A proposed regional framework for

Social Purpose Real Estate and Non-Profit Colocation in St Louis

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The Coming Land Rush:

Non-Profit Colocation and Shared Real Estate in the St Louis Region

Groups of non-profit organizations have moved in together at more than 400 locations across North America[1]. Non-profits are sharing space in hopes of reducing costs, integrating services, and promoting innovation. Almost all of these 400 centers are less than 15 years old—a testament to the co-location tidal wave sweeping the country[2]. And so it seems inevitable that the St Louis region will once again revisit our longstanding conversation about non-profit colocation.

Multiple "away teams" have visited non-profit centers around the country (Cincinnati was a particularly popular destination for these site visits in 2014 and 2015[3]). Several joint real estate studies are proposed or are underway with more in the pipeline. Civic leaders, major donors, and non-profit administrators are going to be presented with some important and expensive real estate decisions in the coming 24 months.

Without a broader frame of reference it is hard to evaluate the merits of these individual projects. Further, without a regional framwork we will fail to make optimal use of our scarce real estate dollars. Fragmentation is the ongoing watchword in St Louis leadership and governance[4]. How can we avoid fragmentation in planning for non-profit co-location? How will we gain the patience and long-view to stay the course and assure that we are intentionally using real estate to promote equity in access to needed services, contribute to neighborhood and community development, and enhance our non-profits' ability to achieve measurable outcomes? All of these could be aided by appropriate co-location but none of these will be promoted with a one-off approach to evaluating individual projects or proposals.

1 **What do we hope to gain from co-location?**

2 **How do we prioritize these benefits?**

3 **Where should we begin?**

The answers to three questions can establish a coherent regional framework and guide the colocation of our non-profit organizations: (1) What do we hope to gain from colocation? (2) How do we prioritize these benefits? And, (3) Where should we begin?

1 What de we hope to gain from colocation?

A review of the 400 non-profit centers in the U.S. and Canada suggests that St Louis could gain six specific benefits (summarized in Table 1 on the next page). First, co-locating non-profits can enhance access to services by integrating services and putting them together in one shared location. The measurable outcomes might be increased use of services, easier access for constituents, and the establishment of a continuum of care. Second, co-locating non-profits can lower costs by sharing "back of house" supports such as accounting, human resources, and risk management and benefit from being near other organizational directors and program administrators. The measurable outcomes could be increased operational strength and efficiency, lower costs, and better managed organizations. These benefits may be particularly valued by smaller non-profit organizations or by newer ones seeking to establish effective systems.

The third benefit sought by co-locating non-profits is the hope to achieve a population-level outcome. This benefit is harder to measure and assure but the goal is to have a diverse group of actors implement a more comprehensive set of strategies to achieve a larger outcome than can be achieved alone. For example, this is the rationale behind the Chicago Literacy Alliance's new "Literacenter" - the country's first shared workspace devoted to literacy. Policy advocates, service providers, and marketing professionals from multiple agencies are located in one facility and form cross-organizational teams to coordinate and implement complex strategies.

Some Measurable Benefits of Non-Profit Colocation

Primary Rationale	Measurable Benefits	Co-Locating Agencies Must Therefore:
1. Improve Services		
Co-locating non-profits hope to enhance client access by integrating services and putting them together in one shared location.	• Increased use of services; • Easier access for constituents; or • Establish a continuum of care.	1. Share the same service population or demographic; 2. Offer complimentary services; 3. Choose locations that are proximate to their service population and sources of transportation; 4. Rent, build, or renovate buildings to enhance public access and to align with service needs (such as accommodating children or protecting the anonymity of the victims of domestic violence).
2. Better Management		
Co-locating non-profits hope to lower costs; gain "back of house" supports such as accounting, human resources, and risk management; and benefit from being near other social service professionals.	• Gain operational efficiency; • Lower costs; and • Build capacity.	1. Share a need for operational support or the ability to provide such support. 2. Choose locations near current and potential tenant's clients or that enhance customer access. 3. Rent, build, or renovate buildings that offer a variety of space configurations capable of meeting current and future tenant requirements.
3. Shared Outcomes		
Co-locating non-profits hope to achieve a population-level outcome by implementing a comprehensive set of strategies.	• Align policy, program, media, advocacy, and other interventions; and • Improve a population-level outcome.	1. Share the same desired outcomes. 2. Bring complimentary strategies to achieve shared goals. 3. Choose locations that enhance the visibility of the group. 4. Rent, build, or renovate buildings to enable collaboration between partners and provide flexible space as work-teams change over the life of the initiative.
4. Earn Revenue		
Co-locating non-profits hope to implement revenue generating activities with key partners.	• Reduce costs; • Maximize revenue; and • Increase quality.	1. Have a shared business model to which each can add value and gain revenue. 2. Bring complementary business strengths needed to implement the model (such as call center support, training systems, or data management). 3. Choose locations near target customers or that can enhance customer access. 4. Rent, build, or renovate buildings to enable the implementation of revenue generating activities.
5. Stimulate Innovation		
Bringing agencies together can create a mix that stimulates more creative thinking, innovative programs, and new connections.	• Amount and nature of innovations; and • Joint ventures and shared enterprises.	1. Seek innovation in their configuration, programs, and customer experiences. 2. Rent, build, or renovate buildings that promote connections and shared exploration such as co-working environments.
6. Neighborhood Development		
Nonprofits will spend money on a lease or mortgage. Why not spend those dollars in a location that also contributes to neighborhood improvement? This does not presume agencies must be in the same building.	• Community development; • Neighborhood revitalization; and • Historic preservation.	1. Share a desire to improve neighborhood life and conditions. 2. Bring services and business in line with resident interests, needs, and goals. 3. Choose locations that can contribute to neighborhood revitalization. 4. Rent, build, or renovate buildings to maximize positive economic and social impact.

