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# There is No Time Like Now to Acquire Commercial Real Estate

A perfect storm has risen. If you have the desire to own your own office or to construct an office building, this is the time. As we are all aware, the value of real estate has declined over the last five years and interest rates are at historical low levels. What you might not be aware of is that in order to stimulate the economy, there are several Federal loan programs that are now available to help businesses grow and expand by making commercial loans easier to obtain.

There are two specific loan programs offered by the [United States Small Business Administration \(SBA\)](#) that may be of interest — to those contemplating acquisition of property, the SBA 504 loan program and the SBA 7A loan program. These two programs are summarized below.

The [SBA 504 loan program](#) is a long-term financing tool with fixed rate financing having terms of 10-20 years designed to encourage economic development within a community. The typical 504 loan project consists of a private sector senior lien loan covering 50% of the project cost, a junior lien loan secured by Certified Development Corp. and guaranteed by the SBA covering 40% of the project cost, and a contribution from the Borrower of at least 10 percent of the project cost. The maximum project size for an SBA 504 loan is Five Million Dollars. The 504 loan project proceeds may be used to: (i) purchase land or an existing building; (ii) construct a new facility or renovate an existing facility; (iii) purchase machinery and equipment; and/or (iv) pay certain soft costs associated with the project. The 504 loan program cannot be used for working capital; to purchase inventory or to refinance debt. The 504 loan program provides tremendous benefits to small businesses including a 20 year loan term, a fixed interest rate, 90% project financing, and a small cash injection from the borrower.

The SBA 7(A) program is a financing tool designed to establish a new business or assist in the acquisition or expansion of an existing business. The typical 7(A) loan provides financing for up to 90% of the project cost with a contribution from the Borrower of at least 10%. The maximum project size of an SBA 7(A) loan is Five Million Dollars. The proceeds of an SBA 7(A) loan may be used to (i) purchase land or existing building; (ii) purchase equipment; (iii) provide working capital; (iv) refinance certain existing business indebtedness; (v) purchase an existing business; and/or (vi) purchase inventory. The SBA 7(A) loan program cannot be used to repay delinquent state or federal withholding taxes, to refinance existing debt where the lender is in a position to sustain a loss, or to reimburse funds to the owner. The benefit of the 7(A) loan program is that real estate can be amortized over 25 years, equipment amortized over 10 years and working capital amortized over 5-7 years.

Both loan programs are subject to all SBA qualifications.

Besides the SBA programs, there is also a possibility of tying an SBA loan to programs offered by the local Industrial Development Agency (IDA) so that a payment in lieu of taxes (PILOT) agreement can be obtained. This is an abatement typically provided on the increased assessment that results from the project. Generally, the term of the abatement is ten (10) years with real property taxes phasing up to full

value at the end of the term. It also includes sales tax and mortgage tax exemptions.

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If you feel these financing programs might be of interest to you, please contact your attorney contact at our firm.