

MIND YOUR BUSINESS

It's a smart move to buy a building or office for your business

Q: I've owned a small video production company for 20 years. The building we rent was recently put up for sale. We tried unsuccessfully to form a limited liability corporation with some other small businesses to purchase the building together, but the cost was too much for them. My question is: When is it a smart move to buy a building for your business?

-- Mill Valley Video Producer

A: If you can afford it (and as any aspiring Bay Area property buyer knows, that's the big "if"), it's almost always a smart move to buy a building or office.

Tax advantages include the opportunity to write off your mortgage interest and property taxes as a business expense. You can also depreciate the cost of the building.

In addition, you'll make money if the value of the property rises, creating a potential retirement nest egg for yourself. And even though Bay Area commercial property is costly now, it's likely to appreciate further in the long run.

"Yes, the value of commercial real estate in parts of the Bay Area declined between 2000 and 2003," said **Barbara Morrison, president of TMC Development**, a leading small-business lender in San Francisco.

"But over time, it has proven to be a prudent investment for just about everyone. If you view it as a long-term home for your business and you plan to be there a long time, a periodic drop in value won't affect you."

The other advantage of ownership is that it insulates your business from sudden rent increases like those that occurred during the dot-com boom.

"You'll have control over your occupancy costs," Morrison said. "You can't be put out of business by your landlord."

The main downside is cost, particularly the challenge of coming up with cash for a down payment. You mentioned the idea of joining with other firms to buy a building together.

That can certainly help with affordability.

But the risk is if your co-owners drop the ball, you'll be responsible for their share of the mortgage payments.

Another idea is buying an office condominium, an increasingly popular option for small firms.

Finally, take a look at the Small Business Administration's 504 loan program, which is available to small firms that plan to occupy 51 percent or more of the space they're buying.

A commercial real estate loan from a private lender typically requires you to make a 25 percent down payment, but the 504 program will allow you to borrow 90 percent of the purchase price and improvements.

You can get a 504 loan through regional nonprofit groups called Certified Development Corporations, including TMC Development. For more about 504 loans and names of local CDCs, see www.sba.gov/financing/sbaloan/cdc504.html.

This is a particularly good time to buy an office or building since interest rates remain at low levels. Ask your accountant or a commercial real estate broker to help you run the numbers to see if this can work for your business.

And if you want to move ahead, don't delay. Most experts believe rates are poised to rise.

"A year from now, when the rates are a percentage or two higher, the math will be a little more difficult," said Bill McCubbin, a commercial real estate broker with Orion Partners in San Rafael.