide, and 28% anticipated a potential reduction in staff.
- 33% of nonprofits surveyed anticipated a possible reduction in operating space, and 24% anticipated that they may have to reduce their operating space.

Background

Nonprofit organizations serve their clients and their communities in different kinds of spaces depending on their mission and their size. With some exceptions, most operate out of some kind of commercial real estate—whether an office building, storefront, or an industrial space. Rising rents in hot real estate markets not only impact low-income residents, they impact the organizations that provide services and employment to their communities. Some nonprofits own their space or rent from mission-driven property owners such as faith organizations, cities or counties, or other nonprofits. These arrangements provide them with some insulation from market pressures. Yet many nonprofits rent on the open market, putting them in competition with other uses. And as the value of land increases, even nonprofits that own their space may face competition when they seek to move or expand.

The Los Angeles metropolitan area, which includes Los Angeles and Orange Counties, ranks among the highest for average land values in the country.[3] High land costs translate into higher rents passed on to tenants. The Los Angeles region has one of the strongest commercial real estate markets in the country.[4] As neighborhood demographics shift towards higher-income residents, businesses that serve a higher-income clientele typically follow, with commercial gentrification trailing residential gentrification.[5] This raises the question of whether nonprofit organizations face underlying conditions that may push them towards moving or making other changes due to rising real estate costs. To shed light on these conditions, we conducted a survey of nonprofit organizations in the Los Angeles metropolitan area, which includes Los Angeles and Orange Counties.

Methodology

We developed and conducted our survey in November 2018. It was distributed through email lists of nonprofit organizations and through social media with assistance from our partners. Our survey responses should not be considered a statistically representative sample of nonprofits in the Los Angeles metro area, but rather, the responses are reflective of the diversity of issues that nonprofits in the region face.[6] In January-February 2020, we conducted interviews with six individuals knowledgeable about the nonprofit community in the Los Angeles region.

3 David Albouy, Gabriel Ehrlich, and Minchul Shin. "Metropolitan land values." *Review of Economics and Statistics* 100, no. 3 (2018): 454-466. Accessed February 2020 at https://www.mitpressjournals.org/doi/pdf/10.1162/REST_a_00710

4 CBRE Research. "US Real Estate Market Outlook 2020," p17. 2019. Accessed February 2020 at http://cbre.vo.llnwd.net/grgservices/secure/US%20Real%20Estate%20Market%20Outlook%20Annual%202020.pdf?e=1581103793&h=08702fe8dc5d-cdd15da65e7ccddca986

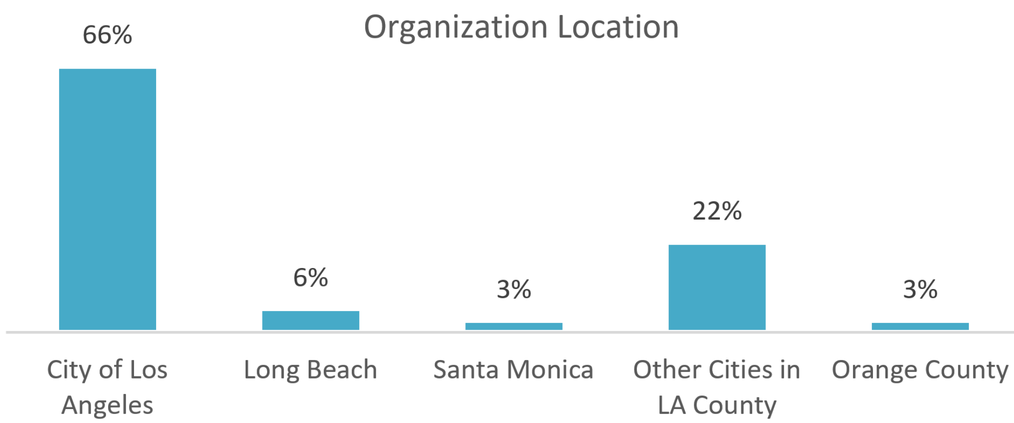
5 Karen Chapple, Anastasia Loukaitou-Sideris, Silvia R. González, Dov Kadin, and Joseph Poirier. September 2017. "Transit-Oriented Development & Commercial Gentrification: Exploring the Linkages." UC Berkeley Center for Community Innovation & UCLA Lewis Center: Report prepared for UC CONNECT. Accessed Feb 2020 at https://www.urbandisplacement.org/sites/default/files/images/commercialgentrificationreport_9-7-17.pdf

6 We removed a small number of responses from organizations based outside of the Los Angeles metro area and from entities that were not nonprofits (e.g., government agencies).

What Kinds of Nonprofit Organizations Responded?

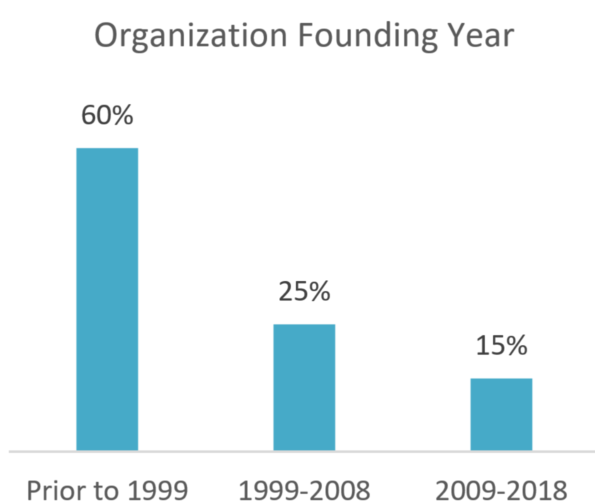
We received 103 survey responses from nonprofit organizations in the Los Angeles region, most of which rent space in the City of Los Angeles and have been in operation for over 20 years (Figures 1 and 2). The majority of organizations are relatively small—they have less than 20 employees, less than $1 million in operating expenses and occupy less than 10,000 square feet (Figures 3, 4, and 8, respectively).

