



Six things you need to know before buying commercial real estate

Low real estate prices and attractive interest rates are making the shift from renting to owning attractive to many small businesses. The April 2013 Moody's/RCA Commercial Property Price Indices found commercial real estate prices are down nearly 20% compared with their peak in December 2007.

Vacancy rates nationwide remain above historic averages in many categories, according to Realtor.org. Since 1999, the typical vacancy rate has been 14% for the office market, 10% for industrial, 8% for retail and 6% for multifamily.

Ownership provides a chance to build equity, and it can make your business expenses more predictable. To reduce the risks, conduct thorough due diligence and seek guidance from experienced advisors.

These six steps can help you understand the process:

1 Weigh pros and cons

List the benefits and drawbacks of purchasing to help decide whether it's the right choice. A purchase can offer tax advantages, such as deductions for real estate taxes, insurance, utilities and other expenses, and it may increase in value over the long term. Yet it can also reduce your liquidity, since the money you spend will not be available for other expenses. You will also be responsible for maintenance and repairs, which can cut into your cash flow and distract you from focusing on your core business.

2 Develop forecasts

Think through the long-term costs of owning versus renting. Evaluate the market to get an idea of how much you might spend. Work with your accountant to review your income and expenses and determine how much you can afford. Remember to factor costs associated with owning—such as taxes and debt service—and the savings, such as tax deductions. Keep in mind, too, that rents may rise—so while owning may be more expensive than renting short-term, it could prove more economical in the long run since your payments will remain steady.

3 Assemble a team of experts

Choose a broker, a lawyer and a certified public accountant with strong experience in commercial real estate to guide you through the purchasing process. These experts can help you evaluate properties, prepare financial statements and make sure contracts are solid before you sign them. Identify a lender to help you secure financing once you choose a property, ideally one with a proven track record in commercial real estate and who offers a number of financing options.

4 Shop for the right property

What you look for in commercial space will depend on your business. For example, a parking area may be important to retailers, while a distributor might need a large loading dock. Other considerations include:

- **Location.** Is the building close to customers, employees and vendors or suppliers? Depending on your business, proximity to rail lines or shipping lanes may also be important. The Small Business Administration (SBA) offers additional tips for choosing a location.
- **Allowable uses.** You'll need to comply with zoning laws and other rules. For example, some cities require businesses to close by a certain time or to limit their signage.
- **Expansion potential.** Will the property accommodate your business as it grows? Conversely, will you be able to lease out space if the company doesn't grow as anticipated?

5 Perform due diligence

Make sure there are no issues with the property that could compromise your business later on. Ask your broker to recommend engineers or other experts to inspect the property and alert you to potential pitfalls such as environmental contamination, structural defects or outdated wiring. You should also work with a title company to make sure no insurance claims or litigation affect the property.

6 Secure financing

The final step for most buyers is applying for a loan. Ideally, you will have already established a relationship with a bank that can help you apply for a commercial loan or explore other options, such as financing backed by the SBA. Your banker can help you identify the best course for your company. The SBA site includes an explanation of its loan programs for commercial property purchases.

Securing a loan requires a significant amount of paperwork. You may need to produce business and personal tax returns for the past three years, balance sheets or fiscal year-end statements, and cash flow statements and projections, among other documents. Gather these early on to help save time when applying for a loan.

Union Bank® offers commercial real estate loans to accommodate project sizes up to \$14 million for businesses purchasing a larger facility or buying or refinancing their current building.* It also offers financing through the SBA's loan program. To learn more, contact your business banker.

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