

Welcome to:

A Sip of TEA - Part 2: Rent or Buy?

(The Expansion Accelerator)

Hosted by Coaching to Success

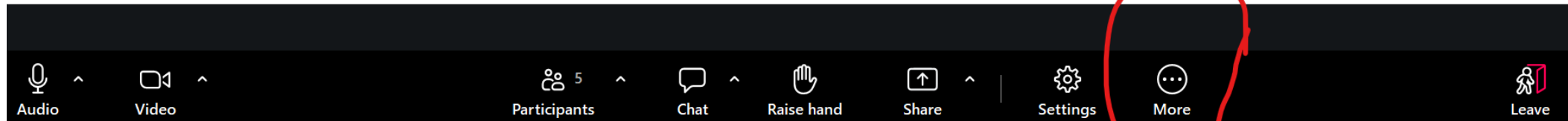


Language Interpretation – en Español

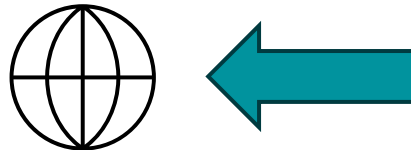
Este evento ofrece interpretación en español. Para escuchar el audio en español, haga clic en el botón de "Interpretation" (o haga clic en los tres puntos > "Interpretation") y seleccione "español"

To hear the presentation in Spanish:

1. Click "More"



2. Click the globe for "Interpretation"





REINVESTMENT
FUND

Welcome to Coaching to Success

The Coaching to Success program offers assistance to Philadelphia-based early childhood education (ECE) providers of all size, structure, and quality level as they seek to navigate and sustain a delicate business model. Monthly community learning and sharing meetings will be designed and administered based upon feedback from you – the provider. Through consultation with a coach who knows the industry, ECE providers may access customized support to help them achieve stabilization and longer-term business goals.

@ReinvestFund

REINVESTMENT.COM



SHARON NEILSON
MAOL
Program Manager
ECE Reinvestment Fund



DESMOND HUDSON, EA
Enrolled Agent
Owner
Hudson Tax Services

Sharon Mullings-Neilson

ECE Community Engagement Program Manager

- Director of Woodland Academy Child Development Center
- PENNAEYC's The Voice Award
- Keystone Stars emergent leader of the year-in 2009
- Forty years and has experience as a sole proprietor child development provider
- Member of the National Black Child Development Institute (NBCDI)
- Co-chair of PECE Philadelphia for Early Childhood Education





Program Support

- Marketing
- Shared Services
- Staffing
- Enrollment strategies
- Community Engagement
- Licensing and Regulatory Compliance
- Professional Development
- Communication with Parents and Families
- Creating a Stimulating Learning Environment
- Behavior Management and Positive Discipline Strategies
- Curriculum Development
- And more...



Desmond Hudson, EA

Enrolled Agent (EA), Owner
Hudson Tax Services, LLC

- Worked for 21+ years at Reinvestment Fund
 - Credit and Financial Analyst
 - Portfolio Manager
 - Director of Community Engagement and Technical Assistance
- Enrolled Agent, federally-licensed
- NAEA Journal Board Member and Author
- Dobbins Occupational Advisory Council
- Graduate of National Tax Practice Institute
- Campaign For Working Families
 - Design Tax Curriculum for VITA
 - Train Volunteers, College Students, Lawyers
- Voted 2024 & 2025 Philly's Favorite Tax Preparer
- Proud Member of Alpha Phi Alpha Fraternity, Inc.

Financial Support

- Budgeting and Financial Planning
- Tracking Income and Expenses
- Tax Planning
- Managing Cash Flow
- Business Structure
- Retirement
- Debt Management
- Financial Reporting
- Chart of Accounts
- Financial Systems Support
- One on One TA
- And more..



Meet the Team

FFQ Program Staff:

FFQ Consultants:

Reinvestment
Fund

PHMC

Karen Bustard
ECE Director



Megan Sonnie
ECE Program Associate



Rachel Gambino
ECE Quality Initiatives Director



Jenine Moore
ECE Project Coordinator



Dr. Rowan Machalow
(they/them)



Damaris Alvarado-
Rodriguez
(she/her)



Welcome!

Please introduce yourself with:

Share in the
chat!

