Should you buy? 8 things to know about building ownership and financing

Whether you're a physician-owner or an administrator, you may find it's time to buy a building for your practice. You may be tired of writing rent checks every month. Or, you may want to take advantage of the tax benefits and rising property values associated with ownership. But is ownership right for you? Here are 8 things you should know about buying your own office space and finding the right building loan financing for you.

1. Ownership gives you flexibility and control

Commercial real estate ownership gives you the flexibility to grow and expand, or shrink and downsize to meet the ever-changing needs of your business. For example, you might need to downsize your practice and rent out part of the space to another business owner. On the other hand, the business may be booming, and you're ready to expand into a larger unit. Owning your own building allows you to scale your practice up or down, in good times or bad.

As a building owner, you can tailor the construction and building design to fit your individual needs and budget. You can design an office layout that's most productive for your practice, rather than working within the constraints of a rented space. You have the freedom to design a building that reflects the desired appearance of your practice. You can make long-term investments in creating an environment and adding features to benefit your employees and patients.

2. Ownership provides an opportunity to create a stream of passive rental income

Passive rental income can be used to supplement retirement, pay down debts, increase cash flow, reinvest to grow the business, or prepare for additional real estate projects. Tenants are usually subject to periodic rent increases so your cash flow will grow over time. Ownership locks in many of the expenses and limits future cost increases.

3. When considering financing for a building, consider a local community bank and surround yourself with local professionals

Most commercial real estate projects require financing. There are many reasons why you should consider financing the property through a local lender. Community bankers are generally more knowledgeable about the local market and familiar with the individuals involved in the transaction process, such as the builder, engineer, contractor, and architect. Large national chains generally can't offer the same amount of expertise and help with your project. An experienced local banker will understand the different financing options for commercial real estate and guide you through each step of the transaction process.

Local experts will be aware of common mistakes and make the process more productive and efficient. Don’t let the project take over your time and distract from your responsibilities. Let the professionals manage the project. A quality lender will act as a quarterback and help facilitate the process.

4. Location, location, location

The type of structure and location of the structure are important factors to consider when purchasing commercial property. Before constructing or buying a building, here are a few key things to consider:

- Is the location close and convenient for your patient base?
- Does the facility have easy access? Is there adequate parking?
- How much space do you need now? In three years? In five years?
- What is the trajectory of the surrounding neighborhood? Will it accommodate your plans for the future?

5. Base decisions on value, not just price

You will make many financial decisions during the process of acquiring or building commercial real estate, including different buildings, financing options, builders, architects, and consultants. Making price the primary decision factor in those choices generally leads to problems down the road and likely ends up costing more in the long run.

When choosing the right lender for your owner-occupied financing, it’s easy to focus only on rate (aka price). But it’s important to base your decision on the overall value of the loan and lender offers, not just the rate. A less professional lender may attempt to focus on rate alone, but the process may lead to more costs, fees, and delays that create lost revenue or added expenses. A quality lender will work with you to understand your short-term and long-term plans and will structure financing that best suits your situation. Always consider the value (including non-monetary value like knowledge and experience) versus nominal cost when considering financing options.

6. Factor in the risks associated with building ownership and construction

Before signing a commercial loan, make sure to factor in the risks associated with building ownership. Common responsibilities include:

- Routine and emergency maintenance

- Unexpected expenses
- Cost overruns during construction
- Vacancy issues if tenants are sharing your space

7. Consider the common loan options

A Small Business Administration (SBA) loan is one of the best products on the market for owner-occupied commercial real estate. With an SBA loan, you are able to obtain more favorable financing terms. Key features of SBA loans are:

- Low down payment – as little as 10%
- Long-term loan – as long as 25 years, fully amortizing
- Flexibility to finance the entire project
- Favorable interest rate options
- Little or no loan covenants
- Must be at least 51% owner-occupied for existing properties and 60% for new construction

An experienced local SBA lender should be able to make the process as easy as most other commercial loans and will eliminate the need to work directly with the SBA or an entity that works in conjunction with the SBA.

There is also a Conventional Commercial Loan where the borrower works with a lender like Central Bank & Trust and says, “I want to buy a commercial building for my practice,” and we create the loan. Key features of a Conventional Commercial Loan include:

- Down payment – typically 20-25%
- Loan Term – 20-25-year amortization with a balloon payment every 5-10 years
- Low upfront fees – generally paid out of pocket in addition to the down payment
- Loan covenants are customary
- Flexibility with occupancy percentage (less than 51% is acceptable)

8. Get pre-qualified

When choosing a commercial loan, it’s important to get pre-qualified first. With a pre-qualification, the rest of the loan process runs more smoothly and you will be able to evaluate and act upon opportunities more quickly. Pre-qualification should only take two or three days after completion of the initial application.

Interested in getting pre-qualified for a commercial real estate loan? Contact Tony LeVeque at Central Bank & Trust to get started today.