

Things business owners should know before buying property

By Chris Hurn

It's not a question of if, but when most business owners should think about owning commercial property.

Owning your workplace is a path toward long-term wealth – one that doesn't rely on constantly bringing in new income.

Once they've established their business, usually after about three to six years of operation, they should look into property ownership – owning their store, office, or other workspace.

The smartest way to do that is through the SBA 504 – a little-known loan program administered by the Small Business Administration. It offers long-term financing at below-market fixed rates, which businesses generally can't get through banks.

Whether or not business owners qualify for the SBA 504, they will benefit by knowing the “five Cs” lenders look at when considering loans.

- **Collateral:** Lenders – usually banks – will want to know that the property in question is worth the loan. The property to be purchased is the lender's collateral, so it must have the potential to cover the loan if for some reason owners can't. Lenders will consider the age of a property and other factors, including whatever equipment may be involved.
- **Cash flow (or capacity):** The lender will look to see how much cash the business generates along with the amount of existing and proposed debt. In other words, they'll want to know the cash available to service the total debt. A lender

will also consider current rental payments, plus noncash expenses such as depreciation, amortization and interest costs.

- Credit analysis: This reveals the business owner's history of making good on debts and other obligations. The higher the credit scores, the better. Lenders generally shy away from credit scores lower than 650, however, they will often listen to credible explanations on lower scores.

- Character: Numerous late payments, for example, suggest that owners do not manage debts responsibly, which will likely be indicated in a credit score. Factors that determine character judgment are largely subjective. An applicant can supply evidence in his or her favor.

- Conditions: What are the conditions in the industry and the economy? The better those conditions, the more likely lenders are to give applicants a plus in this bracket. Conditions are often out of a borrower's control, which makes a positive showing of the other four factors that much more important.

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