



nerej

Selling a commercial building? Here's how to widen your pool of potential buyers

May 29, 2014 - Spotlights

For commercial real estate brokers, one of the primary goals when selling any property is finding the largest potential pool of buyers possible. A common roadblock in this endeavor is typically finding potential buyers that can reasonably come up with the down payment amounts that will be required by a bank when the purchase is financed. More and more commercial brokers are realizing the SBA 504 loan program is an effective way to solve this problem.

The SBA 504 loan program allows potential buyers to come up with as little as a 10% down payment when acquiring owner occupied properties. According to SBA 504 standards, "owner-occupied" typically means the buyer of the real estate (or a related company) needs to occupy at least 51% of the property being purchased. In addition, and contrary to conventional wisdom, many property types such as hotels, motels, and restaurants also qualify as being "owner occupied", albeit sometimes with slightly higher down payment requirements. The SBA 504 loan program typically allows for a loan structure consisting of the following:

- 1) 50% of the acquisition/ project cost is financed by a bank;
- 2) 40% of the acquisition/project cost is financed by the Certified Development Company (via the SBA 504 program), and
- 3) the buyer of the property only has to come up with the remaining 10%.

There are several other benefits that make this program especially attractive to potential buyers. First, for properties in need of renovation and/or rehabilitation, those costs can also be rolled into the project cost total being financed. So if you are a commercial broker trying to sell a building that needs some TLC or aggressive "repositioning" in the market, your potential buyers will have an opportunity to finance up to 90% of all the costs associated with the purchase and improvements (sometimes even including equipment going in the building). Also, the second loan from the CDC comes with a below-market 20-year fixed rate. Locking in low, long term rates in this current rate environment is very attractive to any potential buyer. The SBA 504 loan program works to increase your pool of potential buyers on properties selling for up to about \$40 million. At that point, the \$5.5 million cap on the CDC loan starts to necessitate a higher than 10% down payment assuming a typical bank's maximum 75% loan-to-value requirement.

BankNewport has been amongst the top three banks in New England for several years when it comes to originating SBA 504 loans. We provide financing throughout New England and specialize in all types of property types including hotels and restaurants. Our unique approach over the past few years has been to partner with commercial real estate brokers to educate them and their potential buyers about the benefits of the SBA 504 loan program. We regularly put on informational seminars for commercial real estate brokers in different markets. From that effort, we have seen some brokers take the next logical step, which is to "market" their properties that qualify for the SBA

504 program as just that; "an SBA 504 loan eligible property with 10% down payment requirements". It's a sure-fire way to increase your potential pool of buyers every time you're selling a qualifying property!

Lee Merrill is the chief lending officer at BankNewport, Newport, RI.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540