- Your name
- Your program
- One question that you're hoping to get answered

Note: This is a public recording,
so be thoughtful about sharing
personal/identifying information.



Agenda

- Expectations
- Buying: Pros & Cons
- Renting: Pros & Cons
- Mortgages and Loans
- Panel Discussion
- Next Steps



Expectations

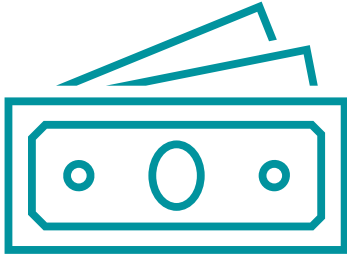
- You won't remember all of this, which is why it's written down! (And recorded.)
- We might not cover everything on every slide—come back to it later to dive in deeper.
- Whether you rent or buy depends on the property and what works for you. Our job is to give you information to make good choices.
- If you have questions, ask them in the chat!



Rent or Buy?

Factors to Consider

Finances



Renovations/Repairs



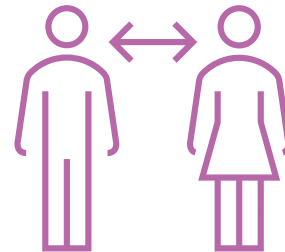
Location



Cost Analysis



Building Management



Future Plans



Buying: Pros and Cons

Buying a Building

Pros

- Build equity and long-term value
- Fixed mortgage payments (predictable expenses)
- Full control over renovations and use
- Reclaim investment by selling the business and building

Cons

- High upfront costs (down payment, inspections, closing costs)
- Responsible for maintenance and repairs (highly unpredictable expenses)
- Less flexibility if business needs change



Buying: Assets and Equity

- An asset is a resource with economic value
 - Real estate assets are land or buildings
 - Business assets are cash, inventory, equipment, etc.
- Equity is an ownership stake in an asset
- Equity = Assets – Liabilities
 - For example, if you buy a property for \$500K and owe \$400K to the bank, your equity is \$100K.
 - Every month when you pay mortgage, your equity increases.
- Equity in the Long Term:
 - After growing a successful child care, you could sell the business and property together (i.e., to another child care owner).
 - If things change, you could sell the property or use it for another purpose.
 - However, if things don't work out, you could be stuck with a building is only valuable to other child care operators and is otherwise hard to sell.



Do you see yourself running a child care in 10 years?
20? 30? How could this change your decision?

Buying: How Assets Support Loans

- Using a property as leverage lets you borrow more money at a lower rate and with a longer pay-off term.
 - With leverage, you may be able to borrow over \$1M for renovations.
 - Without leverage, \$50,000 is usually the maximum.
- If you have an existing property, you can re-mortgage it to get cash for an expansion (either by consolidating or getting a second mortgage).
- If you are buying a new property, you can get a mortgage based on the After-Repair Value (ARV) or expected value after renovations.
- However, if you cannot pay your mortgage, the property can be repossessed and sold at a loss.

How can the after-repair value help you take out a bigger loan?



Buying: Upfront Costs

What would the upfront costs be for a building you're considering?

Why do you need an environmental site assessment AND environmental inspections?



- Downpayment: usually 10-25% of the after-repair value (ARV)
 - Example: The value of the property after renovations is \$800,000. You need a downpayment of \$80,000 to \$200,000.
 - PIDC may be able to help decrease the downpayment required.
- Closing costs: usually 3-5% of the ARV, includes loan fees, title fees, legal fees, transfer tax, and appraisal
- Inspections: \$4,000-\$12,000
 - Property Condition Assessment (PCA) covering the building envelope, structure, and major systems (HVAC, plumbing, electrical, roof): \$500-\$3000, required for lender
 - Phase I Environmental Site Assessment (historical records search of possible issues), \$2,000-\$6,000, required for lender
 - Environmental inspections (physical tests for lead, asbestos, mold, etc.): \$1,000-\$3,000, required for any building renovations (but you should know before investing!)
 - ADA compliance: optional, \$500-\$2,000 for a formal inspection, but PCA might be able to "eyeball" major issues
 - Fire safety/sprinkler: \$500-\$1,000 (tests required annually)
 - Zoning and code compliance review (only needed if something seems weird)
- *If the building does not pass inspections, create a punchlist for the seller to fix or negotiate a lower price.*

