

- **Negotiates terms**
- **Knows the trends in the real estate market**
- **Aware of vacancies and demand**
- **Acts as a spokesperson for the tenant**
- **Paid by the landlord, not the tenant**
- **Can save the tenant money**

As a tenant, it is prudent to contract with a real estate broker. They will negotiate the terms of the lease with the landlord. They understand the real estate market and are aware of any trends. With the COVID pandemic, we know that many large buildings in urban areas are experiencing vacancies as more companies allow employees to work from home. This creates a surplus of real estate, which can be used to the child care center's advantage.

The real estate broker is hired by the tenant but paid by the landlord. A knowledgeable real estate broker first gives the client information about the current market, highlights possible changes in the lease, and shares valuable information that the tenant most likely does not know. They are the spokesperson for the tenant who can "walk away from a deal" if need be.

Typically, landlords do not like to engage with a real estate broker; they prefer to negotiate with the tenant. As in all situations, building a relationship is important, and the tenant is still involved in the discussions. However, with the backing of the real estate broker, the tenant is on a much more level playing field with the landlord.

A prime example was when Children's Village (Philadelphia) renewed our lease in 2011. At the time, we had been occupying four floors of the building. During the previous three years, the 5th floor of our building was vacated. It had been occupied by an early intervention provider, so the space was conducive for our use.

For three years, the landlord offered us this space. By 2011, there was a surplus of real estate space in our area. With the keen negotiating skills of our real estate broker, we extended our lease, took the extra floor, and lowered the rent overall.



During negotiations, the real estate broker will bring up critical issues.

- **CAM Charges:** Common Area Maintenance charges that tenants show. The real estate broker understands the calculations and can advocate on behalf of the tenant. Helps establish the base year for taxes and CAM changes.



Mary Graham: When we did not use a broker, we were unaware that we should reset the base year to line up with the signing of the new lease. We ended up paying a much higher CAM charge as well as real estate taxes.

- **Lease Hold Improvements:** Often when tenants renew a lease, they are able to get credit towards items that new tenants receive when moving in (e.g., repainting, new carpet in the space, upgrades in HVAC, etc.).



MG: We have been successful in getting lease hold improvements equal to the amount the landlord would spend to fix the space for a new tenant. With both lease renewals, we received approximately \$150,000 each time for lease hold improvements. We would have the work done ourselves and either the landlord would pay for the work or deduct it from our rent. It allows us to decide how to spend these dollars.

- **Free Rent Period:** A period of free rent when signing or renewing a lease.



MG: The real estate broker has been instrumental in securing six months free rent (one month a year for six years) with both renewals. Additionally, the broker is the person who assures that the space being rented is ready for the tenant and negotiates the consequences when there is a delay. In one case, when the landlord was doing the fit-out of the new space, and the work was delayed, the agreement stated that we were not responsible for rent until the L&I inspection was completed. In another case, when we were doing the fit-out, we did not pay rent until we received the Certificate of Occupancy.

- **Non-Monetary Issues:** Issues such as who is responsible for repairs to internal space; upgrades of systems such as HVAC systems; replacement of old equipment (like an elevator), etc.

- **Ensure Needs Are Met:** The broker will negotiate with the landlord to assure that the needs of the tenants are met.



MG: During one lease, the landlord was responsible for paying for cleaning services for our space. The company they hired was not accustomed to the requirements of licensing regarding cleaning. The landlord would only spend a set amount per square footage for cleaning and this was inadequate for our needs. During the lease renewal, we were able to have the base rental lowered by \$1/sq ft as that was the standard cost for cleaning. In another lease renewal the broker was able to get the landlord to increase the number of HVAC units in our space to meet the needs of our center.

In addition to the initial benefits the tenant receives when using a broker, it is extremely important to have this person backing you when dealing with ongoing issues with the landlord.

Child care centers require more than space in a building.

They require additional facilities, services, and systems in order to meet the rigorous set of licensing regulation, quality and accreditation standards, and program funding requirements.

HVAC

- Air temperature
- Air flow ventilation

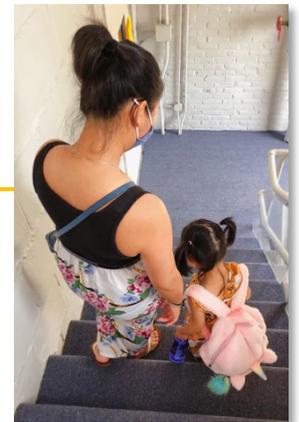
Building Access

- Separate from other tenants
- Security system
 - Front desk staff
 - Cameras



Parking

- For staff
- For parents at drop off/pick up



Plumbing

- Toilets in every classroom
- Sinks in every classroom
- Water temperature
- Water pressure



Cleaning

- Common areas
- Leased space used for early childhood programming
- Extermination



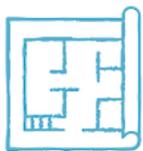
Playground

Understand the regulation under which ECE operates

- State licensing regulation
- State quality rating system
- National accreditation standards
- Public funding program requirements
- National food program requirements
- Local food preparation and serving regulation

Understand the ECE business model

- Seasonality of cash flow challenges
- Cap on earned revenue via public funding programs
- Perceived cap on earned revenue via private tuition
- Larger programs are more financially sustainable
- Higher quality ECE is often linked to higher tuition earned and higher costs incurred
- Renovation and expansion grant funding available, but requires long-term lease



Acknowledge the ECE business model

- Minimal annual rent increases
- Right of first refusal on space in the building
- Long-term lease

Respond to the high use/ infrastructure needs through enhanced maintenance

- Frequent painting and wall repair

Develop partnership stance with ECE operator

Center's stability is tied to building's financial success

- Access state and local tax credits for donations to center
- Assist center in meeting regulations and standards to maintain/ retain quality levels and secure all possible funding sources
- Ensure that other building tenants know about the center and are encouraged to have employees enroll their children
- Co-plan roof deck, garden, and other creative projects to maximize center's footprint and enhance use of building/grounds
- Consider developing housing for center staff, especially where cost of living is high



Positives

- Feel-good and visible neighbor in the building/on the campus
- Reduces workforce challenges in neighboring businesses by offering child care in the building/ on campus
- Offers potential tax write-off opportunities
- Long-term tenant
- Specialized funding sources (to support renovation and expansion)



Challenges

- Cash flow seasonality
- Extensive and intensive use of the building (wear and tear)
- Sound
- Demands on the building infrastructure and systems due to standards and regulations above minimum building code and zoning law
- Commercial kitchen creates odors, fire safety measures, and extermination needs
- Frequency of deliveries