

Acquiring Commercial Property

By BNET Editorial

published on BNET.com 5/02/2007

Buying a commercial property typically involves greater risks and a heavier financial commitment than renting, but it may be the only way to acquire the right location for your business. It will become an asset to your business, too, and one that should increase its equity. Before making the choice, it's a good idea to list all of the factors you should consider and rank them in order of importance. The key factors will be price, location, whether or not the property meets the specific needs of the business, and available financing. No two sets of business needs are identical, and few buildings or sites are perfect, so expect to make a compromise or two. Once you've found the best property for your company, you'll need to verify your selection, then make an offer, arrange financing, and endure the legal procedures that accompany any real estate purchase.

What You Need to Know

Where can I find available property?

There are almost too many places to look for the realty information you will need. To begin with, many local government authorities and chambers of commerce keep a register of industrial properties. Newspapers ads are another good source, as are trade magazines and site specialists who may know of tracts that are not yet on the market. Also keep an eye out for notices on billboards or on small signboards posted on interesting-looking premises. Commercial sites are also being listed on the web sites of some development agencies around the country. And it goes without saying that real estate agents are only too happy to help. Just spread the word among your personal contacts and wait for the replies; they'll come! If you're interested, there's no shortage of individuals eager to help you hunt.

How do I determine my property requirements?

When choosing a building, you need to focus on the attributes that are essential for your business to operate effectively. That's why compiling a list of critical factors is so important. You may also need to decide whether it's preferable to convert an existing building, build a new structure on land that is properly zoned (or land that can be rezoned without difficulty), or buy space in an emerging alternative: so-called "business condos." Whatever your choice, you will also will need to consider the dollars you have available, including potential renovation/conversion costs.

What to Do

Evaluate Potential Buildings

Depending on the kind of property you're searching for, it's likely you will end up with a large number of buildings to choose from. The way to determine which choice is best is to list all the features you require; then rank each property you see against each feature. A major factor will be the respective price of the buildings. Costs can vary significantly, so evaluate buildings on a cost per square foot basis. You want to compare these figures with those of other buildings in a given area to evaluate the deal you're considering. Also check to see if a location qualifies for any financial incentives; for example, buildings in a low-income area may qualify for special funding assistance. Such incentives can make a big difference.

Location is key, of course. Think about the impact a location may have on your customers as well as whether the facilities really fit your business. For example, does your business need to be in a high-traffic area? How important is parking space? Would it be preferable to be near a key customer or supplier? How many visitors does your company have in a given month or year? Is the location convenient for them?

The location needs to be right for your workers, too: Will it help you attract and recruit workers—especially in locales where good workers are hard to find? Will the prospective site help you retain existing workers? How convenient is reliable public transportation? Employees should feel secure in an area and need convenient access to retail shops, banks and restaurants.

Look at surrounding businesses to help you whittle down the list of potential properties: Are they growing or declining? Are any of them likely to be nuisance neighbors that, for example, generate high levels of noise or dust from their processing? Also think about where your competitors are located. Might your business be better located near competitors so that customers can see at a glance how you differ? Auto dealers now tend to congregate in specific areas; collectively, they attract more potential buyers.

Building or property size is another obvious factor. There should be a balance between sufficient and affordable space needed now and space for future expansion. If an otherwise suitable property is too large, will it be feasible to lease the extra space? The Net Assignable Square Footage (NASF) can be a helpful measure. It includes the area of a floor or office suite that is suitable for occupancy. NASF totals do not include such areas as custodial areas, public restrooms, stairways, mechanical rooms, etc. An architect or interior designer can help determine the appropriate amount of Assignable Square Footage for your workspace.

Think about the physical nature of a structure, too. The layout of the site should meet all of your business's operational requirements as well as the government's: Will your building need to be renovated to meet any requirements for the Americans with Disabilities Act?

Other issues to consider are building density, the number of stories and accessibility (including stairs and elevators), existing condition, availability of nearby services, security, storage, and lighting (natural and artificial).

Seek Advice Sooner Rather Than Later

Before you make a final selection, it's wise to consult with appropriate local government officials (such as building, zoning and taxing authorities) to ensure the building or property you have in mind can be used for your intended purposes. Local statutes, regulations, and by-laws, as well as historic preservation orders, can hinder development or restrict the property's use. This often means jumping through some unavoidable hoops, but it's worth it. Ignore these steps and you risk paying nonrefundable fees only to subsequently find your purchase has to be aborted.