Buying: Maintenance Costs

- Your mortgage payments (including interest) on a building could actually be much lower than rent for the same building.
- However, you are responsible for all maintenance costs.
 - Expect to spend \$1,000-\$3,000/year total in minor maintenance costs (walls and doors, windows or leaks, interior fixtures, kitchen appliances, etc.)
 - Expect to spend up to \$15,000 for a major maintenance issue (replacing sewer lines, HVAC, boiler, roof sections, etc.)
 - You could have a major maintenance issues three years apart or two in the same year.
 - Budgeting around \$10,000/year for maintenance is wise, with a "rainy day fund" of an extra \$25,000.
- Depreciation: Get tax benefits by decrease the value of your assets each year that you expect to use them, rather than deducting the entire cost the year that you make a major purchase.



How do maintenance costs change your calculations for buying vs. renting?

Buying: Control Over the Space

- You can make any renovations that you choose (as long as they meet code).
 - Any renovations that you make increase the value of the asset and increase your equity in that asset.
 - When renting, landlords will often expect you to pay for child care-related renovations... but you don't get any equity from the investment. That money is gone forever if you leave the space.
- You get to choose when repairs are made and can get them done as soon as possible.
 - When renting, landlords are supposed to maintain the property—but they often don't. If you make the repairs yourself on a rental building, you often won't get that money back.



Buying: Fixer-Upper vs. Good Condition?

What types of renovations does your potential building need?

What types of renovations are worth taking on?

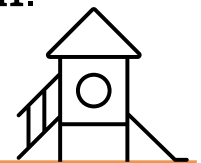
- You may think "the condition of the building doesn't matter since I'm going to redo it!"
 - Expect to remove most of the interiors to get classrooms the right size with bathrooms/sinks in each room. An empty rectangle is best!
- Some issues you can plan to update when you remodel.
 - Get pricing for updating knob-and-tube wiring, installing HVAC, or replacing iron/clay plumbing. One of these issues is probably fine, but three may be too expensive.
- Some issues are so bad that the building should be demolished instead of renovated.
 - Safety issues: Structural stability, mold, foundation damage, widespread rot/termite damage, extensive lead paint/asbestos, etc. often cannot be fixed.
 - Code issues: Non-permitted renovations, non-compliance to zoning, or insufficient ceiling heights may be prohibitively expensive to bring up to code.
- Demolishing a building is usually around \$30K-\$50K *but* building from scratch can be 2x-3x the cost of renovations.



Buying: Negotiations

Don't get your heart sent on a building. Be prepared to walk away!

- Never accept the first offer. There is almost always room for negotiation on price or terms.
- Analyze recent comparable sales in the neighborhood to justify a lower offer. Be prepared to choose a different building instead and let them know it.
- Build in contingencies so you can still back out if specific conditions aren't met—negotiate 30-90 days before closing to get necessary reports.
 - Building issues like physical structure, environmental hazards, or zoning laws
 - Financial issues like not being able to get a sufficient mortgage below a certain interest rate
 - Title issues like having unexpected liens against the building or boundary disputes
- Get an inspection report, then get a general contractor (GC) to bid on needed renovations
 - Negotiate to have the seller fix these things before you buy.
 - Negotiate to subtract these costs from the purchase price (even if you're going to do different renovations).
- Consider seller financing (where the seller carries the mortgage) *if it's a good deal.*



Renting: Pros and Cons

Renting a Building

Pros

- Low up-front cost (usually just a few months of rent)
- Fixed rent payments (predictable expenses)
- Easy to transition out of contract if unsuccessful or at retirement
- Landlord handles structural repairs and exterior maintenance, reducing unexpected capital expenses

Cons

- Renovating a space for childcare (e.g., bathrooms, fencing, playgrounds) is expensive and cannot be taken with you if you move.
 - Landlord might not extend your lease.
 - No assets for retirement.
- Limited control over renovations and use
- Landlord usually does *not* cover interior repairs, which can have unexpected costs that you don't "get back"
- Difficult to get loans for renovations



Renting: Costs

Upfront Costs

- Security deposit and first/last month rent
- Personal investment or business loans to build out the space for a child care
 - Without collateral, loans usually limited to \$50,000.

