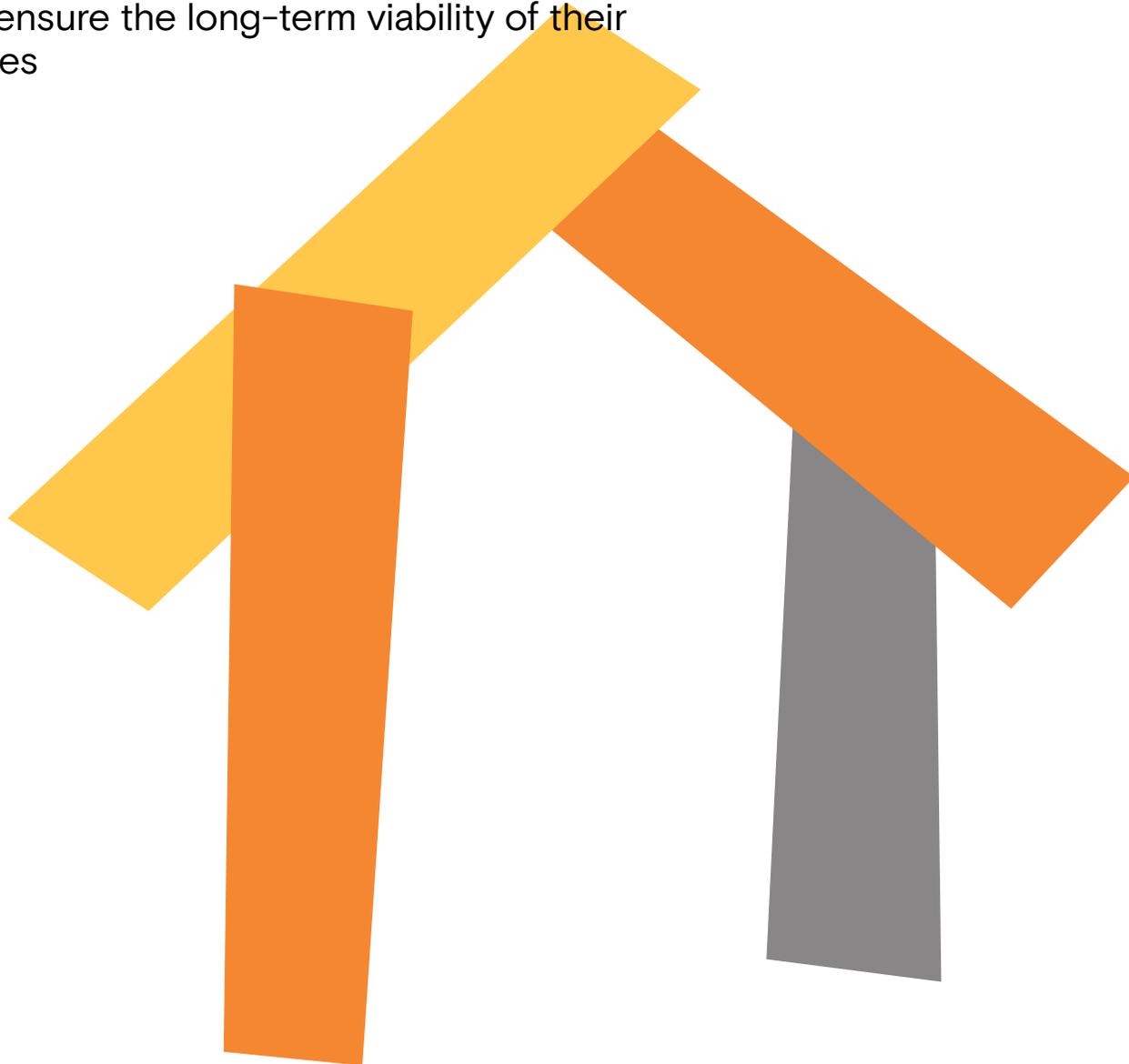


Second edition

CULTURAL REAL ESTATE PROJECT SUPPORT PROGRAM

Helping artists, collectives and cultural organizations
develop and ensure the long-term viability of their
creative spaces



CONSEIL
DES ARTS
DE MONTRÉAL

The cultural real estate project support program is part of the Conseil des arts de Montréal's initiative to establish actions and tools to help protect the workplaces of cultural organizations and artists in Montréal. All of the Conseil's achievements in this area are presented on the [website](#).

