



NATIONAL  
CHARTER SCHOOL  
RESOURCE CENTER

# Charter School Facilities: Emerging Trends

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## Introduction

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The charter school sector currently serves more than 3.2 million students in more than 7,000 schools.<sup>2</sup> In addition, 45 states, DC, Guam, and Puerto Rico have charter school laws.<sup>3</sup> While the sector has experienced tremendous growth, the acquisition and financing of adequate school facilities continues to be a major barrier for school operators and continued growth.

This report reviewed recent developments and data in public school enrollment, demographic and population change, real estate dynamics, and charter school facilities finance to identify three key trends that are likely to impact the charter school facilities landscape for the next 5-10 years. Some trends will provide new opportunities for charter schools – while others will create challenges that are likely to require creative solutions.

### Spotlight: Charter School Facilities

Unlike traditional public schools, charter schools are typically responsible for acquiring and paying for their own facilities. Nationally, roughly 25% of charter schools are located in district or government facilities, 25% own their own buildings, and 50% rent space on the private market.<sup>1</sup>

- **Trend 1: Geographic and population changes will continue to impact the charter school sector and facilities landscape.** Shifts in student enrollment, population migration, and real estate trends will create potential changes in urban and rural charter school markets and likely increase the opportunities and incentives for charter schools to locate in semi-urban and suburban areas.
- **Trend 2: Charter schools are likely to benefit from a more mature facilities finance market.** The finance and lending environment for charter schools is likely to improve as the field continues to mature and as new investments and programs create new opportunities.
- **Trend 3: Changing academic strategies, including community partnerships and 21st century career preparation, will likely create the need for more innovative facilities models.** An evolving understanding of factors impacting student achievement and college and career readiness – and evolving community partnerships and modern career technical education/workforce training – will incentivize increasingly creative charter school facilities solutions.

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<sup>1</sup> <https://www.publiccharters.org/latest-news/2017/12/13/top-5-facilities-struggles-charter-schools>

<sup>2</sup> <https://www.publiccharters.org/our-work/publications/estimated-public-charter-school-enrollment-2017-18>

<sup>3</sup> <https://www.publiccharters.org/our-work/publications/measuring-model-ranking-state-public-charter-school-laws-2020>

## Trend 1: Geographic and population changes will continue to impact the charter school sector and facilities landscape.

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- Key Point 1: Urbanization and gentrification are impacting pricing dynamics, density, and demographics across many metro areas.
- Key Point 2: As a result, low-income families are increasingly moving to semi-urban and suburban areas to access cheaper housing, impacting facilities placement decisions for charter schools.
- Key Point 3: Enrollment and population declines in some rural areas will likely result in empty buildings and potentially the need for school consolidation in certain places.

At the regional level, long term demographic trends continue to suggest that the South (+5.4%) and West (+2.1%) will sustain public school enrollment increases, while the Midwest (-2.1%) and Northeast (-3.7%) will see enrollment declines.<sup>4</sup> At the state level, the National Center for Education Statistics (NCES) projects that 28 states will see public school enrollment gains over the 10 year period ending in 2028-29 while 22 states will experience public school enrollment declines.<sup>5</sup> These regional and state level trends will also impact the charter facilities landscape and charter enrollment and demand. The table below presents opportunities and challenges expected in urban, semi-urban/suburban, and rural regions nationally. These trends will likely vary across regions.