Ongoing Costs

- Monthly rent + utilities + insurance
- Maintenance costs for anything within the walls
 - Plan for \$2,000-\$3,000/year. Save \$10,000 for larger expenses like redoing the floors
 - Discuss who covers leaf and snow removal
- Time/hassle spent on landlord relations
 - Example: Fixing a leaky roof is the landlord's responsibility, but the water damage it causes could be your responsibility
 - What if the landlord doesn't fix it?

How much will the buildout cost?
How will you finance it?

Get advice on putting rent money in escrow to exert pressure.



Tenant Improvements vs. Turnkey Arrangements

Tenant Improvement Allowance (TIA)

- A pre-negotiated sum provided by the landlord to customize a space
- Includes structural improvements (framing, plumbing, electrical, HVAC, etc.) and soft costs (architectural fees, permits, etc.) that stay with the building when you leave, but not furniture, computers, signage, etc.
- Landlords typically offer \$25-\$50/sq ft, but child care renovations may cost \$75-\$100/sq ft
- Work may have to be completed by the landlord's team, so you can't shop around.
- A TIA is not free money—you pay for it over time with a higher monthly rent

Turnkey Arrangement

- Landlord delivers the building completely ready for child care use (all you have to do is “turn the key”)
- Landlord assumes the financial, construction, and timeline risks of renovations
- Turnkey costs more than TIA, so the month rent is higher, too.

Would you rather get a TIA or turnkey arrangement?

Remember, you still need about \$15K-\$20K/classroom for furnishings and educational resources.



Renting: Negotiations

- Lease length
 - Longer is better! Might not be able to get some loans without a 7-10-year lease. (FFQ requires a 10-year Lease)
 - Rent commencement date/Extended rent abatement
 - Negotiate to start paying rent after all renovations are complete and you have the CO or (if possible) DHS approval. This is especially critical if the landlord's team is doing renovations!
 - Rent escalations
 - May be able to negotiate a lower rate for the first few years in return for a higher rent later... but you could be stuck with the higher rent for decades
 - Tenant improvements vs. turnkey arrangements
 - If the TIA won't cover the full cost of a buildout, can request that the landlord pay the GC up front and amortize the balance into your monthly rent.
 - Early termination clauses
 - Assignment/subletting rights
 - Can you rent out the space for families to hold parties on the weekends? For someone to teach a class? For a therapist, etc. to use an empty classroom as an office space?
-

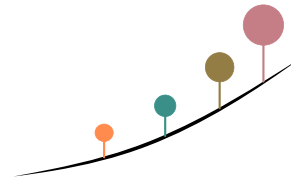
Decision Questions

Financial readiness: Do you have adequate cash reserves after down payment?



Business stability: Is your enrollment and revenue predictable?

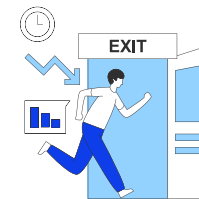
Growth timeline: Will you outgrow this space?



Risk tolerance: Can you handle property maintenance and market fluctuations?



Exit strategy: How does each option affect future business sale plans?