Key support program objectives:

1

Develop services for arts organizations and artists in Montréal

2

Connect cultural organizations in need of specialized support with experts in affordable real estate

3

Build expertise in non-profit cultural real estate

Second edition

Eight participating cultural organizations

- › Studio 303 (interdisciplinary dance and performance)
- › Théâtre de la LNI (improvisational theatre)
- › OBORO (visual and media arts)
- › École de joaillerie de Montréal (craft arts)
- › Ondinnok (co-sponsor of the Indigenous creative space project)
- › Zab Maboungou / Compagnie Danse Nyata Nyata (dance)
- › Le Vivier (new music)

Supported by Montréal's four technical resource groups

- › [Atelier Habitation Montréal](#)
- › [Bâtir son quartier](#)
- › [Le Groupe CDH](#) (Conseil en Développement de l'Habitation).
- › [ROMEL](#) (Regroupement des organismes du Montréal ethnique pour le logement)

Technical resource group (TRG) involvement in a cultural real estate project

✓ Some examples of how a TRG can help a cultural organization with their property development project:

- › help define the development project
- › develop a financing arrangement and viability study
- › search for a building or part of a building that suits the group's needs
- › seek financing and provide assistance with the legal aspects of the real estate project (governance structure, tenure type)
- › assist with project implementation, coordinating the various professionals involved in the work, project accounting, permit applications, etc.

✗ Examples of what a TRG cannot do to assist a cultural organization with their property development project:

- › offer guidance on the governance of the artistic project
- › develop a business model for the cultural organization's operations

Overview of lessons learned from developing cultural real estate projects

The second edition of the cultural real estate project support program was aimed at a wider range of organizations than the previous edition. The technical resource group teams supported eight cultural organizations from various cultural disciplines and with real estate projects at different stages of development.

In brief:

- › Two organizations signed an offer to purchase.
- › Two organizations signed a lease agreement.
- › One organization is transforming its business model to complete a new real estate project.
- › One project was put on hold.
- › One organization lacked the human resources needed to find a relocation solution at the end of the assistance period.
- › One organization is currently evaluating the options put forward by the TRG team.

The documented experiences of the support process highlight four strategic elements, which are advantages or stumbling blocks when pursuing an affordable cultural real estate project.

- › Having sufficient human resources
- › Securing a suitable and affordable space
- › Securing funding
- › Adapting the organization's business model

Having sufficient human resources

Issue

Pursuing a real estate project requires leveraging human resources both internally (project management) and externally (forming a project team of experts).

INTERNAL HUMAN RESOURCES

It is essential to acknowledge the major effect that developing and carrying out a real estate project has on a cultural organization's operations or on the practice of members of an artists' collective.

Even with the support of a technical resource group, cultural teams will be responsible for various tasks, including defining the organization's needs, assessing real estate opportunities, making strategic decisions, meeting with project partners, mobilizing members of the Board of Directors, producing documents and taking care of administrative follow-up.

Some development and construction phases can be particularly time-consuming, including filing a zoning change request and negotiating an offer to purchase.

Finally, it should be noted that in terms of governance, for organizations, the ultimate responsibility lies with the Board of Directors to make decisions on real estate issues. Board engagement is essential, and ongoing communication and clarity between the team and Board/committee members must be effective when establishing objectives, as well as the human and other resources required. Having volunteer members who understand real estate issues on the Board or as members of a designated ad hoc committee can be a major advantage.

EXTERNAL HUMAN RESOURCES

External human resources include the specialized expertise required to develop and carry out the project, which is not generally part of the cultural or arts organization's team. This expertise may be legal, technical (architects, specialized engineers) or organizational (changes to the organization's business model).