Figure 1: *Most nonprofits surveyed are located in the City of LA.*



N=103.[7]

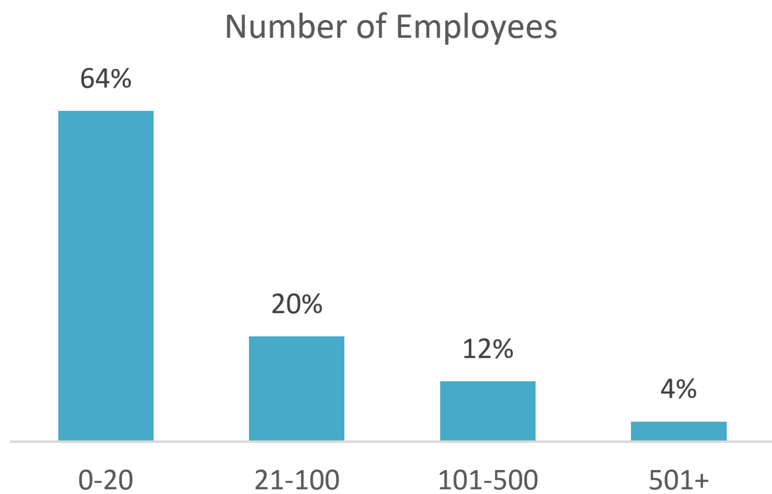
Figure 2: *Most nonprofit respondents have been in operation over 20 years.*



N=103.

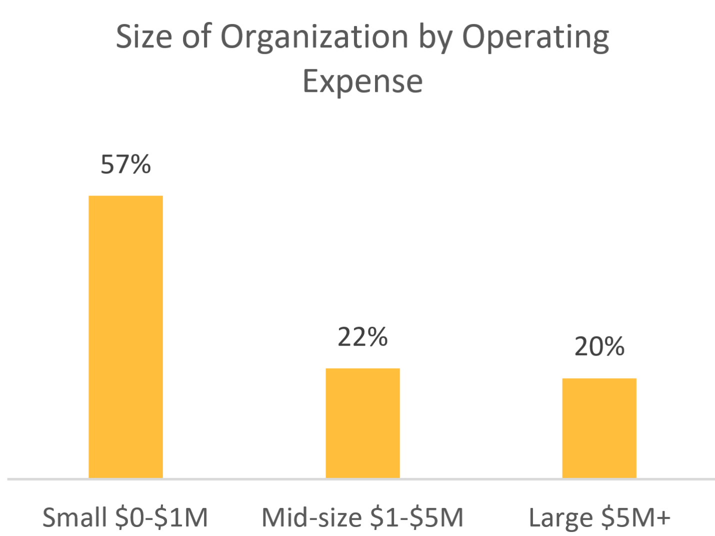
7 "Other Cities in LA County" includes: Redondo Beach, Torrance, Pasadena, Culver City, El Monte, Gardena, Whittier, and Pomona.

Figure 3: *Most nonprofits surveyed have 20 or fewer employees.*



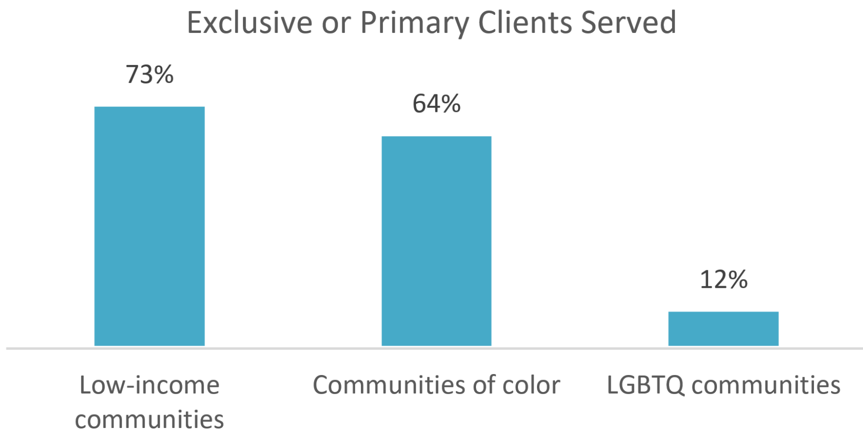
N=103.

Figure 4: *Most nonprofits surveyed have under $1 million in operating expenses.*



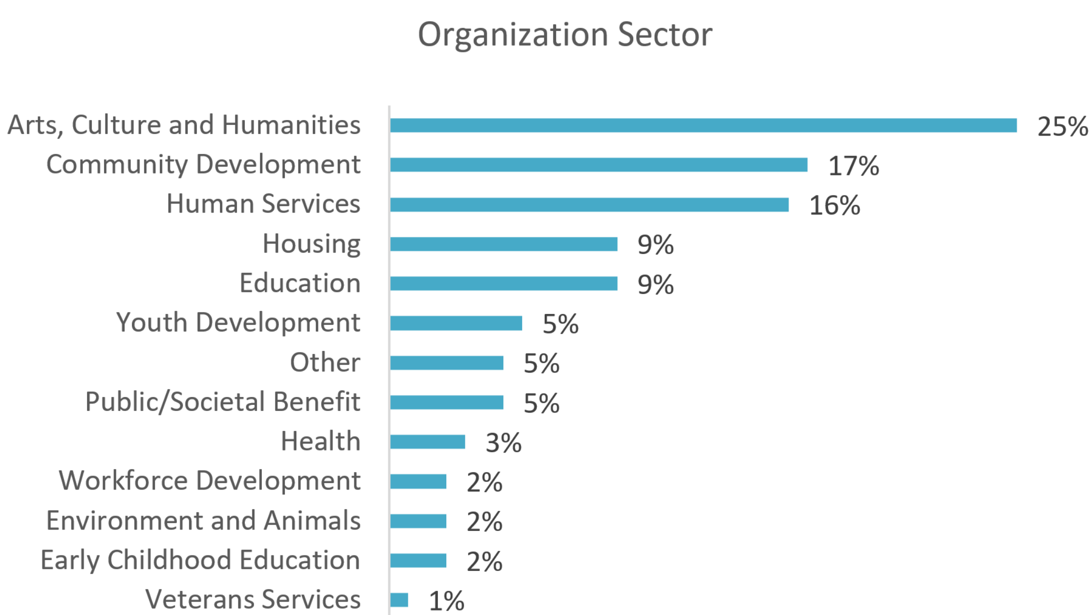
N=103.

