

What You Need to Know Before Buying a Commercial Building or Office Condo

Owning your own building for your business can be a rewarding experience and can be a great investment vehicle. However, buying a building can also be fraught with unforeseen pitfalls that can cause you headache and can cost you dearly. This guide should help you avoid some of those pitfalls and will give you direction on the next step to take when considering buying your own commercial building or office condo.

Do You Really Want to Buy?

To many, the prospect of buying a building seems like the best way to cover the occupancy needs of their business. Most compare building ownership to home ownership where the ownership advantages are obvious. However, building ownership has some distinct differences that make ownership good for some companies and not good for others. Here are some things to think about when considering buying:

1. ***How Stable is Your Business?*** – Not just financially, but also from an occupancy perspective. Yes it is true that you need a good financial situation business-wise and/or personally, to qualify for a loan to buy a building. However, you'll also need to consider how the new building will work for your business over the long run. Many businesses have bought buildings, spending a ton of money and time in outfitting the building to suit their business needs, only to find that they quickly outgrow the building and have to end up looking for an alternate solution. For most, business growth is the key to their success, and an obsolete building can be a real headache when it won't sell quickly, the market falls or backfilling the building becomes a management nightmare. Just make sure your business can occupy the building for at least five years. If you're expect tremendous business growth in the near future that will necessitate a larger facility, you're better off leasing until your business stabilizes.
2. ***Are You Ready to Put Your Personal Assets on the Line?*** – Many business owners think that they can just buy a building to house their company simply based upon the strength of their businesses. While this is true for very large businesses, for most small to medium-sized businesses, any bank will expect the business owner(s) to guarantee the loan with their personal net worth. Like all real estate, commercial property goes through cycles and typically when there are a lot of new small buildings and/or office condos going up or being refurbished, the market is hot. You need to anticipate a downturn in the market. You can't just bet on inflation forever, unless you have a tremendous amount of staying power to ride out a down market. In your modeling of buying vs. leasing, don't assume big appreciation. If it happens, it is gravy, but run your models with minimal expectations of inflation.
3. ***What is the Cost Difference Between Leasing and Buying?*** – You may be surprised to know that most people who buy their own building for their business never do a comprehensive cost comparison of buying vs. leasing. They just decide, "I want my own building" and move forward. Before too long they're emotionally tied to the concept of buying and may even get stuck buying a building due to business and time constraints. You'll not only need to consider the price of the building, but also the cost of any improvements, the closing costs and loan points, all ancillary and continuing costs like taxes, insurance, utilities, association dues, maintenance, janitorial, common area expenses, etc. Also, don't forget to include the opportunity loss of your down payment if it were otherwise invested. Put it all in a model and compare it against a comparable building that is available for lease. More often than not, the all-in cost of owning is quite a bit higher on a monthly basis than leasing a comparable building. Yes, you can offset the costs with tax savings, structure depreciation and possible asset appreciation, but typically unless you plan to hold for a long time (5-10 years +) or unless appreciation is rampant, the cost of ownership will likely be higher in the short run.

Buying Your Own Building – Some Little-Known Basics

So, now, with a full understanding of the points above, if you still want to buy a building, here are some basic ins and outs of buying a building or office condo:

1. ***Financing*** – Most small businesses today buy their buildings through SBA funding. You still go through a bank or lending source, but the loan is ultimately split and the SBA finances a portion of the loan (usually a little less than half). The advantages of an SBA loan are 1.) a long term – up to 20 years, 2.) an inexpensive rate – usually about ½ point lower than the bank's rate, and 3.) a low down payment – usually about 10%. The primary disadvantage of an SBA loan is that the points to fund the loan are high – usually between 2.5-3 points on the SBA portion of the loan (note: often the points can be rolled back into the loan). Lastly, in addition of financial qualifications, to qualify for an SBA loan, a business typically needs to occupy at least 50% of the building/condo being purchased. Conventional financing is an alternative, but the rates will be higher, the term will be shorter and the required down payment will be higher. Just like buying a home, it is a good idea to get prequalified before you begin your search for a new building.
2. ***Improvements*** – Most buildings require some improvement to be properly outfitted for a new business. Some buildings just need some re-furbishment internally, some need to be built out from shell condition and some require major retrofit and renovation. Regardless of the situation, most small business owners grossly underestimate the cost of the required improvements for their new