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<sup>4</sup> [https://nces.ed.gov/programs/digest/d18/tables/dt18\\_203.20.asp](https://nces.ed.gov/programs/digest/d18/tables/dt18_203.20.asp)

<sup>5</sup> [https://nces.ed.gov/programs/coe/indicator\\_cga.asp](https://nces.ed.gov/programs/coe/indicator_cga.asp)

Table 1: Opportunities and Challenges in Urban, Suburban, and Rural Areas

## Urban Areas

### Opportunities

- Overall declining public school enrollment in many urban areas may result in more district facilities available for charter school leasing or co-location.<sup>6</sup>

### Challenges

- Urban public school enrollment declines are likely to accelerate across high cost locations due to affordability concerns and lower birth rates – this could potentially push new and existing charter operators to look outside urban centers for facilities space.
- Real estate costs continue to rise, especially in popular urban areas. Commercial real estate prices have more than doubled since bottoming out in 2010 – and prices are well above their highs before the Great Recession.<sup>7</sup> This is true across every major commercial real estate asset class (apartment, office, industrial, and retail).<sup>8</sup>

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6 Some of the largest charter markets in the country are seeing flat or declining overall student enrollment levels, including Denver, Houston, Los Angeles, Miami, and New York City. Sources: (<https://www.dpsk12.org/wp-content/uploads/SRA-Fall-2019.pdf>), (<https://www.latimes.com/opinion/editorials/la-ed-laUSD-declining-enrollment-20190112-story.html>), (<https://www.miamitodaynews.com/2019/08/27/miami-dade-public-schools-enrollment-falling/>), (<https://infohub.nyced.org/reports/school-quality/information-and-data-overview>).

7 <https://www.nar.realtor/sites/default/files/documents/2019-q2-commercial-real-estate-market-trends-and-outlook-07-29-2019.pdf>

8 <https://www.nar.realtor/sites/default/files/documents/2019-q2-commercial-real-estate-market-trends-and-outlook-07-29-2019.pdf>

## Semi-Urban/Suburban Areas

### Opportunities

- Semi-urban and suburban areas are poised to be key drivers of public school enrollment growth as many core urban areas struggle with affordability concerns and lose lower income families.
- Charter schools have a strong track record of serving students and families living in poverty.<sup>9</sup> Suburban areas may increasingly see the need for more charter schools as poverty levels increase. In fact, the poverty rate in suburban areas increased by 57% between 2000 and 2015 and this trend is likely to accelerate.<sup>10</sup> Semi-urban and suburban areas may provide charter schools with increased opportunities to reach underserved students across a broad geographic area.
- As structural changes to the e-commerce field result in substantial disruption in big box retailing, many communities are creating plans to redevelop these properties into higher density commercial uses, such as apartments and mixed-use developments.<sup>11</sup> These changes may allow charter schools to 1) access lower cost space that is large enough to house a school or 2) position themselves as a high-quality educational option in an area that is looking to add residential density.<sup>12</sup>

### Challenges

- Locating in more dispersed areas outside of core city centers can make student transportation options and other logistical factors more difficult – and this may constrain operators’ decisions regarding facilities locations.

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<sup>9</sup> <http://urbancharters.stanford.edu/summary.php>

<sup>10</sup> <https://www.brookings.edu/testimonies/the-changing-geography-of-us-poverty/>

<sup>11</sup> <https://www.thedenverchannel.com/news/local-news/metro-area-cities-prepare-for-retail-apocalypse-as-big-box-stores-close>

<sup>12</sup> Some of the largest charter markets in the country are seeing flat or declining overall student enrollment levels, including Denver, Houston, Los Angeles, Miami, and New York City. Sources: (<https://www.dpsk12.org/wp-content/uploads/SRA-Fall-2019.pdf>), (<https://www.latimes.com/opinion/editorials/la-ed-laUSD-declining-enrollment-20190112-story.html>), (<https://www.miamitodaynews.com/2019/08/27/miami-dade-public-schools-enrollment-falling/>), (<https://infohub.nyced.org/reports/school-quality/information-and-data-overview>).