Figure 5: *Nonprofits surveyed focus heavily on low-income communities and communities of color.*



N=103 for each category, respectively. For each category, respondents selected "exclusively," "primarily," or "neither exclusively nor primarily". The sum of the first two choices is shown.

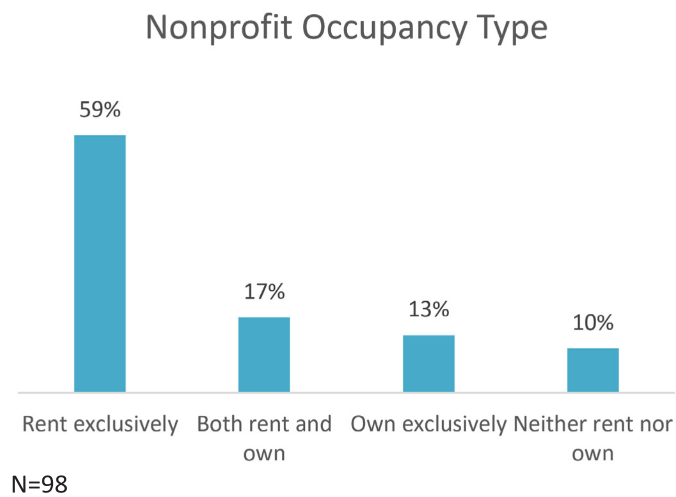
Figure 6: *A quarter of nonprofits surveyed identify as arts organizations.*



N=103. Respondents were asked to select all that apply.

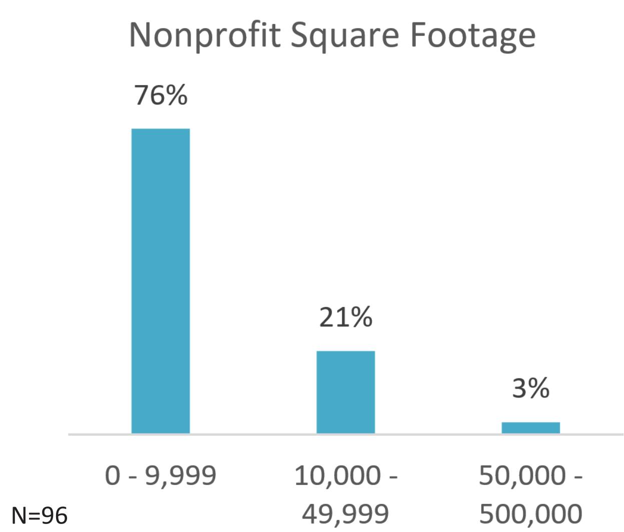
The majority of nonprofits that responded serve low-income communities and communities of color (Figure 5). The most frequently selected categories of work included arts (25%), followed by community development (17%), human services (16%), housing (9%), and education (9%) (Figure 6). A third of the organizations represented are direct service providers.

Figure 7: *Most nonprofits surveyed rent space.*



59% of nonprofit respondents exclusively rent operating space (Figure 7). A further 17% both rent and own, for example, having a headquarters that they own and renting satellite locations. Most organizations that selected "neither rent nor own" indicated that they operate in donated space. Three respondents noted that they rent space from the city or county for $1 per year.

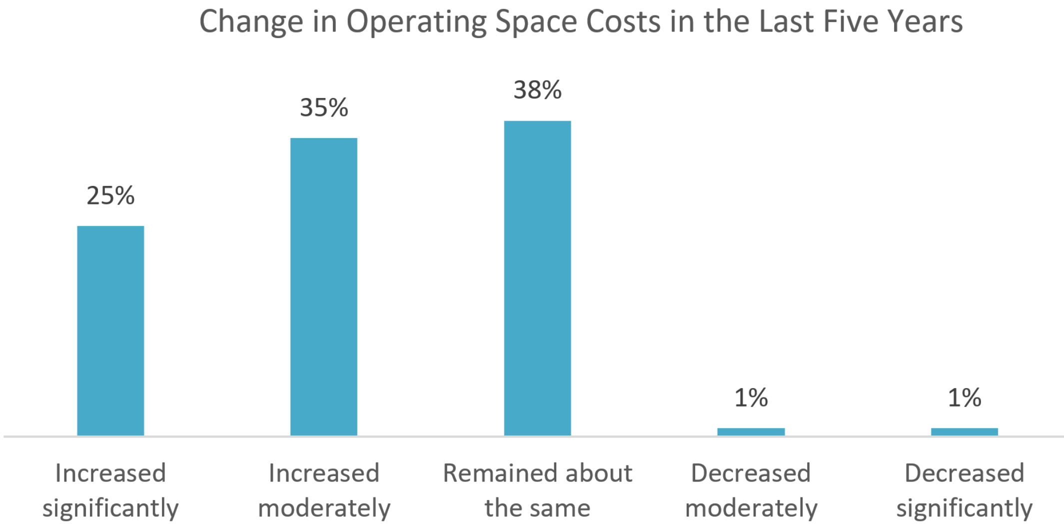
Figure 8: *Most nonprofits surveyed occupy under 10,000 sq. ft. of operating space.*



Most respondents operate out of less than 10,000 square feet of space (Figure 8). The median amount of operating space reported is 3,000 square feet.

