



Financing for capital projects is still available at affordable rates

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Tough economic times mean a tightening of bank credit standards, lowering of loan to value ratios, and exclusion of some industries from conventional lending. Increasing difficulty in obtaining financing should not discourage thoughts of commercial facility purchase. Now is a good time for small businesses and not-for-profits to buy their own facilities. Real estate prices are level. Interest rates are still historically low. Facility ownership stabilizes operating costs and makes for a predictable cash flow. It builds equity since real estate always appreciates over time. And a business home of your own enhances the operation's image as a stable, successful entity.

Despite the tightening in the conventional lending arena, there are still numerous programs available to help small businesses and not-for-profit entities purchase their own place. For the most part these programs are government related, long term, and offered at affordable rates. Some of them supplement bank loans, often being the tool that convinces the bank to get involved in the transaction. Some of these programs operate on their own or together with each other.

* Industrial Development Agency (IDA). IDAs are public benefit corporations and can be a vehicle to low cost financing. They can issue taxable and tax-exempt bonds for financing a project. The bonds are either purchased (typically by your bank of account) or syndicated (sold into the market). Use of the IDA passes along savings on real estate taxes, mortgage tax and sales tax. These savings can be achieved without a bond issuance through the straight leaseback transaction. Generally, stronger credits are IDA candidates. And, larger projects are more economical (because of IDA issuance costs). In metro NY there is the NYC IDA. On Long Island there are two county IDAs and five town IDAs. Available for business and not-for-profits.

* US Small Business Administration (SBA) 504 Loan Program. SBA 504 provides up to 40% financing for small businesses acquiring, constructing or renovating a capital asset (land, building, leasehold improvement, condo, coop, major equipment, commercial vessel). A bank or other lender lends 50% (of total project cost including soft costs) in first mortgage position. SBA 504 provides 40% in second mortgage position. The buyer puts in 10%. Loans are up to 20 years and are fixed at loan issuance at below market rates. SBA 504 is available through SBA licensed Certified Development Companies. Maximum SBA 504 loan-\$4 million for manufacturer, \$2 million for woman, minority, veteran, exporter owned, company in NYS empire zone; \$1.5 million all others. For any type of small business (manufacturing, wholesale, service, retail).

* US Small Business Administration (SBA) 7A Loans. SBA 7A loans are offered by banks and other licensed SBA 7A lenders for up to 90% of the appraised value of the capital asset. SBA guarantees part of the loan to the lender. Up to 25 years. Generally floating rate (market rate). Maximum \$2 million.

* New York Job Development Authority (JDA). JDA is a state agency that issues bonds for up to

40% of a project's cost. Provides second mortgage behind a bank's 50% with buyer putting in 10%. Up to 20 years. Fixed or variable rate. Funded by tax exempt or taxable bonds. Generally \$3 million maximum. Not available to service, retail businesses. Can provide up to 60%.

* New Market Loan Fund. The New Market Fund is provided through intermediaries from the Community Reinvestment Fund. It provides up to 40% of project cost in subordinate lien position behind a bank or other lender. In some cases it can provide 100%. It can also provide the first mortgage piece in a project. New Market is available to any type of small business or not-for-profit entity (501C3) and can refinance as well as fund acquisition. Maximum loan is \$2.5 million. Loan terms go to 25 years and the rates are fixed at below market. Can subordinate to tax exempt financing.

* New York State Linked Deposit. This is an interest rate subsidy program offered by NYS together with most of the commercial banks. It provides a reduction in the interest rate of the 50% first mortgage loan from a participating bank for a period of time.

The advantage of these programs is that their subordinate nature often convinces conventional lenders to make a loan.

Most of these programs can combine with each other as well as conventional financing. Examples: Manufacturer buys building and renovates. Total project cost including soft costs \$4 million. Financing: bank \$2 million first mortgage with NYS Linked Deposit Interest rate subsidy; SBA 504 \$1.6 million second mortgage; buyer \$400,000; IDA straight leaseback provides real estate, mortgage tax and sales tax savings. On a larger project, JDA could combine with SBA 504 to provide the second mortgage. And, if it's a strong credit, the IDA might issue a bond to be purchased by the bank for the 50% portion to provide lower rates.

501C3 service agency builds its own building. Total project cost \$2 million. Financing: nonbank lender \$1 million; New market Loan \$800,000. Equity \$200,000.

Commercial printer owns building with equity. Wants to add a second story and put money into operations as well as refinance existing mortgages. Potential financing: bank with linked deposit subsidy and NYJDA to add second story. New market fund to refinance debt and use equity to provide working capital.

In addition to these major financing programs, there are numerous niche programs such as HUD funds available for façade improvements in certain areas, other state programs for special projects, and other federal programs. The bottom line is that there is money out there to realize your dream of facility ownership for your company or nonprofit organization and take advantage of today's low prices and interest rates. For information about these and other programs to help your small business or not-for-profit, visit www.gnydc.org.

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