Mortgages and Loans

Buying: Mortgage Rates

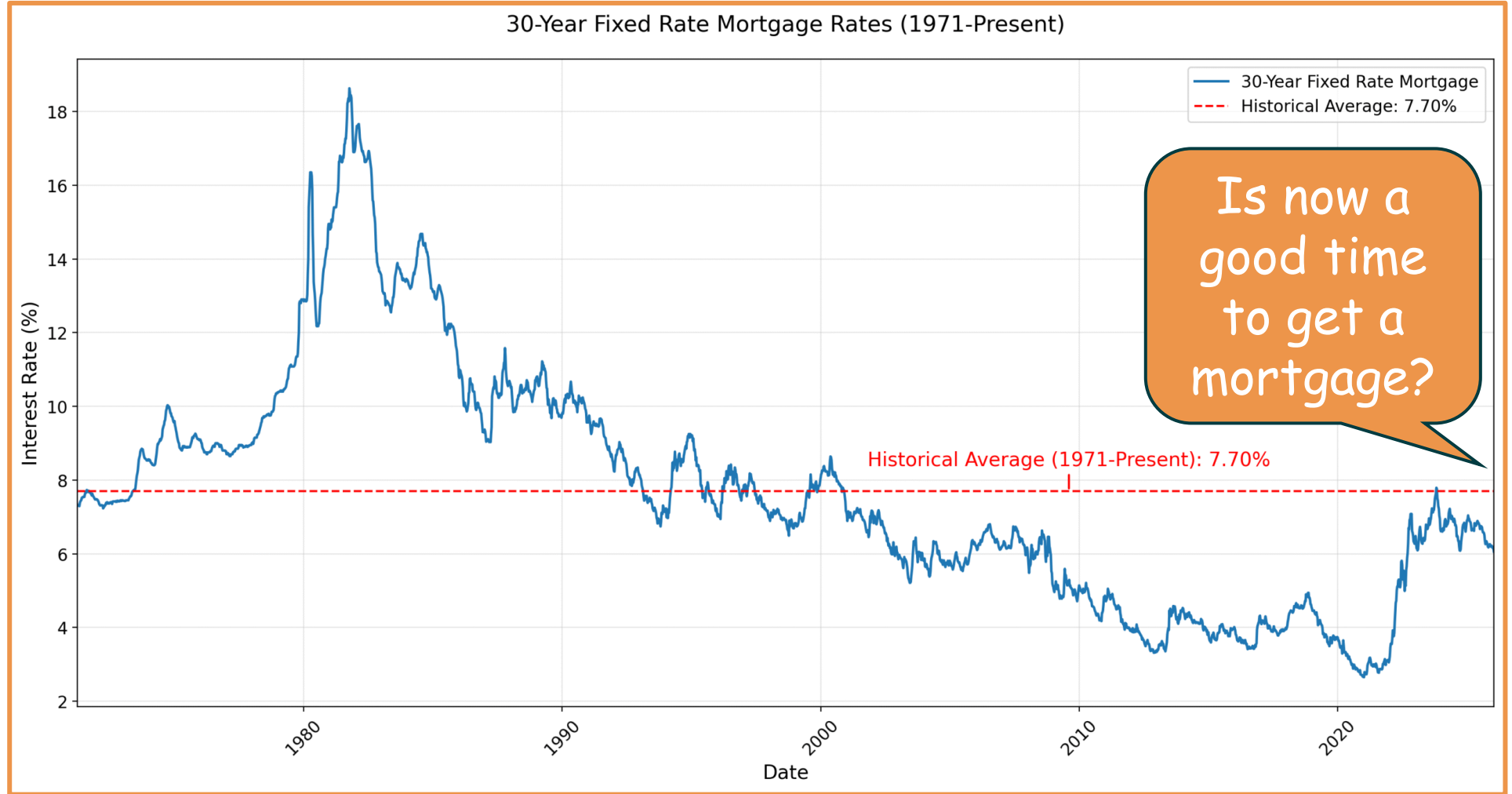


Chart represents weekly averages for a 30-year fixed-rate mortgage. Average for 1971-2026 as of February 20, 2026. Source: Freddie Mac PMMS. ©TheMortgageReports.com

Buying: Key Loan Terms: LTV and DSCR

The FFQ grant can help decrease the amount you need to borrow, but remember to borrow enough for planning & permits, FFE, and a slow first year.

- The **loan-to-value (LTV) ratio** tells a bank how risky your loan is compared to the value of the property.
 - $LTV = (\text{loan amount} \div \text{property value}) \times 100$. <80% is low-risk.
 - Example: Your ARV is \$500,000, and you want to borrow \$400,000. Divide $\$400,000 \div \$500,000 = 4/5 = 0.8$, then multiply $0.8 \times 100 = 80\%$.
 - Some programs allow higher LTV ratios.
- The **debt-service coverage ratio (DSCR)** demonstrates that you'll be able to pay the mortgage each month.
 - $DSCR = \text{net operating income} \div \text{total debts}$. >1.25 is low-risk.
 - Example: Your net operating income *after paying mortgage/rent* will be \$100,000 the first year, and your annual mortgage + interest is \$80,000 and you have no other debts. Your $DSCR = \$100,000 \div \$80,000 = 1.25$.
 - The bank will look at both past and future financial documents.



What are the LTV and DSCR for your potential project?



