



# Get Creative to Finance Business Real Estate

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Five years ago, a small-business owner could buy a building to use as a production facility and count on it paying for part of the business's other costs. At that time, almost any real estate investment would have increased in value, and an owner could have tapped that inflation in the property's worth to propel her company's growth. That world is at least two years gone, but business owners are still adjusting to the new reality.

In the past two years, the U.S. Small Business Administration has made several changes to its lending programs to offer relief to stretched business owners. On Oct. 12, 2011, the government issued new provisions that ease the requirements substantially for small-business owners looking to refinance properties using SBA 504 loans. Business owners with more than 10 percent equity can refinance and use the proceeds to fund certain business expenses, including salary, utilities, insurance, and inventory. The program will end in September 2012.

Like the sea change that business owners are still adjusting to, a short-term program or temporary fix might make owners' footing feel insecure. But there is one reality they can hold on to.

"Small-business owners are going to have to get a little more creative in terms of how they approach finance," said Charles H. Green, a specialist in financing for small businesses.

Green is the author of the forthcoming "Get Financing Now" (McGraw-Hill, January 2012) and conducts seminars for small-business owners who need a compass to navigate this new world. Green said in an interview

that the business owners he speaks with are "somewhere between floundering and stunned" by the changes in the financial world they operate in every day.

He sees small-business owners struggling, particularly when they have balloon payments on conventional real estate loans approaching. Their refinancing options are not what they expected when they first took out the loans. Lenders, he said, are "looking at real estate with much greater suspicion and more hesitation."

The changes to the SBA 504 loan program, Green said, are intended to help such business owners.

"This short window can enable them to get into this guaranteed product without consideration of their real estate devaluation," he said.

Of course the business owners who apply for this program have to pass scrutiny, and they have to have been making their loan payments without default for the past 12 months.

## Check out Your Bank

Green said so much has changed from five years ago that you can't assume your bank is making loans or that your bank is on sound footing. You might go through all the paperwork of applying for a loan, "and the bank at the end of the day says, 'We can't do it,'" Green said. "What they're not saying to the borrower is, 'We can't do it because we can't do any loans right now.'"

His advice is to go to the Federal Deposit Insurance Corp. website and check which banks in your state

have had legal actions against them. A search using this database will indicate whether your bank in question is under scrutiny.

## Good Time to Buy?

With property values having fallen almost everywhere in the past three to four years, the building you're leasing may look like an attractive purchase right now. But, Green said, "it's going to be a steeper road to get financing for it." You may have to come up with a larger equity contribution, perhaps as much as 25 percent or even 30 percent.

If you don't have that kind of capital, get creative. Green said that negotiating with the seller for the seller to carry part of the financing might be a solution. Also, you might take on a partner. It might be worth doing if it helps propel your business forward in other ways. Think longer-term.

"People are going to have to start taking more personal responsibility for their financial condition and be more proactive in getting their business in good shape, knowing their own metrics, and even understanding which banks in the marketplace can and will be good candidates to finance them," Green said. "It was always convenient to go to one bank and look at one loan to handle all of your situations and opportunities." But in this new world, you might have to put together a patchwork of financing to get to the same end.

Did you know that The Small Business authority is a top nonbank lender for SBA 504 and SBA 7(a) loans? Call us at 855-2thesba to learn more.