

NAVIGATING THE CHILD CARE CENTER PROPERTY PURCHASE

Step 1: Prior to starting a facility search

Tasks/Steps	Who Leads?	Estimated Out of Pocket Costs	Key Takeaways
Timing: At least 30 days (mostly to get preliminary approval from lender, if needed)			
Understand State of Michigan and City of Detroit ECE licensing and building requirements	Buyer, via supports available through Hope Starts Here	None	Especially important if you're doing center-based ECE for first time and this particular project without external consulting supports, like IFF.
Determine mortgage/loan qualification amount (if desired)	Buyer prepares/submits loan application and IFF or another lender underwrites	Application fee with some lenders (IFF has none)	Most loans take at least 3 months to go from application, underwriting to approval and closing, but preliminary approval can usually be determined within 30 days.
Determine funding / fundraising goal based on preliminary budget for purchase, holding costs and construction costs	Buyer	None except in rare case buyer is hiring a fundraising consultant to lead this work.	<ol style="list-style-type: none"> 1. Some funders won't commit to potential grant dollars until you have the facility purchased. 2. Can you afford to purchase and pay holding costs, while you fundraise for construction to start later? 3. Even if a 501(c)(3) nonprofit, property tax exemption typically granted only after the business is open, not during the holding and construction period.
Determine how much space is needed (square feet) for indoor and outdoor spaces (play, parking, pickup/drop off)	Buyer working with broker or real estate consultant	Cost of real estate consultant, such as IFF, if used	<ol style="list-style-type: none"> 1. Know how many square feet are needed to meet, and ideally exceed, licensing standards and create optimal ratios for classrooms. 2. Know what types of spaces can be in non-physically accessible spaces (e.g., accessible only by stairs).
Find and choose a broker who specializes in your target area, commercial buildings, ECE, and that you would like working with	Buyer	None, seller pays broker commission at end of transaction.	Likely asked to sign an engagement letter with broker, locking you into their services only.

Note: IFF services, if procured independently, are approximately \$150 per hour. The services of IFF nor any real estate consultant are not required.

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Step 2: After a facility is selected, but prior to making an offer.

Tasks/Steps	Who Leads?	Estimated Out of Pocket Costs	Key Takeaways
Timing: 1+ Weeks			
Select an attorney to assist with future transaction	Broker or real estate consultant, if hired	None until property found and starting transaction	<ol style="list-style-type: none"> 1. Cannot overstate the importance of working with an attorney. Brokers are not attorneys. 2. Ask upfront about fees and expected total cost.
Determine condition of the facility, estimate preliminary build out cost	Buyer working with broker (if they can perform) or real estate consultant, if hired	Cost of real estate consultant, if used.	Seller might not allow this inspection to happen until facility is under contract. In that case, this inspection happens during due diligence phase.
Determine estimated purchase value	Broker	None at this time. Cost for appraisal, if non-IFF lender used, will be added to closing costs on the loan transaction.	Lender, if one is used that is not IFF, will likely require an appraisal later in the process.
Confirm if zoning change or conditional use permit will be required for ECE use	Real estate consultant, if used, otherwise buyer	None at this time.	Violating a local zoning ordinance can trigger Michigan nuisance law.

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Step 3: Negotiate purchase and sale agreement (PSA)

Tasks/Steps	Who Leads?	Estimated Out of Pocket Costs	Key Takeaways
Timing: 1-4 weeks			
Prepare Purchase and Sale Agreement (PSA) (or Letter of Intent (LOI) first, followed by PSA.)	Broker	None	<p>Much key information negotiated here, but two key takeaways are:</p> <ol style="list-style-type: none"> 1. Amount of earnest money, if any, that becomes nonrefundable ("hard") and by when 2. Amount of time/deadlines negotiated to perform all necessary due diligence and structure/approve financing (if needed); missing deadlines can give the seller the opportunity to back out of the deal.
Review PSA and/or LOI	Attorney	\$1,000 and up for entirety of transaction, depending on complexity of transaction.	Broker input/advice very helpful in preparing PSA and/or LOI, but DOES NOT replace input by experienced real estate attorney.

