Kauffman Study Debunks Charter Real Estate Risk

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Link to document

A new study conducted by researchers at the Ewing Marion Kauffman Foundation aims to debunk the widespread belief among landlords and real estate lenders that charter schools are risky investments. The study, titled Debunking the Real Estate Risk of Charter Schools, comes at a time when real estate issues are taking center stage in the growing charter school movement. According to the study, much of the existing data on charter schools were not meant to look at such schools from a real-estate perspective and can be misread to overstate the investment risk. For many charter schools – independent schools started by parents, teachers and/or civic leaders seeking different approaches – simply securing an adequate building for the long term can be a major hurdle. Although charter schools represent a growth market for lenders, developers and the like, affordable deals are hard to come by. This is due, in part, to the fact that charter schools represent a fairly new and unusual kind of market, and the risks of a school failing or defaulting are not well understood. "The actual real-estate risks of dealing with charter schools are easily over-estimated," said Robert Litan, vice president of research and policy at the Kauffman Foundation, who directed the study. "It is likely that more deals could be struck that are beneficial to all concerned if the risks were properly understood." Since the first state charter laws were passed in Minnesota in 1991, some 3,400 charter schools have been launched in various states across the United States. About that many more are expected to open over the next five to six years, according to the study. Finding adequate charter school facilities can be a problem for several reasons. Rarely is a vacant school building available in good condition and in a suitable location. Often a space must be adapted or upgraded, which adds to the expense. Additionally, lenders and landlords, in dealing with an unfamiliar type of applicant, may try to cover the perceived risk by asking for extra loan guarantees, security deposits and/or premium rates, which the schools in many cases cannot afford. The Kauffman study, which was aided by data and assistance fromThe Center for Education Reform, concluded that some lenders and landlords were missing out on deals that could have been made by trying to cover more risk than they actually faced. The analysis found:

- The real estate risk of charter schools can be significantly over-stated. For instance, existing data from the Center for Education Reform show that nearly one in ten charter schools has closed. But the schools counted include many that just changed organizational structure and continued to occupy and pay on the buildings. The Kauffman Foundation calculates that, in fact, fewer than six percent of the schools have closed in a way that impacted their landlords or real-estate financiers.
- Even when buildings are prematurely vacated, the vast majority are able to be leased or sold to others on terms no less favorable to the lender or landlord. The current rate of re-use on equivalent terms is over 95 percent.
- Certain factors can greatly reduce overall risk. Charter schools started in conjunction with Education Management Organizations (EMOs) were found to have negligible failure rates, even if the contract with the EMO is later terminated.
- Securing a long-term lease or mortgage helped a charter school stabilize, attract students and survive. Ironically, many schools cannot strike such a deal because of concerns that they will not survive.

Link here to the full study, Debunking the Real Estate Risk of Charter Schools. *The Ewing Marion Kauffman Foundation of Kansas City is a private, nonpartisan foundation that works with partners to advance entrepreneurship in America and improve the education of children and youth. The Kauffman Foundation was established in the mid-1960s by the late entrepreneur and philanthropist Ewing Marion Kauffman. More information is available at www.kauffman.org, or contact Wendy Guillies, Kauffman Foundation, 816-932-1046, wguillies@kauffman.org, or Tom Phillips, Communication Partners, 212-935-4655, comptwp@aol.com.*