Table 1

The fourth benefit is enhanced implementation of a shared business model. Co-locating non-profits hope to implement revenue generating activities with key partners. The measurable outcomes from this can include enhanced market access, increased revenue, and potential joint offerings to customers. This is an infrequent rationale for non-profit co-location. When it is the reason, it is used most often by non-profits who operate in a "business to business" market such as those that replicate evidence-based programs through partner non-profit agencies across the country.

A fifth benefit can be creativity and innovation. As has been demonstrated in the business sector, a innovation ecology can be nurtured through colocation when combined with other strategies[5]. For non-profit organizations a *social innovation* ecology is desired and this requires proximity, density, and organizational supports akin to those outlined above.

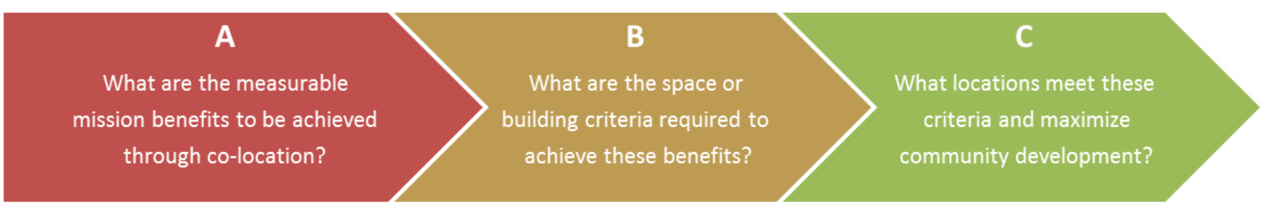
The final benefit does not accrue to the non-profit or even directly to those the organization serves. Rather, the final benefit is to the surrounding community in the form of economic development, historic preservation, strengthened neighborhoods, and improved living environments. The social sector makes up nearly 10% of the St Louis workforce[6]. Further, millions of dollars are spent by the social sector on rent and real estate. Why not be more intentional in how we harness these financial resources to promote equitable community development?

❷ How do we prioritize these benefits?

Donors and co-locating agencies create projects in pursuit of more than one of these benefits. Typical combinations include the desire to both enhance access and to strengthen partnering agencies (#1 and #2). The hope to strengthen agencies that have a shared mission (#2 and #3). The goal of simultaneously promoting sustainability and innovation (#4 and #5). These are only the most common combinations.

When done well, all real estate and location decisions are made with the intention of building community (#5). However, the attempt to aid neighborhood development alone without careful consideration of the "mission benefit" of colocation first can have a profoundly negative consequence for non-profit organizations. At the inducement of neighborhood leaders non-profits can feel compelled to move to locations that do not enhance their ability to deliver on mission. To borrow a phrase from the movie Field of Dreams - if we build a new community services center they will indeed come. Unfortunately, they may come for the wrong reasons and the project is likely to be unsustainable.

Recommended sequence of decisions when considering colocation of non-profit organizations.



Prioritization of benefits then are mission first, community development second. Not because these benefits are mutually exclusive nor because one is more important than the other. *Rather, because this sequence assures both are maximized*. Non-profit agencies and colocation project advocates must first become crystal clear on the measurable mission benefits that can only be achieved through colocation. Once these parameters are set then space criteria become clear. With clear mission benefit and space criteria all parties can work to maximize community development through location[7]. Prioritization then is a three step process: (a) What are the measurable mission benefits to be achieved through colocation? (b) What are the space or building criteria required to achieve these benefits? And, (c) What locations meet these criteria and maximize community development?

