

Finding the real estate solution for your charter school is a time-consuming process and can be very complicated. It can also be frustrating as finalizing a lease or purchase can be difficult for any organization....not to mention charter schools who have more special issues than most.

This slide deck is intended to address several key issues to help you get started:

1. Working With a Real Estate Broker.
2. Information Your Real Estate Broker will need.
3. Timelines (Suggestions on Setting a Schedule)
4. Types of Properties to Consider
5. Key Issues with Landlords
6. Creating a Facilities Committee
7. Landmines You Cannot Ignore
8. A New Vocabulary For You

Factor	Comment
Type of Relationship	<p>Signing an agreement where one broker becomes your exclusive representative is recommended.</p> <p>It will save you significant time and provide you with the market knowledge required.</p>
Broker's Responsibilities	<p>Identify every property within your Search Zone that might possibly work.</p> <p>Then, maintain a complete log on status of each property, whether a candidate or not. If not, a reason for its disqualification should be recorded.</p>
Agreement	<p>There is a standard form approved by the State of Colorado that should be used.</p>
Compensation	<p>Brokers get paid a commission by the owner of the property ultimately leased or purchased.</p> <p>There is no out-of-pocket expense to you as the client.</p>
Tenant-Only Brokers	<p>There are some brokers who only represent tenants or tenant/owners.</p> <p>Those brokers will not have any potential conflicts as they have no listings with property owners.</p>



# Information Your Broker Will Need

Factor	Comment
Search Zone	What are the perimeter boundaries of the area where you want or need to be located. You might provide both primary and secondary Search Zone information to your broker.
Restrictions/Contingencies	<p>Your broker needs to know about State-mandated restrictions such as minimal distance from an existing liquor stores.</p> <p>Further, your school district may impose restrictions relative to proximity to other charter schools.</p> <p>Explain how the Tabor Amendment could affect funding, as well as various approvals needed from your school district.</p>
Amount of Space Required	This is a function of your enrollment projections. Since this typically prepared on a year-by-year basis, your square footage needs can be forecasted on a per year basis as well.
Special Areas in your Space	Make sure to discuss needs v wants relative to such areas as a gym, cafeteria, outdoor play areas, drop-off traffic lanes, etc. Also, indicate the timing of when such spaces would be needed.
Your Financial Strategy	Certainly, indicating whether leasing or owning is critical for your broker to know. Further, if leasing, whether an option to purchase at a later date is important to you.
Architect/Contractor	It will be far more efficient to have these two resources on your team, assisting your broker. Discuss your thoughts and relationships in this regard.
Timing	Your scheduled opening date is obviously critical. However, the various milestones for approvals by your Board, the school district, and various government approvals also needs to be specified.

Factor	Time Frames
<p><b>Adding Key Resources</b>            Selecting a broker and an Architect/Space Planner is a critical first step. Eventually added legal counsel is important as well.</p>	1-2 months
<p><b>Programming</b>            This will establish your space needs on a year-to-year basis, number/size of classrooms, and size of other areas. This is needed to create a space plan in candidate buildings.</p>	1 month
<p><b>Setting Strategies and Requirements</b>            It is recommended that this be a formal process where your Board members are involved.</p>	1 month
<p><b>Market Search</b>            A common mistake is not to allow sufficient time here. Finding the “right property” and finding the “right landlord” both need to happen.</p>	6-12 months.
<p><b>Negotiations</b>            This refers to the negotiation of the lease and/or purchase of the property.</p>	1- 2 months
<p><b>Design and Construction</b>            With existing buildings, the construction of your improvements is essentially all that is necessary. A build-to-suit adds perhaps triples the time required.</p>	Tenant Work Only: 4-8 months  Build-to-Suit: 12-18 months



# Types of Properties to Consider

Factor	Comment
General Comments	<p>Essentially, all types of properties needed to be considered.</p> <p>Verify immediately whether a change in zoning would be required.</p> <p>Even if the “right building” is found, determine ASAP if the landlord is truly interested in a school as a tenant.</p>
Office Buildings	<p>Restrooms renovations and new hallways often prove too expensive.</p> <p>Many landlords are not comfortable with schools in their tenant mix.</p>
Industrial Buildings	<p>The cost of renovation is a typical problem, the expense of adding mechanical, electrical and plumbing systems is very significant.</p> <p>Often, there is not sufficient parking and the industrial neighborhood does not provide the right feel for the school.</p>
Retail Properties	<p>These are often good candidates as large parking lots and their single-story nature are two characteristics.</p>
Schools	<p>In a perfect world, finding a empty school is a home-run. The existing improvements may work with minimal remodel, meaning a lower rent is required by the landlord. Your broker should contact all schools, whether they have announced plans to relocate or not.</p>
Churches	<p>Churches may have space that would work well especially in the “launch” phase for a new school.</p>
Land	<p>If a build-to-suit is a possibility, make sure the zoning is in place. Further, buying enough land to allow for future expansion is critical.</p>

