

Own vs. Lease

Many charter schools face the dilemma of whether to purchase or lease a facility. There is no right answer. Both options have advantages and disadvantages, and must be evaluated in the context of your unique circumstances. In the event that you choose to lease a site, it is crucial that you pay attention to these finer points:

- Who is responsible for utilities, taxes, and insurance?
- Who is responsible for building maintenance, both interior and exterior, site maintenance (e.g., snow removal), and custodial duties (e.g., trash removal)?
- Is there access to shared amenities (e.g., parking, common space, etc.)?
- Does the owner provide access to the site after regular business hours for evening meetings and activities?
- What type of building security is available and who is the responsible party?
- Will the owner provide a rent abatement clause? (This is typically a reduction in rent for a specified number of months, usually while the premise is being improved and the tenant is financing his or her own improvements.)

- Are there any restrictions on the type and amount of leasehold improvements that you can make to the property? Does the owner give you a leasehold improvement allowance?
- Can you sublet parts of the site to other parties (e.g. after school and tutoring programs)?
- What type of notification will you receive prior to lease termination? Are there options to renew the lease?
- Is there a purchase option at the end of the lease term?
- Is there a subordination clause in the lease? For example, will the landlord provide subordination to your lender for the purposes of financing leasehold improvements?

PURCHASE/OWN VS. LEASE

| Purchasing/Owning | |
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| <p>ADVANTAGES</p> <ul style="list-style-type: none"> ■ Is usually appropriate for charter schools that are knowledgeable about financial and legal issues surrounding property ownership ■ Allows the charter school ultimate control over the physical plant ■ Protects from the uncertainty of short-term leases or “difficult” landlords ■ Provides the charter school with a sense of permanence and investment in the community ■ Is an effective approach to build equity | <p>DISADVANTAGES</p> <ul style="list-style-type: none"> ■ Requires an upfront cash investment ■ Requires a substantial investment of time ■ May require significant fundraising and/or long-term debt burden ■ Requires ongoing maintenance and other responsibilities of property management |
| Leasing | |
| <p>ADVANTAGES</p> <ul style="list-style-type: none"> ■ Provides greater flexibility in case the charter school decides to move at a later date ■ Depending upon the lease agreement, the charter school might be able to apply a portion of lease payments towards purchase at a later date ■ Usually requires less upfront cash ■ May not carry the responsibilities of property management ■ The charter school is not affected in the event of a real estate downturn, and in fact could benefit from a soft rental market | <p>DISADVANTAGES</p> <ul style="list-style-type: none"> ■ Creates uncertainty at the end of the lease term; the charter school may have to locate alternative space if the landlord chooses not to renew the lease ■ May be harder to obtain financing for leasehold improvements and other capital purchases since some leaders will not accept a lease as collateral ■ Can be more costly over the long-run since the cost of any property improvements cannot be recouped ■ Does not provide the charter school with direct control over property management issues ■ Often difficult to estimate (and/or control) CAM (common area maintenance costs – the costs of space shared with other tenants) |