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Municipal Capital Markets Financing for Nonprofits

When to Lease & When to Buy

What is the long-term bond market?
And, how is it relevant to my decision to purchase property?

An acquisition through a long-term, tax-exempt bond financing can offer significant advantages over leasing. Tax-exempt status is issued on behalf of a nonprofit's project through a bond issuing agency, such as Build NYC Resource Corporation. These bonds are placed in the capital markets or sold to banking institutions. Per IRS code, nonprofits can borrow funds for their capital projects on a tax-exempt basis, resulting in lower debt service costs. In addition, 501(c)(3) status exempts your company from paying real estate taxes on property you own, sometime as much as $8 to $10 per square foot.

What are potential impediments to property acquisition?

- Higher debt service costs in the near term (first 5-10 years)
- Conventional mortgage financing requires substantial equity (15% to 20%)
- Breakage costs on existing leases
- Conventional mortgage lenders fail to see your organization as "bankable"

How is tax-exempt, capital markets financing different?

During the first 10 years of acquisition financing, annual debt service/occupancy costs may exceed the cost of leasing. However, consider that debt service on tax-exempt bonds is fixed for 30 years. In contrast, leasing costs escalate each year. Typically beginning in year 11, the cost to lease starts to significantly outpace acquisition costs. Eventually, leasing will exceed the costs associated with bond debt service and common charges. Conversely, savings under acquisition financing increase with each passing year.

And, potentially the biggest advantage, you will have an asset on your balance sheet. As the outstanding bond principal declines each year, the fair market value of your property can be expected to increase.

What are the advantages of capital markets financing?

- 100% financing for your project, with no equity required
- Fixed interest rate—for as long as 30-35 years*
- Predictable occupancy costs
- Reduced interest rate—as much as 25% lower than with conventional bank loans
- Competitive annual debt service costs when compared with leasing costs
- Flexible financing terms:
  - Interest-only periods
  - Deferred amortization
  - Bond-funded capitalized interest
  - Financing for the majority of closing costs.

**For unrated borrowers, long-term bonds currently offer 30-year, fixed interest rates ranging from 4.5% to 5.5%, as of June 2020.*

The lease versus buy dilemma… Still have questions?

- What are carrying costs under each alternative?
- Would an acquisition divert essential operating funds to long-term assets?
- Will property equity eventually outweigh acquisition costs?
- What happens if we need to relocate in the future?
- Will acquisition financing restrict our options?
- Do flexible terms exist for acquisition financing?
- Can occupancy costs be controlled and protected from market fluctuations?

We are here to provide answers.

ThinkForward specializes in obtaining financing for new capital projects, refinancing and restructuring outstanding debt, and obtaining tax reductions and other incentives and benefits through government agencies. Please contact us to discuss your options.