Challenges

Failure to plan for human resource needs can have major consequences, including:

- › jeopardizing the organization's ability to pursue its mandate
- › overworking teams, particularly senior management

Lessons learned

- › Realistically assess expertise and needs that are lacking
- › Create a working committee comprised of Board members
- › Seek funding to expand the project team, both internally and externally (e.g., Emploi-Québec wage subsidy, INNOGEC fund)

Specific recommendation for working with a TRG

Check which tasks will be completed by the TRG and which will be completed by the cultural organization (e.g., who will prepare the grant applications and draft the executive summaries?). Since each TRG works differently, clearly establishing which resources are available is one of the first steps in the collaborative process.

Securing a suitable and affordable space

Issue

There are many barriers to finding suitable, available and affordable spaces: market volatility, availability of spaces that meet artistic needs (ceiling heights, loading dock), rising costs of renovations, the labour shortage, rising interest rates, outdated buildings, and the modest budgets of cultural organizations.

Challenges

Being forced to relocate using a short-term alternative that is not beneficial to the organization (e.g., commercial leases at market price, agreement for under five years, etc.). This situation can damage the organization in several ways:

- › signing a commercial lease that places greater responsibilities on the lessee (e.g., roof repair)
- › being ineligible for funding to cover the cost of moving into the new space (obtaining grants is often conditional on long-term occupancy)
- › weakening the agency's mandate due to real estate market pressure. For example, a cultural organization that would qualify for a tax exemption because of its mission cannot claim it when it signs a commercial lease with a private owner. This contracting method generally puts cultural organizations in a position of financial vulnerability, since they must bear the financial burden of business taxes and annual business tax increases.

Lessons learned

- › Start planning ahead for relocation projects whenever possible (several years before the end of a lease or agreement).
- › Promote the project in its networks, particularly to potential owners looking to promote artistic activities. This has enabled organizations to obtain exclusive purchase offers with long deadlines, making it possible to obtain the funding needed for an acquisition project.
- › Verify the building's condition before signing an occupancy agreement or offer to purchase. Unfortunately, an owner's "generous" offer can sometimes mask a building in very poor condition. If thorough checks are required after signing an offer to purchase, initial preliminary visits may immediately highlight the advanced deterioration of a building during negotiations.

› Negotiate contract terms, including:

- signing a usufruct rather than a commercial lease whenever possible (a usufruct is a legal structure that allows the signatory to submit a tax exemption application to the Commission municipale du Québec)
- assessing all the proposed provisions in the lease clauses to determine rights and responsibilities (e.g., operating costs, responsibilities of the lessee and lessor, renewal clauses)
- seeking legal advice before signing a commercial lease whenever possible
- attempting to sign an agreement for a period of at least five years (or 10 years, if possible) to be eligible for site development funding

To better explain the ins and outs of artist studio leases, the Conseil des arts de Montréal and the City of Montréal have developed some general tools, which are available on the [Conseil's website](#). These tools can also be applied to various rental situations faced by cultural organizations.

Specific recommendation for working with a TRG

A TRG's expert knowledge makes them an invaluable resource when negotiating or renegotiating an agreement with an owner. However, the teams of these organizations prefer to assist cultural groups with long-term projects, particularly acquisitions. TRGs are also less familiar with certain contracting tools that are beneficial to cultural organizations, such as usufructs. As a result, working with a TRG is particularly appropriate for acquisition or long-term projects (10 to 20 years), for which access to experts on legislation and cultural real estate (particularly tax exemptions) provides added value.

Seeking funding

Issue

The processes for seeking funding, particularly public funding, are not tailored to the time it takes to develop Montréal real estate projects. This is true of both rentals and acquisitions.

Challenges

- › Damaging the organization's financial health by covering unbudgeted expenses that are not eligible for retroactive funding
- › Being unable to sign an agreement or finalize an offer to purchase. Owners who accept deadlines of several months are rare, whereas some programs' much-needed funding can take years to obtain.

Lessons learned

- › Develop a medium- and long-term financial strategy, as this provides a significant advantage when it comes to securing capital to develop and carry out the project (e.g., philanthropic activities, culture investment sponsorship and matching funds, emergency funds to deal with urgent expenses such as lawyers' and architects' fees).
- › Widen the search for funding outside the cultural field (particularly social economy and solidarity-based finance)
- › Explore different legal tools to optimize the real estate project's business model: usufruct, official donation receipts for registered charities

Specific recommendation for working with a TRG

The TRG teams are experts in mortgage financing packages; they are familiar with the processes and contacts needed to pursue alternative and intermediary strategies to obtain public financing (funds to take buildings off the market, solidarity-based finance loans at better rates than loans from private banking institutions). Their expertise is valuable when developing the financing package and seeking support from contacts less familiar to the cultural community.