Real Estate Costs and Displacement Concerns

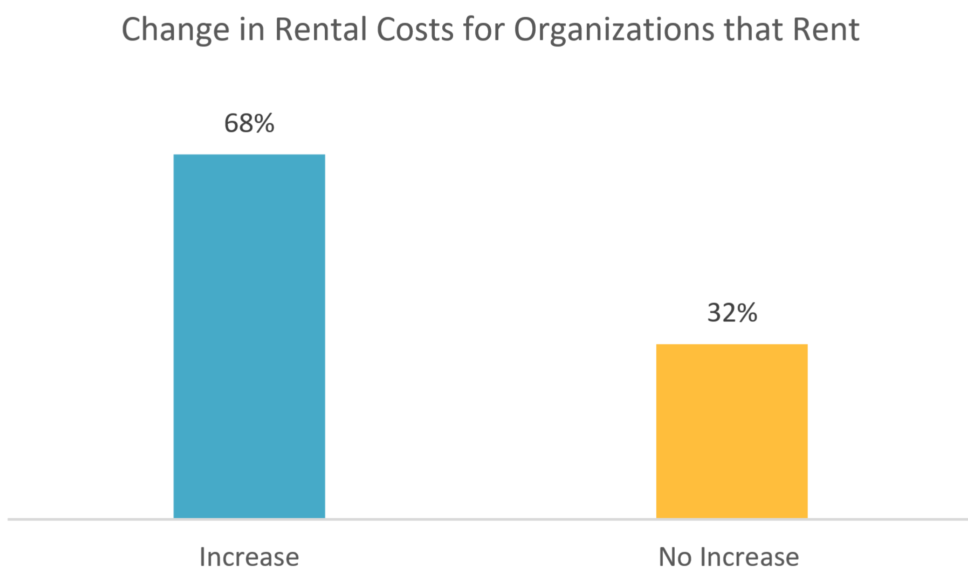
Figure 9: *A majority of nonprofits surveyed have seen increases in the cost of space they rent or own.*



N=96

A quarter of respondents reported a significant increase in their organization's operating space costs (Figure 9). A further 35% saw a moderate increase in operating space costs.

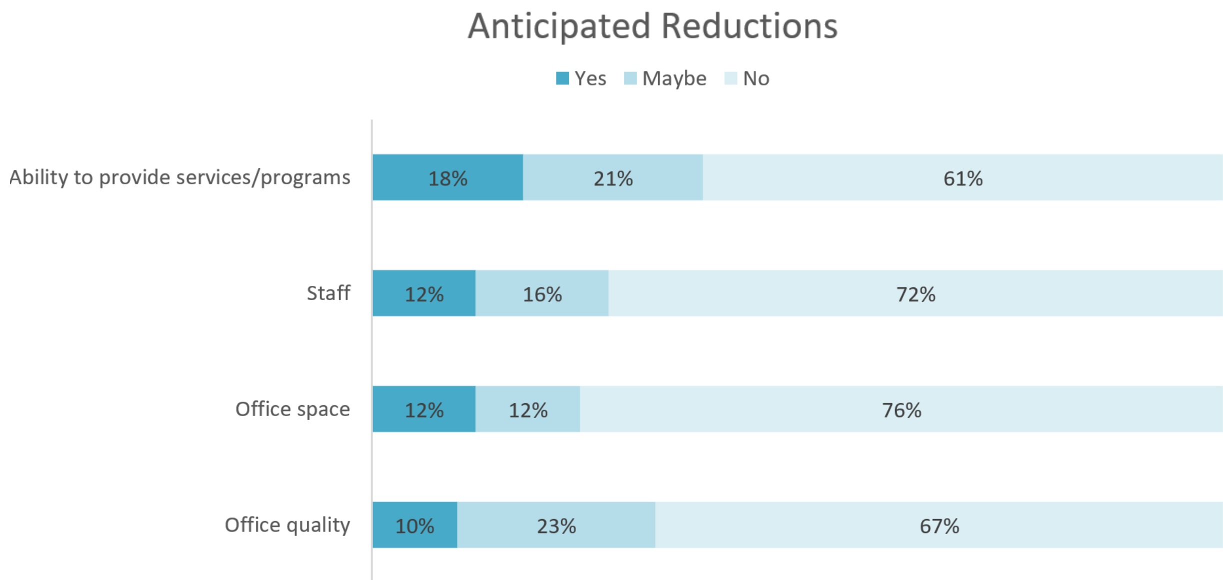
Figure 10: *Over two thirds of Los Angeles region nonprofits surveyed that rent experienced rent increases in the previous five years.*



N=74. Includes organizations that "rent exclusively" and "rent and own".

68% of respondents whose organizations rent space have seen an increase in their rent (Figure 10).