❸ Where should we begin?

The St Louis region should avoid some common traps, build on relevant lessons from local success in the business sector, start with pilot efforts that lay a foundation for an emerging regional infrastructure, and clearly state our guiding values. These four steps need not slow the pace of current planning. Rather, they are offered in an effort to add value to these existing efforts.

<u>Common Traps</u>.

Not specifying mission benefits. The fundamental lesson from the 400+ centers in America and Canada that precede us is that planning teams often failed to specify what measureable benefits they hope to achieve through colocation. This may seem remarkable but it is true that many of the 400 projects raised needed capital, attracted non-profit partners, and built or renovated existing buildings on a generalized but unspecified belief that organizations would benefit from moving in together. Any one of the six potential benefits were assumed without being spelled out. The predictable result of failing to name measurable benefits include:

- Tension between tenant organizations that were seeking to optimize different benefits.
- Inability to attract or retain tenant organizations.
- Co-locating in buildings that are incompatible with the mission of desired tenants.
- Inability to measure and evaluate the value add of the center—centers "in search of a mission."
- Devolution into below market rent opportunities for non-profits without realizing the more strategic benefits of co-location.
- Competition with traditional landlords and better capitalized real estate ventures.

It is clear that not all non-profit organizations are candidates for colocation. Further, natural clustering of non-profit organizations is likely around the benefits they seek to gain through colocation. Finally, centers created only to reduce operating costs (a part of benefit number two) appear less successful.

Failing to invest beyond bricks and mortar. A second common failure among the 400 centers is the belief that "proximity benefits" will naturally materialize. The proximity benefit is real but it is not achieved through magic or mere colocation. Project sponsors must plan, fund, and program for what happens in shared spaces after colocation just as much as they do for the initial construction[8].

Not engaging neighbors. Project developers often fail to engage local residents, community development corporations, and neighborhood associations in the selection and design of non-profit centers. Not unlike other development, the site selection and design of centers can feel imposed or described as "parachute projects." This fundamentally undermines the sixth purpose of co-locating non-profit organizations. To contribute to neighborhood development, new centers must be an integral part of that neighborhood's overall development plan. When neighborhoods lack such a plan or lack local organizations with the expertise to respectfully engage residents in planning then developers have the responsibility of stimulating these local planning and engagement processes to the degree they are able.

Falling into a competitive mindset. The most likely trap when pursuing a regional framework is a competitive mindset. This mindset will lead non-profit center developers to position their projects as competitors for tenants, tax and development incentives, financing, and donor support. However, a genuine pursuit of mission-centered outcomes and market realities quickly reveal that early developers of non-profit centers are not competitors.

Projects seek to promote differing sets of mission benefits. This naturally sorts appropriate tenants across colocation opportunities of which there must be several for a viable regional strategy. Many non-profits can benefit from colocation creating ample room in the marketplace for such multiple colocation projects. Further, these several projects can come together and make a real case for regional support elevating their status and potential for successful underwriting. Is this the region's next City|Arch|River?

Local Lessons. St Louis has seen the rise of several successful local business incubators and innovation centers. While it is not the goal of non-profit centers to produce the maximum number of successful new organizations (as is the case in business) the social sector has a great deal to learn from these local business examples.

a. *Build off of regional strengths (economic assets— **innovation drivers and cultivators**[9])*. For CORTEX the regional strength and driver is biology and plant sciences. The Danforth Plant Science Center, Washington University School of Medicine, St Louis University School of Medicine, University of Missouri—St Louis, and Barnes Jewish Hospital among other partners form a core of drivers around which a scaffolding for innovation can be built.

   By analogy, what could be the St Louis social sector's regional strength? Who are the drivers of innovation? One candidate is the historic non-profit organizations founded in St Louis that have gained a national reputation and even replication of their work. This handful of organizations represents a unique and truly local core of excellence and innovation. Examples include Epworth, OASIS, Wyman, and the Parents as Teachers National Center. These innovative and national reputations were hard won. While these organizations enjoyed strong partners they were never a part of an intentional incubator that could have made the path of innovation, quality, and replication cheaper, easier, or faster to travel.

   As with CORTEX, our local universities have unique and nationally recognized assets that contribute to a definition of regional strength in the social sector. The College of Education at UMSL and the Brown School of Social Work at Washington University are two particular cases in point. The Brown School is frequently listed as one of the top rated schools for social work in the country.