Factor	Comment
Interest in a School as a Tenant	Retail landlords often are best here, as a school could very well drive more business to their retail development.
Understanding State School Funding	There are very few landlords who understand how the revenue-per-pupil formula works or how much is involved. If explained correctly, this can build their confidence and create a strong interest in your tenancy.
Up-Front Costs	<p>Revenue from the state based on enrollment is one issue. That addresses the school's ability to meet its rental obligations.</p> <p>However, the up-front cost of design and construction in most cases will be very expensive. Some landlords will not be ready, willing or able to fund such costs. Having that discussion early on is critical, and should be handled by your broker.</p>
Lease Securitization	<p>This term refers to landlord and lender requirements as to security deposits, personal guarantees and/or Letters of Credit. It is driven primarily by the amount of up-front costs to the Landlord in making the transaction.</p> <p>If any significant costs are involved, you can expect this to become a threshold issue as to whether a lease deal can get done.</p>
Timing	Some landlords will not be willing to hold vacant space off the market until the school's opening day. You will be searching for space 18 months in advance



# Creating a Facilities Committee

Factor	Comment
General	It is important that a committee be established for several reasons: too much for one person, allowing those interested to participate, and possibly gaining specific expertise.
Financial Member	This member must be familiar with the schools finances, budgeting, RRP numbers, balance sheet and projected source/uses of funds. Landlords will spend time with this person in order to get comfortable with the school's ability to pay its rent bills.
Attorney	Negotiating a lease agreement or purchase contract can cost thousands of dollars. A Board member attorney that might provide this service "pro bono" could save serious up-front costs.
Architect/Space Planner	Again, this can be a serious up-front expense. A Board member who would work on a discounted basis would be a nice benefit. Plus, that member's evaluation of different properties would be very valuable.
Interested Parents	There will be parents who want to be involved. Certainly, there are a number of "fit-up" issues (e.g, technology, furniture, "green issues such as daylighting) that will require close attention.
Designated Leader	It will be important to find the right person to lead the group. Assembling all of the information on a "net" basis for presentation to the Board will be critical. If your real estate broker is strategic as well as transactional, the leader should work closely and rely on the broker for help here.



# Some “Landmines” that you cannot ignore.

Factor	Comment
Tabor Funding is Annual	As a rule, Landlords want long-term leases: 3-10 years. They “hate” any scenario where a lease can be terminated. However, a charter school’s funding is subject to the annual re-funding because of Tabor, which means a school must have the right to terminate if funding were cut off.
Approvals by the School District	Commonly, approvals on the location and of the lease document will require approval by your school district. Any lease entered into where approvals remain outstanding must provide your school with the right to terminate if approvals are not achieved.
Building Permits	A charter school does not require a local building permit, as a separate state-issued permit can be the route instead. However, your team will need to assess the “political implications” of sidestepping the local process.
Local Approvals	Even if constructed via a State-issued building permit, local entities will likely have to provide approval on such issues as traffic patterns, fire and life safety. Just be aware...and rely on your architect and general contractor to know the issues and inform your potential landlord.
Lease Securitization	This is addressed on a separate slide. The issue of getting a Landlord comfortable with the school’s financial strength will involve discussions about a lease guarantee, a Letter of Credit from a Bank that is activated in the event of default, etc.
Cost of Construction	Whether we are talking about the cost to retrofit an existing building or the cost to develop a new building, getting a not-to-exceed cost from the contractor is critical. Put it this way: you only want “good surprises” and not a sudden need to have a special capital campaign.



# A New Vocabulary for You

Key Word or Phrase	Meaning
Occupancy Cost	This is your total of expenses due to a Landlord. Some leases are "Full Service", others are "Net Rent" and others are "Modified Gross". To know your total, you need to understand the components and the different lease structures. and Operating Expenses (which are CAM + Real Estate Taxes + Tenant Janitorial and Electric + others.)
Full Service Rent	This one is simple: the landlord quotes you one rent number per square foot. From your rent, the Landlord pays the Operating Expenses for Year 1, and pays that same amount every year going forward. However, the Landlord will invoice you for must pay increases in Operating Expenses in future years.
Operating Expenses	These are the costs to "operate" the property. Typically the "Big 4" are: Real Estate Taxes, Utilities – mostly electric, Janitorial, and Management Fee. Others include insurance, repair and maintenance, snow removal, landscaping. These expenses might be referred to as both "Outside Expenses – same as Common Area Maintenance" and "Inside Expenses". CAM would be Taxes, Snow Removal, Landscaping, Insurance., Parking Lot costs. Inside would be Tenant Electric (often separately metered) and Tenant Janitorial (often separately contracted by Tenant).
Pass-Through Expenses	These are increases in Operating Expenses in future years above the Year 1 level. That Year 1 level is often referred to as the "Base Year".
Net Rent	This is the amount of rent that the Landlord expects to "net" from a Full Service Rent after paying Operating Expenses. In many cases, especially in industrial and retail spaces, Landlords do not quote Full Service Rents. Instead, they quote Net Rents. The means you need to know the Operating Expenses total to calculate your Full Service Rent.