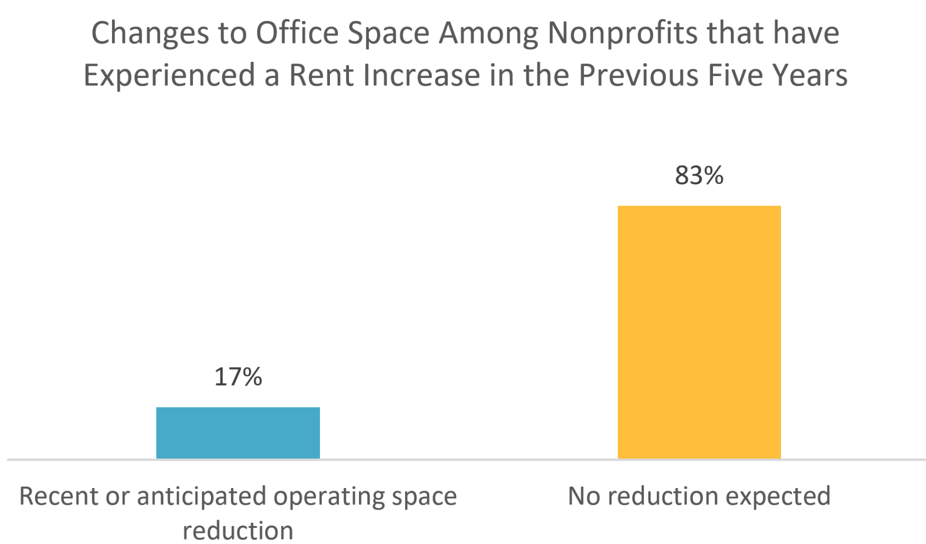
Figure 11: *Some nonprofits anticipated reductions in operations, staff, or space.*



N=90 for each category, respectively.

18% of all respondents said that their nonprofit plans to cut back on the services or programs they provide (Figure 11). The next most frequently-cited cuts were to staff and operating space (tied at 12%).

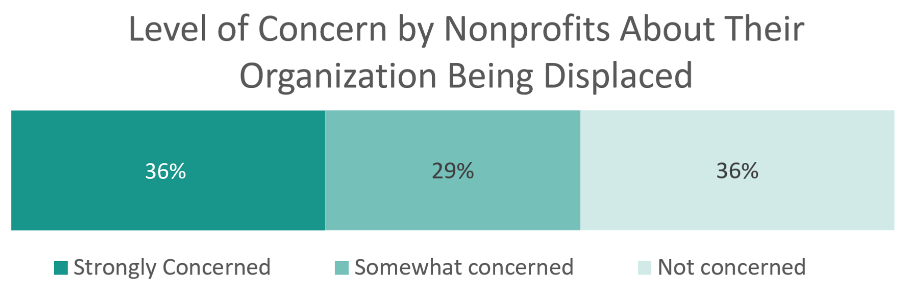
Figure 12: *Space reductions were more common among nonprofits whose rent had increased.*



N=70. Includes organizations that "rent exclusively" and "rent and own".

Plans to downsize loomed larger for organizations whose rent had increased. Looking only at nonprofits that saw their rent increase in the previous five years, 17% had recently reduced or anticipated reducing their operating space (Figure 12).

Figure 13: *Nonprofits were concerned that they will be displaced from their neighborhood due to rising costs.*

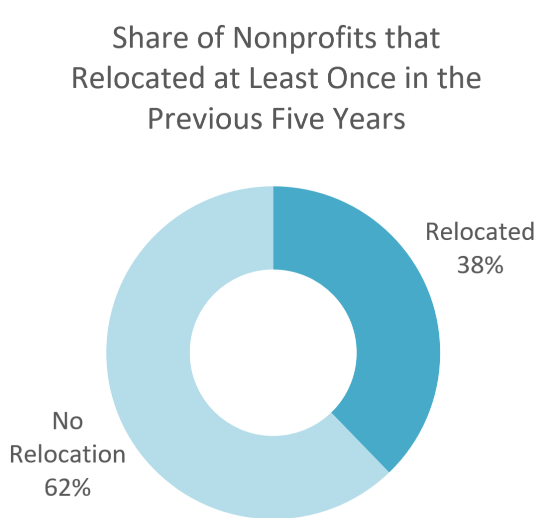


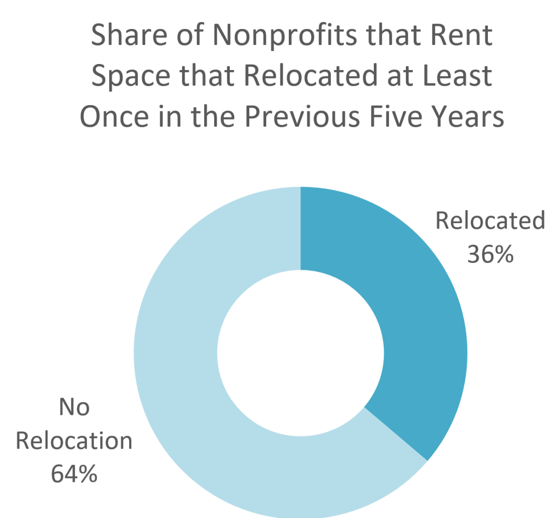
N=90

Over a third of all nonprofits surveyed (36%) were strongly concerned about the possibility of their organization being displaced due to rising costs (Figure 13). A further 29% had some concerns about displacement. Among the subset of nonprofits that rent space, 23% were strongly concerned and 23% had some concerns with displacement from the neighborhood(s) where they currently operate due to rising costs. According to one respondent: "Not only is the rising cost of land impeding our work in affordable housing, but our own program office space is under siege from rents rising."

Nonprofit Relocation

Figure 14: *The share of nonprofits that relocated was similar between all respondents and the subset that rent space.*