   Our core regional strengths and the St Louis drivers of innovation in the social sector are the nationally prominent non-profits with local historic roots, highly rated schools at our local universities, and pockets of exciting innovation emerging from smaller agencies and social entrepreneurs. As with the business world, it will be our social entrepreneurs who ultimately drive what comes next. But as our business leaders also know, we can make the way easier for these needed future leaders by creating a regionally themed ecology for innovation.

b. Establish proximity (physical assets). Cortex is creating a campus to put the proximity effect to work for innovation. Shared work spaces such as Nebula, Claim, Lab1500, The Hive44, and T-Rex[10] attempt the same strategy on a smaller scale. Note that all of this innovation and connection is happening in more than one place. What is the St Louis social sector's analog?

   Some smaller non-profit organizations have joined the business community in their shared space and co-working centers. Others have co-located in pairs or used satellite locations to jointly house staff and services. The Network for Strong Communities (NSC—formerly the Non-Profit Services Center) has begun leveraging proximity for a modest number of non-profit organizations in Brentwood. The demand for this dedicated space and support has quickly exceeded available supply. To date NSC is the only shared working space exclusively dedicated to strengthening non-profits in our region.

   A "campus approach" has been implemented in the arts community. Grand Center is the prominent example. Likewise, public media has joined together to form the Public Media Commons. These exemplary efforts are the exception to the non-profit community's rule.

   The truth is that the majority of our non-profits are located where they have found free or low cost space and rarely near each other. The desire to promote access to services and to contribute to neighborhood development and well-being have legitimately trumped the desire for proximity to peers. Further, no regional entity has created an alternative approach to the traditionally isolated capital campaign.

c. *Program for connection (networking assets)*. Within St Louis' shared spaces, tenants are intentionally connected through programming, coaching, and physical design. For example CORTEX uses the Venture Café, an Innovation Fellowship Program, access to experienced coaches, and drop in events among other strategies to intentionally foster connections. While a lot is known about how to foster these connections and their benefits there also remains much to be learned and there is a great deal of active experimentation in this area at the CORTEX community.

   What is the St Louis social sector's analog? The Network for Strong Communities is currently the only one. Because our organizations are physically isolated there is no opportunity to program for connections within a shared space. NSC is the exception and their leadership is actively experimenting (like CORTEX) with how best to forge connections that stimulate innovation and build stronger organizations.

<u>Start with pilot efforts</u>.

A regional framework for a network of non-profit centers is an ambitious undertaking. Traditionally, social purpose real estate is an afterthought in regional development. As our partners in business have clearly demonstrated, pilot projects sequenced to build on success and to incorporate lessons learned is a proven path to implementing ambitious and complex strategies. Non-profit co-location appears an ideal candidate for such an approach.

Starting with at least two major colocation projects that emphasize different mission benefits appears feasible (indeed this seems likely to occur by 2018 with or without the benefit of a clear regional framework). One emerging project emphasizes expanding business models and innovation for co-locators while another that is just beginning is focused on access to services and better management practices. These efforts should be mapped and aligned so that the region is intentional in creating an equitable infrastructure and re-investing wisely in neighborhood development.

<u>Guiding Values</u>.

This paper seeks to clarify what we hope to gain from colocation, how we can prioritize these benefits, and how we might begin. It is grounded in practice and experience. Equally important are the values that should guide our regional conversation. Here are four shared and fundamental principles that can guide our regional framework:

a. *Mission First*. Measurable benefits in line with non-profit mission must be expected, measured, and achieved through colocation. Ultimately, a regional strategy is not about real estate, it is about how real estate can build family and community.

b. *Equity is the Mission*. The mission is first and the mission is equity. Progress toward racially equitable opportunity and communities can be made through enhanced access to needed services, through focused innovation, and by investing non-profit real estate dollars to promote community development.

c. *Organizational Self-Determination*. A regional framework is not an imposed pogrom or a top-down five year plan, it should be a framework that can help individual agencies and the passionate individuals that lead them realize greater mission outcomes. In every project the case for enhanced mission will have to be convincingly made.

d. *Collaborative Presumption*. No organization can move important social outcomes alone. However, the work of each organization is required to achieve important social outcomes. Thus our permanent reality is that each non-profit organization in the St Louis region is necessary but not sufficient. We are therefore inexorably bound together in common cause and our presumption should be toward meaningful collaboration in the pursuit of shared outcomes.

The St Louis region can measurably advance the work of non-profit organizations through colocation. The region can avoid the common traps noted here. St louis has important and relevant lessons to learn from local success in the business sector and the growing national reputation of our entrepreneurial ecosystem. St Louis must require cross-initiative and funder conversations. We have the opportunity to start with coordinated pilot efforts in 2017. These steps need not slow the pace of current planning and development, in fact, they could add value to these existing efforts by tying them together into a coherent and powerful regional framework rooted in our shared values.