## Rural Areas

### Opportunities

- Rural areas with employment opportunities may continue to attract residents from increasingly expensive urban and suburban locales – charter school options could help attract young families.
- Charter schools may be able to expand into underutilized district facilities in certain rural markets, or they may be able to help small towns save their local, traditional public school from closure/consolidation – as charter school conversions can sometimes run at smaller enrollment levels due to increased budgetary autonomy and efficiency.<sup>13</sup>

### Challenges

- Low population density places natural limits on charter school enrollment and could cause complicated transportation logistics; thus, building or renovating school facilities will only be possible in certain markets.<sup>14</sup>

### Spotlight: Denver

Denver serves as an interesting case study for changing demographic trends in a popular and increasingly expensive urban area. Between 2006-07 and 2016-17, enrollment in Denver Public Schools (DPS) increased by more than 18,000 students. This enrollment growth coincided with DPS gaining a national reputation for innovative practices and district/charter collaboration, urban living was becoming more popular, the local economy was becoming more diversified, and the city was attracting talent and transplants from around the country.<sup>15</sup>

After experiencing a period of rapid public school enrollment growth, DPS is now projected to lose nearly 3,000 students over the next five years as birth rates decline and as low and middle income families leave the city in search of cheaper housing options.<sup>16</sup> While young professionals continue to move to the city, lower cost suburban areas in some neighboring counties are likely poised to experience the largest public school enrollment increases moving forward.<sup>17</sup> As a result of these changes, district facilities in certain neighborhoods will become vacant or underutilized – and this may provide opportunities for charter operators looking to acquire or lease school facilities. New charter schools will need to strategically locate their facilities to serve lower income families across an increasingly broad geographic area.

<sup>13</sup> <https://www.ruralcharterschools.org/key-themes>

<sup>14</sup> Among rural counties, approximately one-third are gaining population, one-third have a stable population, and one-third are depopulating according to the National Conference of State Legislators. Source: (<https://www.ncsl.org/research/agriculture-and-rural-development/rural-populations-growing-slowly.aspx>).

<sup>15</sup> <https://www.educationnext.org/public-school-choice-competitive-advantage-look-denver-public-schools/>

<sup>16</sup> <https://www.dpsk12.org/wp-content/uploads/SRA-Fall-2019.pdf>

<sup>17</sup> <https://www.thedenverchannel.com/news/our-colorado/27j-schools-expect-to-be-over-capacity-because-of-growth-in-student-enrollment>

## Trend 2: Charter schools are likely to benefit from a more mature facilities finance market.

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- Key Point 1: Increased awareness of charter schools and longer charter school track records could lead to better risk pricing and better financing options.
- Key Point 2: Big facilities financing bets by foundations like the Walton Family Foundation could alter the charter finance market.
- Key Point 3: Federal programs like Opportunity Zones could provide new sources of capital for charter school facilities.

As the charter sector ages and matures, as a larger proportion of charter schools have a sufficient track record of success, as more transaction data becomes available, and as industry professionals continue to broaden their understanding of the sector – better risk pricing and better financing options will likely become available to charter schools. In addition, large capital infusions and new facilities funds from key players like the Walton Family Foundation (Walton) could help to attract additional interest, talent, and capital to market. As Wendy Berry from the Equitable Facilities Fund notes, “despite potential headwinds, the overall charter school [lending] sector will likely continue to see the strengthening of average credit quality due to increased investor sophistication in assessing credit quality of borrowers, the expanded use of Municipal Advisors in the sector, the continued use of state-sponsored credit enhancement programs, improved authorizer quality, as well as the greater expansion of, and issuance by, strong charter management organizations.”<sup>18</sup>

In addition, large foundations, like Walton, have begun to support charter school facilities finance through revolving bond/loan programs that aim to reduce the cost of capital. Specifically, Walton backed the formation of two non-profit funds in 2018 as part of a larger initiative to make charter school facilities acquisition and renovation easier and more affordable.<sup>19</sup> The Equitable Facilities Fund (EFF) was capitalized with \$200 million in funding and the organization provides long-term, fixed rate loans to high-performing charter schools across the country.<sup>20</sup> Walton and Bank of America capitalized the Facilities Investment Fund with a combined \$100 million and the organization provides charter schools with five-year, fixed rate loans for new construction or facility renovation.<sup>21</sup> These large funds have the potential to move the charter finance market through increased liquidity and competition – while also attracting additional capital and interest from other players.