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Step 4: Due diligence, predevelopment and financing while in PSA

Tasks/Steps	Who Leads?	Estimated Out of Pocket Costs	Key Takeaways
Timing: No less than 60 days, ideally 90 or more			
Collect from seller all available data on building	Broker	None	<ol style="list-style-type: none"> 1. Unlike residential real estate transactions, commercial transactions place the burden of environmental due diligence on the buyer. 2. You will typically ask the seller for property tax statements, utility bills, 3. And a list of recent repairs and capital improvements (commonly going back 5 years)
ALTA land survey	Broker or real estate consultant to procure and review, also attorney to review	\$5,000 to \$7,000 + real estate consultant and/or attorney fees	Address any areas of concern with seller.
Phase 1 Environmental Survey Assessment (ESA)	Broker or real estate consultant to procure and review	\$2,500 to \$4,000 + real estate consultant fees	Only concern is if Phase 2 test recommended.
Phase 2 ESA, only if required by Phase 1 results	Broker or real estate consultant to procure and review	\$7,500 to \$10,000 or more, depending on Phase 1 results + real estate consultant fees	Depending on Phase 1 results, the cost for Phase 2 might be a negotiating point with the seller as they might need to resolve the same issues for any buyer.
Title commitment and title insurance	Lender procures, lender/attorney review	Paid by seller	Attorney will discuss anything of concern with you first, then seller to resolve.

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Step 4: Due diligence, predevelopment and financing while in PSA (continued)

Tasks/Steps	Who Leads?	Estimated Out of Pocket Costs	Key Takeaways
Determine condition of the facility, estimate preliminary build out cost	Buyer working with broker (if they can perform) or real estate consultant, if hired	<ol style="list-style-type: none"> 1. Cost of real estate consultant, if used. 2. Preliminary drawings and professional cost estimate can cost upwards of \$10,000. 	<ol style="list-style-type: none"> 1. If not able to perform this work ahead of PSA and/or LOI, perform this work now. 2. Depending on scale and cost of the project, buyer might want to hire architect to develop preliminary drawings and professional cost estimator to affirm estimate of construction cost. 3. Negotiate to reduce purchase price if major unseen defects are found.
Determine the total project budget, and confirm you can afford all costs	Buyer and real estate consultant, if hired	Cost of real estate consultant, if used	Acquisition, closing costs, construction costs, due diligence and predevelopment costs, owner-direct costs (e.g., classroom & administrative furniture, window coverings, kitchen equipment, security/data systems), project management/owner's representative services, holding costs, etc.
Secure financing approval (if pursued)	Lender	Costs typically wrapped in loan with IFF, other lenders might require closing costs (see closing costs below) separately at closing	Coordinate with lender all due diligence including appraisal and title commitment

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Step 5: Closing and taking acquisition of the property

Tasks/Steps	Who Leads?	Estimated Out of Pocket Costs	Key Takeaways
Timing: Closing itself is 1 day			
Closing costs brought to table, if required	Broker via title company	\$3,000 to \$5,000 for title and recording \$5,000 to \$7,500 for appraisal, if required	Might be possible to wrap into loan, if lending is part of transaction
Commence insurance coverage	Buyer/new owner	Too many factors to estimate.	Plan for these needs and costs as early as possible in the process once PSA in place
Change locks, and commence any other measures necessary to secure the building	Buyer/new owner	Too many factors to estimate.	Plan for these needs and costs as early as possible in the process once PSA in place
Put utility services in your business name	Buyer/new owner	Typically none.	Plan for these needs and costs as early as possible in the process once PSA in place
Continue to complete and commence plan for design and construction	Buyer/new owner	Costs, if using a real estate consultant, architect and/or cost estimator.	Process can vary greatly depending on the size of the building and scale of the project.

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