Ultimately, a regional colocation strategy is not about real estate.

It is about how real estate can help us promote equitable communities.

Endnotes

[1] Non Profit Centers Network. (2015). *State of the shared space sector survey*. Denver, CO.

[2] Ibid.

[3] For example a leadership team from St Louis recently visited Cincinnati Works (www.cincinnatiworks.org) to better understand the partnership's overall strategy and co-located services and supports.

[4] As an example of the ongoing conversation about fragmentation see Tony Messenger's December 28, 2015 column in the St Lous Post Dispatch - *As cities circle the wagons, they repeat history of a divided St. Louis*.

[5] Harrington, K. (2016). Is your entrepreneurship ecosystem scaling? An approach to inventorying and measuring a region's innovation momentum. *Innovations*, 11(1/2):128-144.

[6] The actual figure is closer to 14.5% but this includes health care which is a large employer but not typically engaged in co-location with small, traditional non-profit organizations. See Workforce Solutions Group. (2015). *State of the St Louis workforce: 2015*. St Louis Community College: St Louis, MO.

[7] This approach is based in part on work completed by the Illinois Facilities Fund and on conversations with their St Louis based team. See, Desai-Ramirez, D., Velazquez, E., and Norton, R. (2015). *Co-location: Maximizing efficiency, collaboration, and Impact*. IFF: St Louis, MO.

[8] For a more detailed discussion review the archived webinar "Authentic tenant engagement: What works?" available through the Non-Profit Centers Network at www.nonprofitcenters.org.

[9] Bruce Katz and Julie Wagoner break down their analysis of innovation districts into three categories—economic assets, physical assets, and networking assets. For a detailed discussion see Katz, B. and Wagner, J. (2014). *The rise of innovation districts: A new geography of innovation in America*. Brookings Institution: Washington, DC.

[10] These five shared space and co-working environments have come together to create the St Louis League of Independent Work Spaces. See http://www.stlworkspaces.org to learn more.

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A Recommended Framework

for

Non-Profit Co-Location and Shared Real Estate in the St Louis Region

1. **Institutional Home.** Establish a shared institution "in the commons" to facilitate planning and implementation. The role of this institution whether it be nominated, adapted, or created is to:
   - Distill, finalize, and promote a regional framework for non-profit innovation and co-location through effective stakeholder engagement.
   - Secure and manage resources to underwrite the costs for shared real estate studies.
   - Establish a routine process for shared real estate analysis for potential groups of co-locating non-profits.
   - Facilitate shared real estate studies using third party vendors and experts.
   - Assure cross-initiative conversations and coordination.
   - Evaluate pilot efforts and incorporate lessons learned into subsequent projects.
   - Evaluate non-profit centers over time to assure measurable outcomes are achieved.

2. **National Center**. Start with a "hub center" made up of the region's innovation drivers. As with CORTEX, the St Louis region should build on unique regional assets to form a core of innovation. A National Center for Innovation, Quality and Replication should be established.

3. **Hub & Spoke Model**. Extend the effort through an emerging network of neighborhood-based non-profit centers.
   - Assure access to needed services through a network of local service centers intentionally distributed across the region.
   - Enhance neighborhood development by focusing on how these centers can contribute to historic preservation, join with other real estate efforts to create critical mass, and reflect community priorities and interests. Careful attention will be required to avoid gentrification in lieu of desired community development.
   - Embed themed centers working on regional outcomes. This saves the cost of creating additional co-location centers and provides a flexible home as issues ebb and flow.
   - Embed incubation and support centers. The purpose is to create an intentional pipeline in an effort to reduce the creation of multiple new non-profits while still putting out the welcome mat for new ideas and solutions that can be advanced by existing organizations or networks.

4. **Micro-Centers**. Create "micro centers" and storefronts. Access as defined from the perspective of a child or family is not miles, but city blocks. For example, a child leaving school and in need of after-school mentoring, tutoring, and extracurricular activities cannot traverse multiple bus lines and neighborhoods. These developmental activities have to be in the child's neighborhood. Each neighborhood center can extend their reach through a managed network of micro-centers.

5. **Good Outliers**. Recognize that some co-location must occur outside of this regional framework. While a hub center and spoke system complimented by micro centers could create a web of supports and strengthen non-profits, neighborhoods, and families not all non-profit missions fit within this broad schema. Some co-location and planning will need to happen outside of this regional framework and if we follow our principles closely we will recognize when this is necessary and appropriate.