However, timeframes for obtaining public funding remain a major issue, particularly with the MMCQ's Programme d'aide aux immobilisations and Canadian Heritage's Canada Cultural Spaces Fund. Support from TRGs has proven to be particularly effective for projects intended to generate own-source revenue (artist studios) or during the acquisition phase of established organizations. This is made possible by developing financial tools with the solidarity-based finance sector, thereby providing flexibility that more traditional sources of funding in the cultural community do not. All sources of funding available for cultural organizations' real estate projects are presented in this [Conseil des arts de Montréal guide](#).

Adapting the organization's business

Issue

A real estate project marks a new phase in the life of an organization. It usually involves multiple transformations, such as increasing its operating budget, changing its legal structure, transitioning to a multi-partner structure, mutualization and so on. Sometimes, scaling up can also result in the organization itself becoming a lessor, i.e., renting spaces in its building to other occupants, cultural organizations or individual artists.

Challenges

- › Weakening the organization's mandate by absorbing additional costs when occupying a new location takes up a larger share of the operating budget
- › Weakening teams by not planning for future organizational change

Lessons learned

- › Conducting viability studies based on concrete real estate opportunities can quantify the costs associated with occupying new spaces
- › Cultural real estate project financing programs have very little flexibility to support mixed-use projects (particularly residential projects)
- › Some funders offer financial measures to support the organization's transformation during the relocation process, including by increasing its operating budget. It is essential to reach out to usual partners and other funders in the sector in question early on in the project's development.

Specific recommendation for working with a TRG

A TRG's expertise is particularly effective when it comes to the real estate project's business model. However, TRGs are not experts in cultural organization development and cannot help transform or develop a cultural organization's business model. Depending on the organization's level of maturity and the scale of the real estate project, acquiring strategic cultural development resources is something to consider, either on an ad hoc basis or when developing a new business model.

Certain aspects of a cultural organization's business plan have a major impact on project affordability, such as choosing a legal structure that meets the eligibility requirements to be exempt from municipal taxes. Working with a TRG makes it possible to identify management and financial issues with the real estate project to address challenges to be resolved with cultural organization development expertise (organization managers, Board members, professionals in the community).

Support provided

The table below shows the main stages of support provided to the eight groups that participated in the second edition of the real estate project support program.

Group	Objectives	Steps	Tools
<p>ORGANIZATION 1</p> <p>Feasibility study for an offer to purchase a building that is not correctly zoned but whose owner wishes to maintain its artistic vocation</p>	<ul style="list-style-type: none"> › Negotiate and seek solutions for rezoning and coordinate the preliminary notice request with the borough › Negotiate, draft and sign an official offer to purchase the building › Seek potential funding and develop a preliminary financing package 	<ul style="list-style-type: none"> › Request a zoning change › Research the by-law, its context and permitted exemptions › Ensure elected officials are aware of and understand the political project › Prepare and coordinate the preliminary notice request › Negotiate and sign the offer to purchase › Request long deadlines for due diligence (120 days) and the sale (2 years) › Make this offer conditional on obtaining the zoning change and the funding required to complete the project › Develop the preliminary financing package and produce potential sources of funding › Identify potential sources of funding › Determine the organization's financial capacity to complete the project without putting itself at risk 	<ul style="list-style-type: none"> › Meet with urban planning and cultural services officers (borough) › Meet with borough officials › File a preliminary notice request › Prepare a special construction, modification or occupancy project for a building (PPCMOI) › Negotiate with owner and real estate agent › Design the architectural project (interior and exterior) based on the organization's needs and on by-laws › Draft a provisional operating and real estate project budget
<p>ORGANIZATION 2</p> <p>Viability studies for a future Maison de l'improvisation project</p>	<ul style="list-style-type: none"> › Provide an overview of the project and study its features to understand the preliminary challenges associated with the chosen site › Identify various sources of funding for the project in a specific church › Identify other potential locations to compare projects › Conduct viability studies at different sites › Reflect further in light of the data collected 	<ul style="list-style-type: none"> › Conduct financial and technical analyses related to potentially moving into the church › Seek other appropriate opportunities › Carry out financial and technical analyses for other opportunities › Compare various studies › Propose financial arrangements and funding strategies 	<ul style="list-style-type: none"> › Define the organization's needs › Meet with contact people involved in similar projects (a relocation to a church) › Draft a provisional operating and real estate project budget