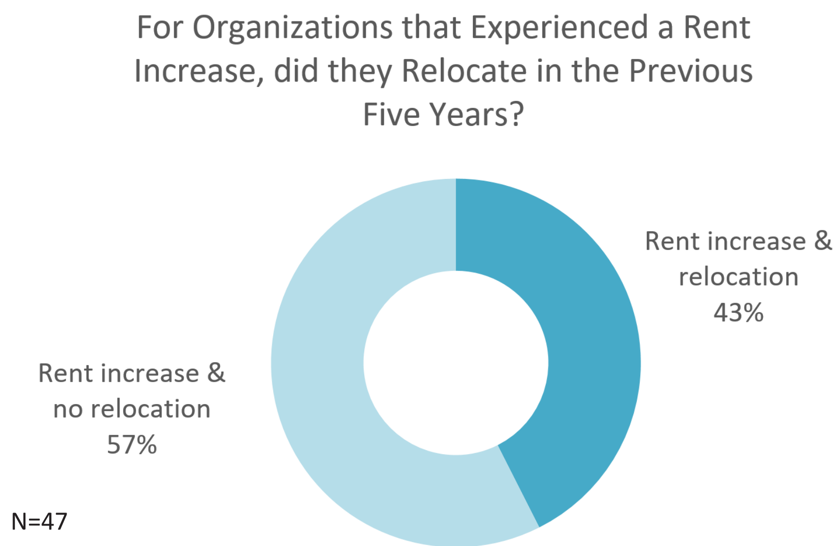




N=90; N=69

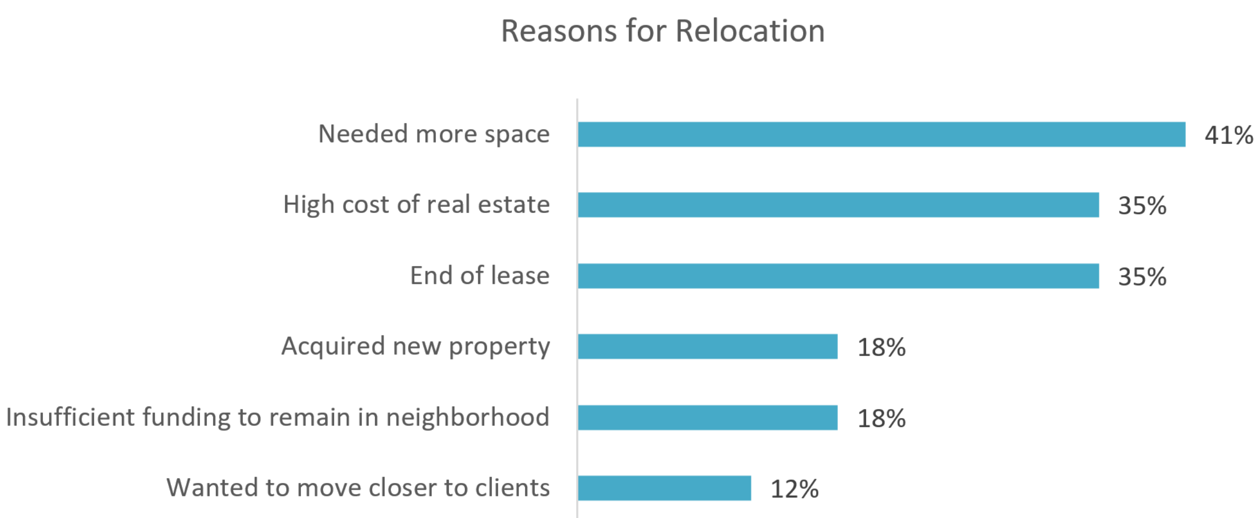
Over a third of all nonprofits surveyed (38%) have relocated at least once in the previous five years (Figure 14). 29% of movers relocated two or more times. Of organizations that rent, 36% had relocated at least once.

Figure 15: *A significant share of organizations that had experienced rent increases have relocated.*



Nonprofits that experienced a rent increase moved more frequently than nonprofit renters overall (Figure 15). 43% of nonprofits surveyed that had experienced a recent rent increase relocated in the previous five years. Some nonprofits have absorbed large rent increases without moving, but have still felt the strain. In a follow-up interview, one organization that participated in the survey said that they recently had their five-year lease renewed with a 40% increase in rent. Although their rent was still slightly under market rate in the area even with the increase, the large increase was a shock for the organization to absorb.

Figure 16: *Costs were a factor in many nonprofit relocations.*



N=34. Respondents were asked to select all that apply.

Among nonprofits that recently moved, 35% cited the high cost of real estate as a factor in their move (Figure 16). Arts organizations may face particular challenges finding comparable spaces—and audiences—once they move. According to one respondent, "Our rent increased…4% in 2017. Unfortunately in 2016 the original owner sold the entire corner, which included our beautiful 99 seat theater to a real estate investor. He doubled our rent to $11,000 per month. We had no other choice but to remove all our belongings, even our illuminated marquee, and leave." Sale of a building was a common theme for movers. Said another respondent, "Our current location is being converted to a high-rise apartment building in one year. We have been here for 27 years."

Of organizations that moved, 18% could not afford to stay in the same neighborhood (Figure 16). Arts organizations, which are sometimes seen as part of the gentrification process, were particularly conscious of the impact of their presence on the neighborhood they were leaving behind. One respondent from an arts organization noted: "We did have to leave the city of Los Angeles due to a significant rent increase… We are very concerned about our presence in a community being complicit in the gentrification process and causing our neighbors to be displaced."

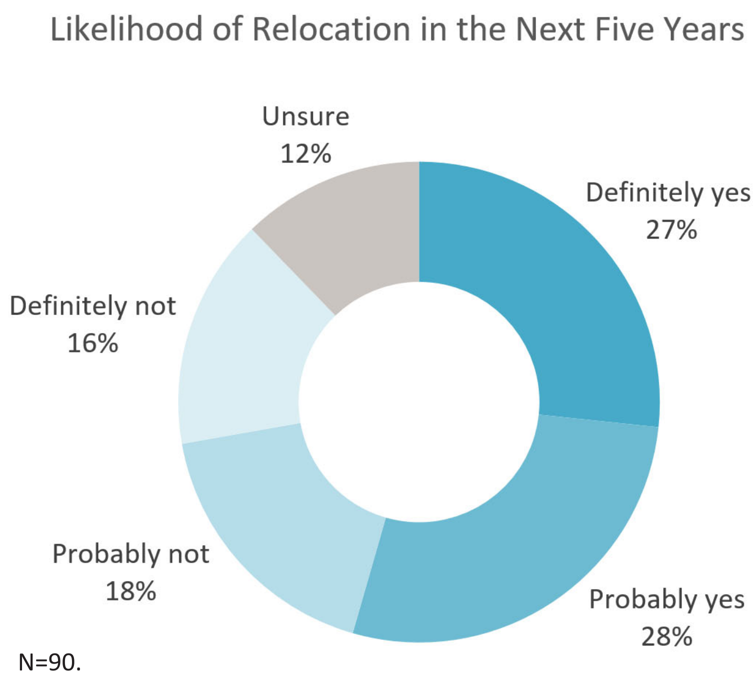
Some nonprofits that move because of cost issues end up in lower quality spaces. One respondent commented on the inadequate level of maintenance of comparable facilities that are within their budget.

