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Market News and Commercial Real Estate Strategy for Charter Schools

So you want to find charter school facilities? BY PAUL DONOVAN

Today, headlines read, “Commercial Real Estate Vacancies High, Deals Abound for Tenants.” So you’d think if you were looking for space you’d get a “screamin’ deal.” Probably true if you are a traditional tenant with financial history, a product/service and maybe owners who provide personal guarantees. The situation is different for charter schools.

Charter schools receive their funding from the State of Minnesota. Those funds flow formulaically based upon enrollment – the more students, the more revenue. Today, this amount is reasonable to secure tenancy, but not abundant. Add to this the State’s 30% funding hold back for 6 to 12 months (to “balance the budget”) makes securing space additionally challenging.

The ideal situation for a charter school and landlord is a vacant school building requiring limited tenant improvements. This is more likely in the inner city where more school buildings are vacant. However, the amount is misleading because the School Districts of St. Paul and Minneapolis (along with the suburban districts) have restrictions on leasing to Charter Schools. Vacant private schools are the most viable move in ready option.

As you move away from move-in ready properties, industrial, office and retail properties rise to the top. Industrial is challenging because of the truck traffic. Office can work if they are the sole tenant. Retail is probably the best solution because its design can handle bus traffic and noisy/energetic children are welcomed. The next challenge is green/playground space. Single tenancy in all three property types allows conversion of the parking lot to green space or at least asphalt playground space. Retail and flex properties can accommodate green/playground space in a multi-tenant environment.

So now you have an interested landlord. Managing their risk is paramount for a landlord. The more capital the landlord has to invest, the greater the need for credit enhancements (e.g. guarantees, letters of credit, etc.). Don’t be surprised if conversion costs run \$50 to \$70 per square foot. A long term lease and good rents can get the deal done if the school’s finances, leadership and governance are effective. Like any small business, the management team is what gets the landlord comfortable.

Now the landlord is interested, the last step is getting the city to approve your use. Some modification to zoning will most likely be necessary. This can take 45 to 90 days. City approval is far from guaranteed.

The point of this article is to highlight securing charter school real estate is challenging, but possible. Our advice to schools:

- Plan 24 months ahead (ideally), but at the minimum 12 months.
- Secure a location by March (at the latest).
- Attract great leaders—both on the board and in staff.
- Have a solid “business plan” to share with the landlord outlining why you’ll be or are successful.
- Secure credit enhancements.
- Understand the landlord is taking risks and collaborate towards a “win-win” outcome.
- Maintain strong finances (fund balances at least 15% of revenue).

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Commercial real estate market update

- Market is bottoming out; look for a bounce-back late 2011.
- 30% state holdback is making charter schools riskier tenants.
- If this continues into a stronger market, facility options will reduce further.
- Credit markets are likely on the path to improve, but will remain constrained.

Article continued...

Our advice to landlords:

- Understand charter schools may not be riskier than your current tenants. Successful schools are guaranteed state payments. Minnesota has funded education since its founding.
- If a school has good governance, strong management and a clear "value proposition" they have a high probability of success.
- Current schools with fund balances north of 10%, especially in today's economic climate, should be strongly considered.
- Schools do not want to move, so work with them to help them be successful. You'll have a very long-term tenant. ❖

Join us in Atlanta

We are attending the 2011 National Charter Schools Conference, June 20 to 23, 2011, and hosting an event for Minnesota attendees while in Atlanta. Details are forthcoming. If you are interested in being included, please e-mail Jaclyn at jaclyn.may@northmarq.com. We hope to see you there!



Celebrate National Charter Schools Week May 1-7, 2011!

Visit <http://www.publiccharters.org/ncsw/advocacy-and-tools> to learn how you can further advocate for Charter Schools.



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