

WHEN IT'S TIME TO BUY INSTEAD OF LEASE

With interest rates and real estate prices low in many places, consider whether buying property is right for your small business

BY Karen E. Klein

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Q: My business lease is nearly up and I planned to renegotiate for a lower payment. However, now I'm wondering if we should try to buy office property instead, with interest and prices so low?

—I.N., Prescott, Ariz.

A: Meet with your accountant and look at your long-term business plan for help answering this question. Is yours a growing company likely to eventually need more space than you can afford to purchase now? Can you buy more square footage than you need and sublet until your company expands? If you outgrow the place, will you be able to sell it, or will you be happy becoming a commercial landlord?

Purchasing commercial property builds equity in an appreciable asset that offers both tax advantages and income-sheltering opportunities, says Chris Hurn, president of Mercantile Commercial Capital, based in Altamonte Springs, Fla. If you foresee that you'll pass your business on to your children or eventually shut the doors if you can't sell, paying yourself "rent" now and owning equity in a tangible asset later can be a great advantage. And commercial interest rates are at historic lows, Hurn says, between 6% to 6.5% for a 20-year fixed mortgage vs. an historical average around 8.5%.

Still, taking on substantial debt, subleasing, and supervising property maintenance is not for every entrepreneur. And all real estate is profoundly local: While some parts of the country are seeing large discounts from commercial developers, other choice locations will always be very costly.

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Then there's the problem of credit availability, which continues to be extremely tight. "The

days of going to a large national bank for a loan are pretty much over for now," Hurn said. "Smaller community banks and specialized lenders like our firm are where business is being done."

He offers his clients some tips when they are considering the purchase of commercial property; you can take many of these steps now and even if you can't get a loan immediately, you'll have a jump on the process when money becomes more readily available:

Get organized. Ask a potential lender to give you a checklist of required documents. "Full-documentation loans are worth spending the extra time on. The more thorough you are, the better you look to a lender," Hurn says. "You may also be able to secure a better interest rate, saving thousands of dollars during the life of the loan."

Get pre-approved. Knowing what you'll be able to afford early on will save time later. "Lenders have become especially efficient with issuing pre-approvals for commercial loans quickly, assuming they receive the documents they need," he says.

Know your local market. Talk to an experienced real estate broker who specializes in commercial property and can go over prices, comparable lease rates, and demographic information with you, so you've got an idea whether buying is worth it and what the best locations in town are.

Consider financing options. Hurn is a big fan of the SBA 504 loan program. "It provides up to 90% loan-to-cost financing with longer amortizations and below-market interest rates, will preserve more of your capital for better uses, keep your cash flow high, and allow you to redeploy your capital savings into other profit-generating business activities," he says.

Not every small-business owner will qualify for this program, but most do, Hurn says.

Establish an ownership entity. You should own commercial property through a separate real estate holding company, not through your current business entity. That way, "If you decide to sell your operating business later, you can maintain your real estate company," Hurn says. The property can eventually become a retirement asset for you, generating regular monthly rent checks.

Another thing to think about, if your assets are not sufficient to provide the downpayment on a property you'd like to buy, is partnering with another successful business owner. Two or more of you could form the real estate holding firm to purchase the property together.

Karen E. Klein is a Los Angeles-based writer who covers entrepreneurship and small-business issues. ■

Contact Chris and Mercantile Commercial Capital for more information on how to get an SBA loan: 1-866-622-4504, or info@mercantilecc.com, or visit www.504Experts.com.



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