Make a Conditional Offer

Once you've identified a suitable property and verified its worthiness, it's time to make an offer. Your offer should be conditional upon government approvals and permits, a building survey, and the fire marshal's inspection. It should also be conditional upon arranging financing, appraisal value, and whether or not the building is vacant before possession. Other conditions may also apply; for example, some new developments have maintenance charges with unregulated annual cost increases. Check them out, and proceed according to your best interests.

Upon the purchase price being accepted or negotiated, a building inspector should be employed to undertake a full detailed structural survey. It's advisable to shop around for quotes from building inspectors and to know what details the inspector will evaluate. The survey will usually include a property valuation assessment for mortgage purposes.

Obtain Government Approval

This is the most important approval required, and the one that a business is most likely to need assistance with. It's almost always required for any building development and/or change of use. You may need the formal approval of the local planning and zoning commission—and perhaps a county commission—based on the details of the purpose. If you've not done so already, you will need to research the planning commission's zoning area proposals to ensure that the building will not be affected. Finally, make sure you identify the exact use of the building.

Meet Building Regulations

Building codes, standards and regulations should be verified with the local, county, or state board that administers applicable codes. Building regulations typically apply to the construction, renovation, or expansion of a building, the material alteration of a building, and the material change in use of a building. There may be other regulations to meet, too, before an authority can legally issue a certificate of occupancy.

Consider Environmental Health and Safety

In addition to local planners, check with the Environmental Protection Agency to ensure your business won't inadvertently violate applicable local, state, or federal rules that exist to ensure businesses meet standards for dust, noise, odors, etc. Consult local and state fire marshals regarding building and fire safety codes. Fire marshals grant fire certificates and are responsible for confirming that fire precautions are up to standard. Check with the Occupational Safety and Health Administration (OSHA) for employee safety requirements. OSHA makes sure employees have a safe environment in which to work.

Employ a professional agent

Before you buy, consult a lawyer or licensed real estate agent experienced in commercial property transactions in your locale. They can advise on contracts, planning regulations, financial research, history of building searches, and completion. They should also ensure that local and state regulations are met and that there are no outstanding notices or liens on the property.

A lawyer or real estate agent will determine all closing costs and taxes due on your property. They tend to know government officials, procedures, political issues, and how best to proceed.

Obtain financing

Once you have a tentative sales agreement, the purchase will need financing. While situations and conditions can vary, commercial property is usually financed over 20 or 25 years by loans that amount to 60% to 70% of the property's valuation. The lending institution will charge customary fees and expect a security deposit.

There are several sources of funding. Check with the Small Business Administration to see if you qualify for its loan program. If you want to use a local bank, call around for the best rates of interest. A number of them will lend on an equity basis, meaning they take stock in your company in return for

the capital loaned. Additional assistance and funding may be available from economic development authorities. Real estate agents may also be able to identify sources.

What to Avoid

You Fail to Consider All the Financial Implications

Purchasing a building, or buying land and constructing a building, is a major decision, if only because it ties up resources in property rather than in the business itself. It's essential to ensure that this will not damage the business. Successful small businesses grow, so you should consider carefully before buying a property or building outright. Remember that, while housing prices can rise sharply, commercial property values tend to rise at a lower rate, so there is often no real financial advantage in buying instead of renting or leasing. You should make sure that any advantages that do accrue are worth the cost. Owning a property also commits a business to additional expenditures, such as maintaining structures in compliance with building and safety codes. It's equally important to understand mortgage rates as well as local property taxes, which can jump dramatically every year. These factors can make a huge difference in the overall cost of building ownership.

You Don't Seek Advice

It's critical to seek advice from commercial real estate agents, local businesses, small business advisers, local authority development officers, and enterprise agencies when making decisions about properties. It's also a good idea to talk to firms in the surrounding area about a given property. You should ask why a property is for sale or why the previous occupant left. Finally, consult a trusted attorney once you find a property and avoid signing anything immediately.

Where to Learn More

Web Sites:

Environmental Protection Agency: www.epa.gov

Occupational Safety and Health Administration (OSHA): www.osha.gov

Small Business Administration, Financial Assistance:
www.sba.gov/services/financialassistance/index.html

Copyright © 2007 CNET Networks, Inc. All Rights Reserved.