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SBA FINANCING

By Rebecca Machinga, CPA, WithumSmith+Brown, PC

SBA financing opportunities for real estate

Some experts say the commercial real estate market is beginning to bounce back. Others say that it will get worse before it gets better. Those in the trenches, depending on their financial stability and how they managed operations when the market turned, are assessing how they will refinance commercial mortgages that are coming due or take advantage of the market to purchase additional real estate.



Rebecca Machinga

A new Small Business Administration program for purchasing property, the 504 commercial mortgage program, is available to help foster economic development within communities through Certified Development Companies (CDCs). CDCs are private, nonprofit corporations designed to contribute to community economic development. This long-term financing program provides small businesses with fixed-rate financing to acquire

property and equipment for expansion or modernization.

Proceeds from 504 loans must be used for property/equipment projects, including the purchase of land, existing buildings or improvements (including grading, street improvements, utilities, parking lots and landscaping), the construction of new facilities or modernizing/renovating/converting existing facilities, or the purchase of long-term machinery and equipment.

Proceeds from 504 loans cannot be used for working capital or inventory, consolidating or repaying debt or refinancing (there are other SBA loans designed for these purposes). To be eligible for this program, a business must be for-profit and be within the size standards set by the SBA. Loans cannot be made to businesses engaged in speculation or investment in rental real estate - this program is meant for operating businesses who wish to invest in owner-occupied real estate. A typical project will include a private sector loan with a senior lien for up to 50 percent of the project, a CDC loan (backed by a 100 percent

SBA-guaranteed loan) with a junior lien for up to 40 percent of the project and a 10 percent equity contribution from the borrower.

The maximum SBA loan is \$1.5M if a company meets the job creation criteria or a community development goal. Generally, the business must create or retain one job for every \$65K provided by the SBA, except for small manufacturers which have a \$100K job creation or retention goal, as noted below.

The maximum SBA loan is \$2M when meeting a public policy goal. These goals include business district revitalization, export expansion, expansion of minority business development, rural development, increasing productivity/competitiveness, restructuring due to federally mandated standards/policies, changes necessitated by federal budget cutbacks, expansion of small businesses owned/controlled by veterans (especially service-disabled veterans) and expansion of small businesses owned/controlled by women.

Rebecca Machinga, CPA is practice leader of Real Estate Services Group of WithumSmith+Brown, PC. ■