Encouragingly, 18% said they moved because they acquired a new property (Figure 16). However, this remains a challenging process. Said one respondent, "We need to find a permanent location for the organization and private land owners will lead us on for years negotiating a lease and then back out at the last minute... This has happened twice in the last 3 years and in both cases those properties remain vacant."

Even when nonprofits do purchase property, they may face zoning and other obstacles to building a facility or conducting their operations in a new location. One respondent noted that "lack of parking, increasing rents and lack of real estate that is actually zoned industrial are our main challenges" for locating their operations. Another noted that "construction costs are through the roof. We are facing the dual challenge of assembling financing and staying within funding program 'high cost limits'."

12% of organizations that moved said that their move was driven by a desire to be closer to their clients (Figure 16). As low income populations are growing in the suburbs due to the high cost of housing in urban centers, the organizations that serve them may be starting to follow.

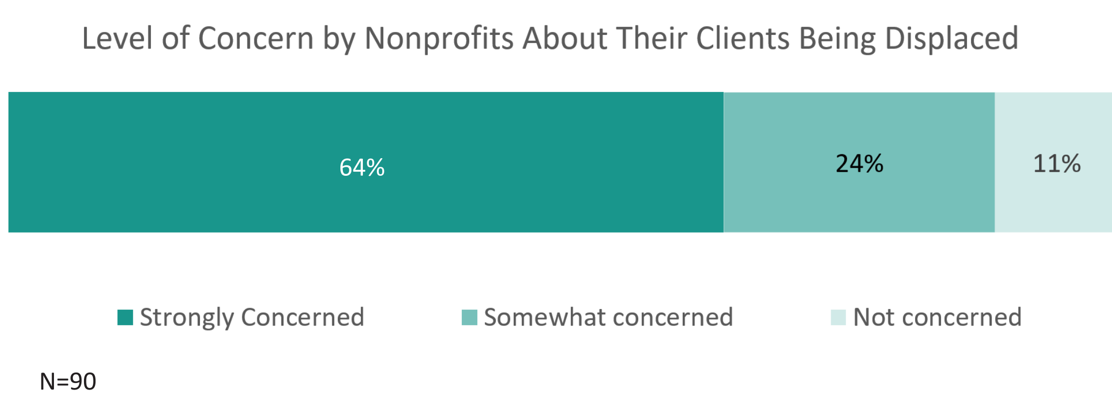
Figure 17: *Whether they had moved recently or not, over half of nonprofits surveyed expected to move soon.*



Nonprofit relocations due to costs or for other reasons have likely continued since the survey was fielded (Figure 17). 55% of respondents anticipated a possible move in the next five years. Of these, 27% said they were very likely to move, and an additional 28% said they were probably going to have to move. Said one respondent, "There's this general feeling that the city is changing and the threat of a sudden change that would displace us is imminent." Another was more pointed: "We are concerned that our organization will be displaced in the next couple of years because of the cycle of gentrification."

Concerns about nonprofit clients

Figure 18: *Nonprofits were concerned about their clients being displaced from their neighborhood due to rising costs.*



As much as they were focused on the impact of real estate costs on their organizations, the ability of their clients to stay in place was also front of mind for many respondents. A large majority of nonprofits surveyed (64%) were strongly concerned about displacement of their clients due to housing costs (Figure 18). Loss of subsidized or non-subsidized affordable housing was one reason cited for this concern: "We are seeing people displaced from their affordable residences so that buildings can be torn down and replaced with high market rate housing." Notably, this applies to people on a fixed income, as one respondent pointed out: "Seniors in Long Beach are being pushed out… Some seniors have been given 10-300% [rent] increases, and affordable housing is being converted to market rate by landlords. Plus short term rentals are further reducing housing stock." While this survey was conducted before California enacted a statewide rent gouging cap and just cause eviction protections for renter households,[8] many of the issues cited by respondents are still visible.

Policy & Strategy Recommendations

Rethinking Existing Spaces

Leveraging existing space in a variety of ways could help nonprofits secure affordable operating space. There are a number of resources that help connect nonprofit organizations to unused space, such as meeting rooms and desk space. All Good Work, which operates nationally, as well as Spaces for Good in the Bay Area, are two examples of organizations that allow nonprofits to use an online listing platform to search for available space for rent. Occupying space shared by other businesses can provide layers of opportunity. The nonprofit organization first and foremost can secure a fairly-priced space for their operation. On top of this, there is a potential opportunity to "barter" their product or service with other tenants in a shared or multiple-unit space. For example, Addy Gonzalez Renteria of 11:11 A Creative Collective noted their ability to manage a gallery space in a tech incubator office in exchange for reduced rent on their space in the same building. The gallery space is a valued amenity to the building owner.

Some nonprofit organizations have formed a partnership with local municipalities or agencies in renting unused facilities. Several organizations surveyed described their arrangement as renting space on property or in a facility owned by a school district, city or, county government. The government or agency typically offers the vacant property for a rent as low as $1 per year, often with the requirement that the tenant organization take on maintenance responsibilities and costs. According to Saul Ettlin of Community Vision, the arrangement is an affordable strategy for some organizations to meet their operating space needs. At times, governments or other agencies have offered nonprofits long-term leases of 20 years or more, a term rarely seen in the private market. However, there is uncertainty in whether maintenance costs add an unknown financial burden on the nonprofit tenant. In addition, Ettlin notes, there is uncertainty as to when a municipality, district, or agency may need to re-occupy the space and terminate a lease agreement with a nonprofit organization. Furthermore, there is little consistent policy on how governments or other agencies manage their underutilized assets.