office building. Please understand that a full office buildout on a small shell building with high level of finish can easily exceed \$100/sq. ft. On the other hand, carpet and paint is usually only around \$5/sq. ft., so the question of the cost of improvements has a wide range. Bottom line, get several contractors to bid on your plans before you close on the building. Don't take anyone's word for it, nobody can eyeball-estimate a substantial construction job, even if they tell you they can.

3. ***Offer, Due Dilligence and Escrow*** – Most small business owners can negotiate the purchase price fairly effectively. However, when it comes to negotiating the contract they do a lousy job (unlike residential real estate, many commercial contracts are not standard). Make sure you read the contract and have a professional take a look at it with you, otherwise you may find yourself in a horrible pickle. Due dilligence begins following execution of a proper purchase and sale agreement and continues until the opening of escrow. This period is critical for you to complete all of your investigations on the building and to ensure that financing of the deal on the table can be arranged, so don't make this period too tight and make sure that you complete your investigaions before your deposit becomes non-refundalbe and escrow opens. In terms of escrow, once escrow opens, most small business owners just sit back and expect escrow, title, appraisal and the bank to coordinate efforts to get the deal closed. Someone in your camp needs to babysit the escrow period to ensure that everything goes smoothly and that any hiccups are dealt with quickly.

Now that we've givin you some of the basics, we're going to share the **real key to buing a building or office condo**. The simple solution is this; do what all of the experienced, larger companies do; hire a Commercial Real Estate Expert to help you. It won't cost you a dime, in fact you'll get a better deal, the majority of the work will be done for you and you'll be better protected from the pitfalls of buying a building.

Most business owners/operators are “do-it-yourselfers” by nature, so its no wonder that many try to buy buildings on their own. Most figure it is not that difficult and if they deal directly with the owner they can save money by cutting out the commission; **Wrong!**

This layman commission logic may appear sound, but in reality it is dead wrong! In pretty much all cases the commission won't be saved by going direct and trying to do so will cost you both time and money; in fact it could cost you thousands. The bottom line is that in the world of commercial real estate, there are virtually no for-sale-by-owner opportunities. All properties are listed by brokers. Therefore, if you go directly, the listing agent just gets paid double to negotiate against you. Don't be fooled by “dual representation”, if you don't have a broker representing your needs exclusively, you don't have representation and nobody is on your side.

What a Qualified Commercial Real Estate Expert Can Provide

There is only upside to having a qualified Commercial Real Estate Expert protect your interests in buying your new building. However, don't make the mistake that many business owners make. Don't work with a bunch of brokers to find your building, just work with one! Working with several brokers means sporadic assistance, and a piecemeal, hodgepodge of opportunities thrown at you. Ultimately, you'll never get the committed service, focus and attention that any building purchase requires. On the contrary, by selecting one qualified, full-service, broker, you will get focused attention, will see every opportunity and will get the type of service you deserve.

Here's the value a qualified Commercial Real Estate Expert can bring to the table:

1. ***Full Coverage of Opportunities*** - A Commercial Real Estate Expert has access to loads of information that you don't have, and one of their primary jobs is to source every property that could potentially fullfill your needs. Trying to do this yourself would result in a bunch of missed opportunities and tons of wasted time.
2. ***Needs Analysis*** - A Commercial Real Estate Expert can help you to understand your needs more completely. As mentioned before, an understanding of whether buying is right for you is key and a comprehensive cost comparison of leasing vs. buying is a must. A good Commercial Real Estate Expert can help you in each of these areas.
3. ***Surveying Properties and Tour Scheduling*** - This is where a Commercial Real Estate Expert can save you a tremendous amount of time. Locating all of the alternatives, helping to narrow them down to the real candidates and then setting an efficient tour for all of the properties is easy for a qualified Commercial Real Estate Expert, but would take you way too long on your own.
4. ***Protecting You From Buying Errors*** - Most do-it-yourselfers focus strictly on the price. However there are many hidden costs and issues in any transaction that can far outweigh the the purchase price. A Commercial Real Estate Expert can point out the hidden costs to you and can reduce or eliminate any nasty suprisers that often arise during the buying process.
5. ***Transaction Management*** - A good Commercial Real Estate Expert will efficiently orchestrate your transaction so that you don't have to worry about missing the myriad little issues that can and often will arise. They'll lead you step by step through the process and will coordinate with the various parties involved to ensure a smoothe transaction.