Over the next 5-10 years, new federal programs like Opportunity Zones – and existing federal programs like the USDA Rural Development Program – have the potential to significantly impact

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<sup>18</sup> <https://facilitycenter.publiccharters.org/sites/default/files/2019-08/eff-bond-year-in-review-2018.pdf>

<sup>19</sup> <https://www.waltonfamilyfoundation.org/about-us/newsroom/walton-family-foundation-launches-two-new-non-profit-lending-funds>

<sup>20</sup> <https://www.waltonfamilyfoundation.org/about-us/newsroom/walton-family-foundation-launches-two-new-non-profit-lending-funds>

<sup>21</sup> <https://www.waltonfamilyfoundation.org/about-us/newsroom/walton-family-foundation-launches-two-new-non-profit-lending-funds>

the charter facilities landscape.<sup>22</sup> The Treasury Department continues to provide guidance related to Opportunity Zone investments, while states have already designated 8,700 census tracts as eligible for the tax incentive program.<sup>23</sup> Real Capital Analytics estimates that investors currently sit on more than \$6 trillion in unrealized capital gains that could be potentially rolled over into Opportunity Zone projects.<sup>24</sup>

### Spotlight: CSP's Credit Enhancement Program (CE)

The Credit Enhancement for Charter School Facilities Program was established in FY 2001 to expand charter school access to private-sector and other non-Federal capital for the construction, renovation, and acquisition of school facilities. The program provides eligible financial entities with grant funds to enhance the credit of charter schools by guaranteeing, insuring, and facilitating capital financing. As of 2019, 29 Credit Enhancement Program awards have been made to eligible entities using this program, totaling more than \$250 million and helping leverage over \$3 billion in capital on behalf of charter schools.

Opportunity Zones could potentially benefit thousands of charter school facilities with a substantial influx of capital – especially in areas that have received limited investor or philanthropic interest in the past.<sup>25</sup> And investments in charter school facilities could be paired with other development projects that increase their community impact. While the USDA Rural Development Program is a much smaller federal program, it still has the potential to help hundreds of rural charter school access very low-cost financing – and increased awareness of this program could broaden its impact on facilities access.<sup>26</sup>

In addition, state legislative opportunities could lead to new facility finance mechanisms. For example, Idaho passed legislation to fund a new credit enhancement program to support charter school facilities in 2019 that was modeled on successful programs in other states like Colorado and Utah.<sup>27</sup> While credit enhancement programs can substantially lower facilities financing costs for charter schools, they are relatively cheap for states to administer because they only require a reserve account to cover losses in the case of a default – and states can limit access to these programs to schools with a reasonable track record and/or tenure. Thus, these types of programs may be increasingly deployed in other states.

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<sup>22</sup> <https://charterschoolcenter.ed.gov/publication/charter-school-facilities-financing-sources-exploring-quality-opportunity-zones-and-us>

<sup>23</sup> <https://www.bisnow.com/national/news/economic-development/looking-to-invest-in-assets-within-qualified-opportunity-zones-these-resources-may-help-95768>

<sup>24</sup> <https://www.bisnow.com/national/news/economic-development/looking-to-invest-in-assets-within-qualified-opportunity-zones-these-resources-may-help-95768>

<sup>25</sup> <https://charterschoolcenter.ed.gov/publication/charter-school-facilities-financing-sources-exploring-quality-opportunity-zones-and-us>

<sup>26</sup> <https://charterschoolcenter.ed.gov/publication/charter-school-facilities-financing-sources-exploring-quality-opportunity-zones-and-us>

<sup>27</sup> <https://www.publiccharters.org/sites/default/files/documents/2019-12/State-Leg-Session%20%281%29.pdf>

## Trend 3: Changing academic strategies, including community partnerships and 21st century career preparation, will likely create the need for more innovative facilities models.