Buying: Key Loan Terms: ARV

- Mortgages and equity-based loans are based on the **After-Repair Value (ARV)**.
 - You'll pay an assessor to visit your property and state the current market value.
 - The General Contractor will create a bid for the cost of the renovations (based on the architect's plans).
 - For example: If the property value is \$200,000, and you plan to do \$300,000 in renovations, the ARV is $\$200,000 + \$300,000 = \$500,000$.

A GC visiting the property might be able to give you a very rough prediction of the ARV.

What is the ARV for your potential building?



Buying: Getting a Mortgage/ Commercial Property Loan

When getting a mortgage/commercial property loan, banks will look for:

- Down payment: 10–25% of property value
- Business financials:
 - past 2-3 years of tax returns
 - current budget
 - balance sheet showing assets, liabilities, and equity
 - 5-year projected budgets—usually month-to-month for the first two years
- Personal financial statement (PFS) for the business owner(s)
- After-Repair Value appraisal (based on property appraisal and GC's bid)
- Zoning and licensing to confirm that the location can legally operate a child care

These will be used to calculate your LTV ratio and your DSCR so the bank can decide how much to let you borrow and if your mortgage is a good investment.



Which type of loan should you get? Schedule a chat with a financial advisor at your bank. Or ask an AI to get a sense—provide lots of details!

Buying: Other Types of Loans

- SBA (Small Business Administration) 7(a) Loans:
 - Used for renovations, equipment, and working capital (up to \$5M), often allowing for lower down payments (e.g., first-year operating expenses or refinancing another loan), with 10-25 year terms
 - Require collateral (using your property as leverage) for loans >\$50K.
 - Rates are generally lower than commercial loans, but can take many months to process applications unless getting an SBA 7(a) Express loan (limited to \$500K).
- SBA 504 loans
 - Used for major, fixed-asset improvements (up to \$20M), offering long-term, fixed-rate financing (basically only for real estate improvements), with 20-25-year terms
- Commercial Term Loans
 - Provide a lump sum upfront (\$5K to \$500K), repaid in fixed monthly installments over 0.5-10 years.
- Business Lines of Credit
 - Offer revolving access to funds (\$1K-\$250K), allowing you to borrow, repay, and borrow again, which is ideal for short-term projects or immediate cash flow.
 - Have high interest rates because of the flexibility, but should be repaid in 6-18 months (or immediately, if possible).



Buying: Loan Resources

- Commercial Real Estate Acquisition Loan (CREAL) Program
 - Mortgage loans up to \$350K + \$35K in closing costs for a small-business purchase along eligible commercial corridors
- Small Business Administration (SBA Loans)
- Philadelphia Industrial Development Corporation (PIDC)
 - Has a *ton* of loan options for mortgages, renovations, build outs, small business launch costs, etc.
 - Loan opportunities and amounts change based on investments from private organizations and the city/state government
 - Need two years of financial history of at least \$100K/year.



Even if you don't get a mortgage through PIDC, always check their offerings because they might be able to help!

Renting: Loan Options

- SBA 7(a) or SBA Microloans for up to \$50K with a personal guarantee
- Unsecured business lines of credit (higher interest—ideally pay back each month)
- Equipment financing (e.g. kitchen or playground equipment purchases used as collateral)
- Community Development Financial Institutions (CDFIs) offer loans based on mission and financial records without collateral
 - PIDC (Philadelphia Industrial Development Corporation) (ask for options!)
 - Reinvestment Fund (up to \$50K)
 - The Enterprise Center
 - Women's Opportunities Resource Center (WORC) (up to \$50K, usually SBA)



Panel Discussion



Expanding Early Childhood
Education in Philadelphia

Bustleton Learning Center



Little Peoples Village



Children's Playhouse



Questions and Next Steps

Licensing Consultant – Feasibility Site Visits

Have questions about your site and potential expansion?

- Reach out to fundforquality@phmc.org in **May** to inquire about a **FREE** feasibility site visit with a consultant



- This free resource is available to help providers strengthen their application, on a first-come basis.
- FFQ staff may also reach out to schedule a consultant site visit after submitting an LOI.



Open Office Hours

Have more questions?

Sign up for Open Office Hours every
Wednesday until June 10th, from 1 to 1:30.

[Office Hour Sign Up](#)



Questions?

Share them
in the chat!

