

Your Next School Site at the *Right* Price!

by Robert A. Mohr

In today's ever-changing business climate, career colleges are seeking to reduce real estate occupancy costs as it always reflects one of their largest total expenditures.

Competition and subsequent lower margins are always an issue for career colleges, but one of the best and most overlooked places to increase profitability is managing the school's real estate portfolio. More often than not, the rental rate is the deciding factor for securing a location rather than analyzing other variables that would ensure the site is actually right for a school.

The first step is to analyze the real estate portfolio to gain a national perspective rather than by viewing a single location. What factors make one location successful over another? What are the demographics for the successful sites? One of the best tools is GIS (Geographic Information System)

mapping. Through GIS mapping, an institution can analyze everything from population, wages, educational background, to ethnicity, as well as other variables, all broken down by zip code in a given area. This helps the school identify a site where the most prospective students are located, ensuring a much more successful business location.

Once the market is selected, the next step is selecting the *right* facility. Several factors to consider when evaluating potential sites are adequate parking, after-hours use of the facility, and building signage. Parking is one of the most important factors to consider when selecting a site. Generally, the requirements are 10–15 spots per 1,000 square feet leased. Identifying a site where other tenants are under-utilizing parking is desirable, since most properties are not built to satisfy such parking requirements. Good lighting of the parking area is another important



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factor to consider for night classes. Most building owners provide building signage to large tenants at no cost—a great way to advertise without additional expense. Easy on and off major thoroughfares are another consideration. Most importantly, we all love a great retail site; however, higher retail rents will affect profitability for the school. The key is to find a great retail site at office space pricing.

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As it relates to considering the type of lease (full service, double-net, or NNN—a triple net lease where the

tenant pays all operating expenses, insurances, taxes, and common area maintenance), there are seven areas where you must be particularly cautious in negotiating a career school lease.

- **First is space measurement.** You should always verify that the space has been measured by BOMA (Building Owners and Managers Association) standards to ensure you are paying rent for the right amount of space. BOMA has established standards for measuring space under which most reputable companies operate.
- **Second, expenses that are controllable** should be capped annually (generally tied to the CPI—Consumer Price Index—percentage of increase) to ensure the landlord is being proactive in minimizing your expenses for items such as landscape maintenance and janitorial services.
- **Third, verify the common area factor** that the landlord is including in your lease to be sure you are not paying for areas for which you should not justifiably pay. For example, if you occupy a

full floor, your proportionate share of common area will be less than if you occupy only a portion of a floor, sharing a larger common area with other tenants.

- **Fourth, when negotiating for shell space or space requiring significant retrofit,** document that the tenant improvement allowance is for use below the ceiling and that the landlord will provide *all* improvements above the ceiling. This ensures the landlord will pay for improvements above the ceiling—which can be very costly, and greatly diminish the dollars that you would actually have available for improvements and other items needed below the ceiling. If this is not done the result can be very costly to a tenant, since any difference is an out-of-pocket expense to the tenant.
 - **Fifth, when setting up business in a new site,** it is beneficial to **secure a step-rate lease.** This refers to the pace of rate increases over the term of your lease in a manner that best allows you to “grow” your business. Another significant clause is called the termination option at the end of a set period in the lease. This builds flexibility into the lease, allowing you the benefit or option to improve your situation, if necessary, as time goes on.
 - **Sixth, inspecting the building** for conditions that could add costs to maintenance is important. For example, if the lease is NNN you, as the tenant, could be surprised by maintenance expenses included in a lease that you will have to pay. A good example would be the roof. If you sign a lease to maintain the roof and have not had the building
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inspected prior to signing the lease, the cost to provide the necessary repairs could be devastating. If it is hidden in your lease, this would be your expense.

- **Seventh**, most landlords attempt to tack on **project management oversight fees** to your tenant improvements for which you will pay. These fees are generally around five percent of the total cost of your improvements. This is for them to oversee the improvements being made to your space. It is better if you can secure the five percent from the landlord to enable you to hire your own professional for the improvement oversight—someone who will be your advocate, and assist you in achieving the most for the improvements provided by the landlord's allowance. Landlords do not have your best interest in mind when they suggest expensive wall coverings and elaborate flooring that improves *their* property at your expense.

Analyzing the various potential sites with a project manager that specializes in schools and the special nuisances required is important to the success of the facility. Colleges are not the typical office space users, and many architects are not necessarily able to make appropriate recommendations on space needs. Also, the project manager knows not just about the construction finish, but also telecom, data, and move management that is specific to an institution's needs.

The typical career school should be just as strategic in their real estate as they are in their business. It is

important to remember that real estate brokers are compensated by fees for managing the real estate transaction; hence, the more you pay, the more they make. In this case, it is important to utilize a real estate professional to assist with site selection—one who is a specialist in career colleges and who will leverage fees to be earned from the real estate transaction to provide the school with additional services such as market research, database management, and demographic

studies. This ensures the school receives appropriate demographic information from which to determine a market to focus on for the building that meets its specific criteria. By leveraging, a full-services education specialist career schools can maximize efficiency, increase productivity through more students enrolled, increase bottom line profits and reduce real estate occupancy cost through favorable terms.

Additionally, by utilizing the services of a project manager who understands the unique requirements of an educational facility, the institution is not only getting a good rate on a building, but getting a facility that is functionally designed to meet its needs. Helping students learn and keeping students safe are key elements of retention and graduation, the vital goals of a prosperous career college.

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