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- Key Point 1: Experimentation with 21st learning environments that better meet student needs and are more aligned with changing workforce dynamics (i.e. personalized learning, technological change, and career preparation, etc.) will likely require different types of classroom and facilities models.
- Key Point 2: Increasing commercial real estate costs, especially in core urban areas, will likely require more innovative community partnerships to ensure that charter students have access to the full range of educational and recreational amenities moving forward.

The changing nature of work is likely to be reflected in the layout and design of charter facilities. For example, smaller, more flexible, and more technologically integrated office space concepts may be mirrored by trends in the charter landscape. Just as employers have looked to increase the efficiency of their offices and design spaces that align with specific work-related activities in mind, charter schools have experimented with new design concepts for years.<sup>28</sup> This trend is likely to continue or even accelerate as blended learning and technological change impact how students learn. Activity-based working concepts acknowledge that open concept floor plans have largely failed to provide the privacy needed for certain tasks that require concentration over collaboration.<sup>29</sup> Similarly, personalized learning models require that students have both collaborative classroom spaces and quiet workspaces to maximize learning opportunities across different modalities.

In addition, many charter schools are increasingly turning their attention to career preparation and skill building opportunities that may require specialized or non-traditional spaces. These career education models align student learning opportunities with promising local industries – and they can both supplement academic offerings and provide alternative pathways to a good first job.<sup>30</sup> While facilities funding remains a significant challenge, career-aligned models require makerspaces and workspaces where students can develop valuable skills. These spaces should be flexible enough that their function can change over time as local economic needs change and learning opportunities and needs naturally evolve.

In terms of facilities amenities, charter schools have increasingly looked to community partners to help supplement facilities deficits in higher cost areas – like gyms and outdoor recreational facilities. Going forward, increasing real estate costs in many popular urban areas could make sharing amenities like gyms and outdoor recreational spaces with other charter schools or local

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<sup>28</sup> <https://www.educationdive.com/news/how-can-schools-better-equip-learning-spaces-for-modern-career-skills/554712/>

<sup>29</sup> <https://blog.capterra.com/open-office-concept-failure/>

<sup>30</sup> <https://fordhaminstitute.org/national/commentary/role-public-charter-schools-career-preparation>

community organizations more economically appealing. Sharing facilities amenities with other local organizations can provide additional programming options and opportunities for students, while also strengthening bonds between the school and the neighboring community. Charter schools may also increasingly choose to locate near existing community assets in high cost areas such as parks and recreational facilities.

Increasingly, community organizations have seen charter schools as natural distribution centers for community services in traditionally underserved neighborhoods and areas experiencing demographic and economic change. For example, the Colorado Health Foundation has created and funded opportunities for charter schools in higher density areas to share food production costs and augment their healthy food offerings – while also funding health and wellness programs in rural charter schools that provide services to low-income families and seniors in the surrounding community.<sup>31</sup> Increasing commercial real estate costs, especially in core urban areas, will likely require more innovative community partnerships to ensure that charter students have access to the full range of educational and recreational amenities moving forward – but innovative community partnerships provide opportunities to strengthen bonds, supplement services, and share costs across a variety of geographic areas.

## Conclusion

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The cost and resources required to identify, obtain, and maintain appropriate facilities will likely continue to be a key challenge for charter school leaders and operators. As a result, continued efforts to help mitigate the charter school facilities challenge are essential to ensuring that there is adequate charter school supply and that all children have access to a high-quality public school option where they can thrive. Over the next 5-10 years, the trends highlighted in this report are likely to impact charter school operators and sector stakeholders as they continue to work towards expanded educational opportunities for students and families.

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<sup>31</sup> <https://coloradohealth.org/healthy-schools>