Support provided

(continued)

Group	Objectives	Steps	Tools
<p>ORGANIZATION 3</p> <p>Help the Collectif Lutherie Montréal (CLM) develop and ensure the long-term viability of a new production space</p>	<ul style="list-style-type: none"> › Find a building and make an offer (to purchase or to lease with the option to purchase) › Finalize the budget based on the space found and the CLM's ability to pay (feasibility study and financing package) › Seek financing 	<ul style="list-style-type: none"> › Carry out due diligence for the site identified by the CLM (the Saint-Arsène rectory in the Petite-Patrie neighbourhood) › Assist with signing a rental agreement › Develop of a negotiating framework for long-term occupancy in anticipation of a more extensive site redesign 	<ul style="list-style-type: none"> › Draft a provisional operating and real estate project budget › Conduct technical site analyses › Gain legal knowledge of lease terms
<p>ORGANIZATION 4</p> <p>Find a new permanent address when the organization's lease expires</p>	<ul style="list-style-type: none"> › Carry out preliminary viability studies › Search for properties and negotiate with seller › Develop and draft a business plan for the property development project › Seek initial financing, for construction or renovation and for operations › Evaluate the various types of contracts and support to assist with legal matters related to the real estate project (governance structure, tenure type) 	<ul style="list-style-type: none"> › Search for properties › Submit an offer to purchase › Accept the offer to purchase › Seek funding for due diligence › Develop a business plan and seek funding to develop and complete the project 	<ul style="list-style-type: none"> › Submit an offer to purchase › Seek initial financing, financing for construction or renovation, and financing for operations
<p>ORGANIZATION 5</p> <p>Upgrade art school facilities</p>	<ul style="list-style-type: none"> › Re-evaluate the organization's needs › Search for a suitable location › Create a financing package 	<ul style="list-style-type: none"> › Assess the specific situation of an art school › Identify a suitable location › Reactivate forward-looking partnerships › Select an alternative structure: extending current lease 	<ul style="list-style-type: none"> › Explore integrating the school into a mixed project (residential and commercial)

Support provided

(continued)

Group	Objectives	Steps	Tools
<p>ORGANIZATION 6</p> <p>Multi-disciplinary and multi-partner Indigenous arts space</p>	<ul style="list-style-type: none"> › Determine the governance of the real estate project › Reassess needs › Search for a suitable location › Analyze the various financial aspects of the project 	<ul style="list-style-type: none"> › Review the community's needs and project viability studies › Re-evaluate project partner commitment › Re-evaluate project sponsor commitment › Put project on hold 	<ul style="list-style-type: none"> › Develop an action plan › Meet with City of Montréal administrative representatives and elected officials
<p>ORGANIZATION 7</p>	<ul style="list-style-type: none"> › Evaluate the real estate project being developed by the organization 	<ul style="list-style-type: none"> › Get familiar with the project › Assess building health › Financially evaluate the real estate project › Analyze and update the organization's rental situation 	<ul style="list-style-type: none"> › Identify possible scenarios (e.g., purchasing with lessees or co-ownership) › Request that the owner conduct a market value assessment of the building › Gain legal knowledge of lease terms
<p>ORGANIZATION 8</p>	<ul style="list-style-type: none"> › Update the FTP and develop Le Vivier's new music real estate project 	<ul style="list-style-type: none"> › Update the FTP › Develop a risk management plan for various scenarios › Select an alternative structure: new location (commercial lease) for five years 	<ul style="list-style-type: none"> › Ideation plan › Risk management plan for various scenarios (Pigrip tool) › Gain legal knowledge of lease terms › Meet with the management teams of cultural grant programs

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