8 Jared Brey. "What They're Saying about California's New Rent Gouging Bill." *Next City.* September 19, 2019. Accessed June 2020 at https://nextcity.org/daily/entry/what-theyre-saying-about-californias-new-rent-gouging-bill

Co-location may also be an option for complementary nonprofit organizations. For example, Amy Catt of Interfaith Food Center described the potential for the food pantry her organization operates to pool resources to acquire a larger operating space with another organization that requires similar operating facilities. A food pantry typically requires a kitchen space and a larger amount of storage than a small storefront can provide. A homeless shelter has similar space requirements, including a kitchen or food preparation area as well as a larger space for beds and client services. Complementary organizations, such as those that either share similar space needs or have an overlap in the populations they serve, may be partners who could better leverage their resources for co-location.

Organizations such as Genesis LA, a community development financial institution (CDFI) based in Los Angeles, are piloting an opportunity to help preserve affordable commercial space for community-serving businesses. In one initiative, Genesis LA provided financing and technical assistance to three nonprofits who formed the Community Owned Real Estate (CORE) partnership and acquired multiple commercial properties that are now operated as nonprofit-owned multi-tenant buildings. In this model, the nonprofit entity owns the building and serves as landlord to the tenant businesses renting out space on fair and specific lease terms. According to Tom De Simone of Genesis LA, this model allows for tenants, whether small businesses or smaller nonprofits, to manage their workspace without a looming unknown of how much the landlord may increase rent or when the landlord may choose to not renew the lease. Similar endeavors are underway in other regions, including the Bay Area. For example, Restore Oakland, a nonprofit organization, owns a building with a mission to provide space to other nonprofits. As a mission-driven landlord, Restore Oakland provides a higher level of stability for tenants regarding rents and lease renewal than they might find elsewhere.[9]

Securing Space for the Long Term

The City and County of San Francisco launched the Nonprofit Sustainability Initiative to help nonprofit organizations secure new, nonprofit-owned space and create solutions for organizations seeking long-term leases. The initiative, which is operated and administered by Community Vision, a nonprofit CDFI, aims to "provide technical and financial assistance to support nonprofit sustainability amidst a changing and volatile real estate market." It has helped over 200 nonprofit organizations navigate the threat of displacement in Oakland and San Francisco. The City and County of San Francisco recognize the significant role nonprofit organizations have in local communities, providing critical services such as food pantries and child care services, and the need to support a nonprofit's ability to secure space for the long term.

Greater availability of technical assistance could help nonprofit organizations navigate the complex process of acquiring real estate. Many nonprofits may not have the staff resources or internal capacity to explore options to acquire property for their operation. In addition, Ettlin noted that this limited internal capacity may be a barrier for many nonprofit organizations to developing long-term financial strategies to secure their space for the future, such as building reserves for the acquisition of property or other ventures. Intermediary organizations that could coach nonprofits on strategies to secure space or

9 Saul Ettlin. May 13, 2019. "Buying Power: Why Nonprofits Should Own their Space." *Shelterforce.* Accessed February 2020 at https://shelterforce.org/2019/05/13/buying-power-why-nonprofits-should-own-their-space/

explore other options to mitigate displacement could be a beneficial resource in the Los Angeles region. Genesis LA is one intermediary in Los Angeles providing support to help community organizations stabilize their space. Based in Colorado, The Nonprofit Centers Network has worked with nonprofit organizations across the nation on strategies and planning for multi-tenant nonprofit centers and workspaces.

Issues With Informal Leases

One significant issue that interviewees highlighted was that many nonprofit organizations, small businesses, and arts organizations rent commercial space without a lease agreement. Current law does not require a lease agreement. These “under-the-table” arrangements provide opportunities to rent low-cost space when other options are not available, but the approach leaves a tenant without protection when a landlord decides to end the informal rental agreement, often without warning. Such tenants face many uncertainties in the length of their occupancy, grounds for eviction, and increases in rent. Tenant education is critical to help nonprofit organizations, especially small start-ups, understand the fair terms to look for in a lease and the risks of an informal rental agreement. Without a lease, nonprofit organizations that lack staff capacity, resources, or access to technical assistance remain in a state of space insecurity and constant threat of displacement.

Creative Organizations at Risk

Arts organizations represented the largest share of nonprofits that responded to our survey. Visual and performing arts organizations and artists in the Los Angeles region are particularly at risk of affordable workspace insecurity. According to Danielle Brazell at the City of Los Angeles Department of Cultural Affairs, the findings from our survey discussed above “highlight the underlying issues our nonprofit arts and cultural organizations face in Los Angeles.” LA’s richly diverse cultural communities are woven into the creative fabric that defines the greater Los Angeles region. Its ecosystem of artists and performers creates value for communities and enables the region’s role as an international cultural production center. Another recent study found that the region’s role as a creative hub is at risk of eroding from the pressure of housing and workspace insecurity experienced by artists.[10] Many organizations that responded to our survey commented on the affordability issues faced by artists and performers who live or work in the Los Angeles region. Arts organizations and other nonprofits will continue to need assistance in securing affordable operating space, and keeping their doors open, as they face revenue shortages due to the COVID-19 pandemic.

10 Alison Agsten. November 2019. “(Re) inventing the American Dream: Policies and Practices for Keeping Artists in Los Angeles.” Arts for LA. Accessed Feb 2020 at https://www.artsforla.org/2019_lz_fellow.

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