

10 Strategies for Building Client Wealth

These tips can help your small-business owners make the most of their investments

By **Christopher Hurn**, president, Mercantile Commercial Capital

IF YOU OFFER YOUR SMALL-BUSINESS-owner borrowers suggestions for how to create wealth through commercial real estate, you can set them up for significant income growth. Further, you provide them with invaluable investment expertise for future transactions. Ultimately, they may come back to you time and again.

That said, here are the top 10 things to recommend to clients looking to create wealth through commercial real estate ownership.

1. Get organized

Most competent lenders can give your borrowers a checklist of required documents immediately. Full-documentation loans are worth spending the extra time on to be as thorough as possible with lenders. They may also shave a couple-hundred basis points off interest rates, saving thousands of dollars during the life of the loan.

2. Get preapproved

Your clients save time by knowing what they can afford. There is no sense wasting time looking at \$3 million buildings if they can only afford a \$300,000 one. Lenders have become especially efficient with issuing pre-approvals for commercial loans quickly, assuming they receive the documents they need.

3. Know the local market

Suggest a knowledgeable commercial Realtor to

help your borrowers find commercial property. A competent Realtor can explain comparable sales and lease rates, demographic information, plans for growth and ideas on new development in the area.

4. Consider smaller payment, longer terms

These options preserve your clients' capital for better uses, keep their cash flow high and allow them to redeploy their capital savings into other profit-generating business activities. Small-business owners no longer have to put down 20 percent to 30 percent or accept 15-year terms with five-year fixed rates that balloon to get a good deal.

5. Buy for the right reasons

If your clients' eventual exit strategy is simply to sell or close their business, then it makes sense to buy rather than lease. Essentially, they'll be "paying themselves rent" rather than paying some absentee landlord. They'll also build equity in an appreciable asset that offers multiple tax advantages and income-sheltering opportunities.

6. Consider adding equipment

This would mean adding furniture, fixtures and equipment (FF&E). As long as the FF&E costs are a minority of overall project costs and the FF&E have long, useful lives, borrowers can amortize them on longer real estate terms. This will improve their cash flow because the equipment depreciates in shorter schedules than the Internal Revenue Service allows.

7. Consider more square-footage

This can be through a purchase or build. Your clients can often grow into the space, and this can allow them rental income until that time.

8. Establish ownership entity

Suggest that clients establish a real estate holding company, or eligible passive concern, to own their new property. If your clients decide to sell their operating businesses later, they can keep their real estate companies (and by default, the real estate) from which they can continue cashing rent checks. In this way, own-

ing commercial property can become a great retirement asset for small-business owners.

9. Consider business-owner partnership

Tell your clients to consider partnering with another business-owner in their eligible passive concern. If they're having trouble coming up with the down payment — and if they have a profitable business and the lender already preapproved them for a certain amount — this solution allows them the advantages of commercial property-ownership even while they share the equity requirement with another business-owner. It's important to note, however, that their new partner's operating business will also have to be examined to commit to the loan.

Don't forget to remind your clients to always use good judgment when partnering with someone else.

Make sure their operating agreement or other documents clearly stipulate the buy-out provisions ahead of time. Disagreements do occasionally occur, and corporate-entity documents are usually better at resolving disputes than personal memories.

10. Work with a specialist

Again, your clients' time is precious, so they should only deal with lenders that specialize in commercial loans. Involving residential lenders in their transaction sometimes can slow the process and reduce their income. It could cost them in loan terms, fees and pricing.

Remind your clients that paying a little extra money to work with an expert upfront is a great strategy that will save them money in the long run. They're paying you to represent them and to find the best overall deal. For borrowers, paying slightly more to work with a specialist can be money well-spent. **!**



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