

BUYING AN OFFICE BUILDING REQUIRES TIME AND PATIENCE

There are many good reasons for a small business to buy a building in which it will operate – no more rent increases, an investment that may appreciate and tax advantages.

As advantageous as buying a building can be, the process is not for everyone.

"It takes an enormous amount of time away from one's principal business to acquire a building," said Larry Westland, senior vice president and manager of TRI Commercial's Oakland office. Westland estimated that to lease a building in the greater Oakland area, he needs a 12-month lead time. To buy a building, he needs a three-year window. "Small buildings for small companies are very hard to come by," he said.

In San Francisco, Tony Crossley, a senior vice president at Colliers International, painted a similar picture: "The reality is that there are very few buildings to buy."

If you still want to buy a building, keep the following in mind:

- Set your expectations. "Patience and flexibility are key," said Crossley.
- Decide what size building you need. "If you are going to own your own building, occupy 75 percent of the building and have some left for expansion," suggested Westland. Keep in mind that to qualify for an SBA loan for the building, you will need to occupy 51 percent within one year (60% for new construction).
- Find a broker with the right experience. "Using a commercial real estate broker is a must," said Barbara Morrison, president of San Francisco-based TMC Development, an SBA-approved real estate lender. "Find one who specializes in owner/user sales, not office space leasing."

The right commercial real estate broker will know the market. A good broker will also bring others' knowledge to the transaction. "I have an entire entourage of professionals – an architect, a contractor, due diligence experts in seismic engineering and hazardous materials, appraisers, lenders, a title company – which I bring to a situation," said Westland.

- Get your financing lined up. "You want to know that if you buy a building for \$2 million, then this is what your monthly payments would be and if you can you afford those payments," said Morrison.

Find a lender who specializes in commercial real estate loans, including SBA-based 504 loans, which provide financing for businesses to purchase industrial or commercial buildings or condominiums at below market rates with low down payments. 504 loan proceeds can be used to buy, renovate or build commercial real estate properties.

"When buying a building, the best financing is the SBA program – it's 90 percent financing," said Morrison, adding that "building improvements can also be financed through the SBA."

- Be prepared to do lots of due diligence. Small buildings under 25,000 square feet are typically much older with more seismic and hazardous material problems.

"You need to weigh the risks of developing and owning the property compared to the modest risk of leasing a building," said Westland.