6. ***Saving You Time & Pain in the End*** – Whether it be space planning, construction budgeting and management, phone and data installations, furniture acquisition and installation, or even moving, a good Commercial Real Estate Expert can connect you to the best vendors in each category. Seamless coordination of these elements leads to a smoother, more hassle-free new office experience.
7. ***Your Expert For Life*** – The best Commercial Real Estate Experts are in the business for the long-haul. They want to see your business succeed and grow so they can work with you again and again. Your Commercial Real Estate Expert can even become part of your business mastermind group that gives you insight and feedback in their area of specialty to help you achieve your business goals.

A properly qualified Commercial Real Estate Expert can do all of the above for you to save you both time and money, but even greater than that, they can give you the peace of mind that you will have gotten a great deal and that you've been protected from the pitfalls of buying a building, to which so many companies fall victim.

How to Select the Best Commercial Real Estate Expert

Contrary to popular belief, just selecting anyone from a top commercial real estate firm is probably the worst thing to do. Here are some guidelines for selecting the right Commercial Real Estate Expert for you:

1. ***Young and Enthusiastic*** - The best Commercial Real Estate Experts are young men and women who have the energy and ability to work hard for you. “Overly-seasoned” brokers will often pawn you off on their apprentices or will not give you the same attention that they give their larger clients. Choose someone who is building a career with stable and growing business clients. They'll give you focus and attention and will be with you for the long haul.
2. ***Not part of a Large Team*** - Don't select a broker that is part of a large team. The reason; the commissions are spread too thin, so no one on the team can give you the focused attention you need and deserve. Also, don't select someone from a larger commercial brokerage firm, they're often forced to work on a team and their splits are the worst in the industry. Brokers on large teams and brokers in large firms have to do a huge volume of business, so they can't give any one client much attention. Your best bet is to go with a smaller, independent company with one primary point of contact.
3. ***Specialist in Your Area/Type*** - Select someone who not only specializes in the geographic area your interested in, but also the product type your considering. For example, don't select a broker who specializes in retail space if you're looking for traditional office space and visa-versa. Also, most brokers can cover a wide geographic area, but it is best to select a Commercial Real Estate Expert that is working in your specific geographic area.
4. ***No Conflict of Interest*** - Don't select a broker that has tons of buildings for sale in the area you're considering. If you do, they'll favor the landlord in any project they list and will often steer you to their listings. The best Commercial Real Estate Expert may not have any listings at all and will probably focus most if not all of their efforts on representing companies just like yours. Buyer representation brokers have a solid bias in your favor.
5. ***Experience is a Must*** – Don't select a brand new broker (apprentice/runner), especially from a larger firm. It takes a while to learn the business and to develop a good working knowledge of the market. The best commercial Real Estate Expert for you will likely have at least 5-10 years of experience in the commercial brokerage field and will be mature and confident enough to handle your transaction with the professionalism you deserve.

The Best, Most Qualified Commercial Real Estate Expert for Your Unique Property Needs?

Toliver Morris of WM Commercial. I have over 17 years of experience and focus on representing buyers in the Greater Long Beach area. I am your motivated, single point of contact and can devote ample time to your unique property situation. Furthermore, I'll have an allegiance and fiduciary responsibility only to you with regard to your property needs.

**Please contact me today so that I may begin to expertly guide you through the process of buying your commercial building.
I can be reached on my direct line at 562-508-7993 or via email at Toliver@WMCommercial.net.**

I look forward to working with you.

Sincerely,

Toliver Morris | WM Commercial
“Your Long Beach Office Expert”