



# Commercial Real Estate Finance



Guy Harvey  
Guy@PRofRaleigh.com  
919.623.4110

## **About the Author**



GUY

HARVEY

Founder and owner of Palisades One and a former partner in Roger Staubach's 1,600 employee firm, Guy led and managed the Raleigh-Durham operations. In 2007 Jones Lang LaSalle, the second largest global commercial real estate firm, acquired the company. Guy's career spans 24 years of experience that has resulted in excess of \$800 million in transaction volume.

## Commercial Real Estate Financing

Most business owners do not realize that the financing to buy a building or space is actually easy to obtain. Yes, as a nation and within the banking industry we are in the midst of the lowest interest rates ever. The one loan that is most desirable to a bank is an owner occupied loan. Owner occupant lending is going on every day, and most banks are interested in these loans.

Owner occupant lending is considered one of the safest of all lending practices and typically is the most profitable loan for a bank. The reason that it is profitable is that owner occupant loans have a low default rate, and when these loans are made most banks will try to get the balance of your business accounts.

### The Two Most Common Types of Owner Occupant Loans

If you are trying to get financing for your new building or space, there are two primary means to obtain financing.

1. A conventional bank loan: Many business owners just go to their bank and ask what amount of lending their banker thinks they and their business can afford. Your current banker will provide you guidance as to what he or she thinks you can afford. Generally speaking, a bank loan will require a down payment of 15% to 20% of your total costs for the building or commercial space and the necessary improvements and other costs.
2. A Small Business Administration (SBA) loan: This type of loan is offered by bankers as well as SBA lenders. The loan is quite simple, and it requires a participating bank. The down payment is only 10% and the balance of the money is provided 40% by the bank and 50% by the SBA, a division of the federal government.

We can help you get ready to pursue financing and regularly help our customers with this activity. By helping you identify all costs associated with your contemplated transaction, our help can minimize how much out-of-pocket expense you and your business may incur. We have financed over \$100,000,000 of transactions and are considered to be as competent regarding this subject as anyone you can find here in the Triangle. Most bankers know us and welcome our involvement.

## **The Financial Information That Will Be Required by a Bank or an SBA Lender**

### **Personal and business financial information**

We are in a time period in which bankers are as thorough as ever before. We are also in the information age, so whatever information a banker asks for, you will need to provide it. Whether you are dealing with a banker you know well or you will be entertaining multiple banks, some of the information they will ask for is as follows:

#### **Minimum of three years' personal tax returns**

#### **Minimum of three years of your business's tax returns**

#### **Your personal financial statement**

Unless you want your wife to co-guarantee your loan, which we do not recommend, then your personal financial statement cannot have any joint assets.

#### **Liquidity verification**

Whatever liquid assets or stock accounts or retirement accounts you show on your personal financial statement will need to be verified. Typically the most recent copy of a statement for the given account will be adequate.

#### **Financial statements for your business**

- A minimum of three years' profit and loss statements
- A minimum of three years of balance sheets

#### **Business projections**

Your banker wants to know that your next year or several years look good. You will need to provide some sort of projections, and most likely you already have this information.

## **Personal biography**

Sometimes a banker will ask for a narrative explaining your education and past work experience.

## **A narrative of your business**

A page or two explaining what your business does, who or what industry your business serves, and how your business turns a profit, may be required.

## **Contingent liabilities**

If you own other assets that have debt, the banker will ask for an asset by asset breakdown of each individual asset, its current value, and what the terms and conditions are of the debt that is collateralized by that particular asset.

Once all this information is provided, the banker is likely to ask for more information regarding any number of specific topics. Don't be surprised if this effort takes six to eight weeks. Banks are trying to be careful and want to make owner occupied loans, but they want to get to know you well to determine how much risk is involved in lending you money for your building or space. Your best bet is to start this process early.

## **Information Required for the Real Estate Transaction**

Whether you are buying a building or a commercial condominium space, you need to recognize that the bank wants you to have all your information ready and your financial needs thoroughly addressed. If your bank decides to lend you money and produces a loan commitment, and then your costs exceed the loan amount, the banker would rather you pay those costs out of pocket than go back to the loan committee and address why the costs are higher than planned for your commercial real estate loan. If your down payment is 10% to 20% of the purchase and improvements, then for every dollar you miss you will be paying 80 to 90 cents on the dollar for those expenses out of pocket. It pays to be thorough, and it pays to have the right team of professionals helping you. The items and their associated costs should be as follows:

## **Purchase price**

### **Hard costs above the purchase price**

Hard costs refer to anything that is a physical addition, improvement or repair to the property that you are buying.

- Breakdown of costs for repairs
- Complete expense budget for building expansion
- Any costs associated with interior improvements and any costs that represent capital improvements

### **Soft costs**

You should ask your attorney for a comprehensive budget for all legal expenses associated with buying your building or space. Let your attorney know that it is important for you to have a comprehensive budget and that you want to stick to the budget. Ask if he or she foresees any items that will create costs to you for additional services. Some of your legal expenses and other soft costs will be as follows:

Legal expenses for setting up a separate LLC or ownership entity

Legal expenses for any condominium documents

Legal expenses for title search and any further title investigation

Legal expenses for deed preparation

Property taxes for partial year

Revenue stamps

Deed preparation

Origination fees charged by the bank or SBA lender for consummating the loan

Environmental fees—your lender will likely ask for at least a Phase One audit of the property to ensure that there are no environmental problems. If any problems arise from the Phase One audit, your lender may require a Phase Two audit as well as ground water testing.

Inspection or material testing expenses

### **Soft costs associated with preparing to obtain any permits**

If you will be making substantial improvements to your building or space, you will have expenses associated with those improvements. You will likely need architects and engineers to adequately prepare for any permits required by the governing municipalities and agencies.

#### **Architectural Fees**

These would be for any drawings needed to make improvements to the interior or exterior of the property.

#### **Engineering fees including but not limited to**

Mechanical engineering for your HVAC system

Plumbing engineering for any additions to the water or plumbing service within the building or property

Electrical engineering for any additions or changes made to the electrical system within the building or property

Engineering, design, or testing of the building or spaces sprinkler system

### **Permitting expenses**

Depending on what improvements you are making to the subject property, you are likely going to need to get permits. These expenses vary in cost and scope depending on the extent of the improvements and the municipality that you are working within. You or your architects, engineers, or contractor needs to meet with the municipality and clearly identify what activities need permits and what the costs of those permits are.

## Conclusion

As you pay yourself rent and pay down your mortgage, your building could become a big part of your retirement. By using all of the best financing and tax techniques, your net worth can grow at a surprising rate.

Make sure to ask us about all financial and tax issues so that we can help you and your accountant maximize the earnings that your building can create.

We hope the information in this eBook is helpful to you. We use sections of this book as checklists while we help our customers buy buildings or spaces.

If you think we missed anything, please let us know. We like to share information and believe that when you share you get a lot in return.

If you have any questions or comments, please give us a call.

Guy Harvey  
919-623-4110  
[guy@palisadesone.com](mailto:guy@palisadesone.com)