



Commercial deals: Financing as a tool to get deals done

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Buyers are scared, despite low real estate prices and interest rates. One way brokers can get the transactions moving is to provide incentives in the form of low cost financing for the deal. Second mortgage loan programs make the difference in this tight credit market. When a bank can have another lender in a second position, it reduces the bank's risk and makes the deal more affordable for the buyer. In NYS, there are three major second mortgage programs which have money to lend on favorable terms: SBA 504, New Market and JDA.

SBA 504 provides a second mortgage for small businesses buying, renovating or constructing their own facilities, up to 40% of project cost. Project cost includes acquisition, renovation, construction, machinery, and soft costs including broker's commission. It can be used on projects involving land, building, condo, co-op, and leasehold improvements. SBA 504 caps out at \$1.5 to \$4 million. Manufacturers, projects resulting in 10% reduction in energy use or using renewable energy sources are eligible for \$4 million. Women, minority, veteran owned businesses, exporters and those in NYS Empire Zones are eligible for \$2 million. All other businesses can get \$1.5 million. Typically, the bank lends 50% of project cost (first mortgage). SBA 504 lends 40% (second mortgage). The buyer puts in 10%. 504 loans are fixed rate (self amortizing) for 20 years (current- under 6%).

The New Market Fund provides 40-100% of project cost for acquisition or refinancing of real estate related projects (building, condo, co-op) capped at \$2.5 to \$3 million. It works similarly to SBA 504 except it's more flexible for businesses and can finance non-profits. Usually, another lender lends 50% of the project in a first mortgage, New Market lends 40% in a second mortgage with the buyer injecting 10%. For appropriate projects, New Market can lend up to 100%. Also, in an SBA 504 eligible situation, New Market can lend the 50% first mortgage piece.

Another great lending program is the NY JDA, a state agency which provides subordinate loans for capital projects. Unlike SBA 504 which lends to any type of small business, JDA only lends to manufacturers and wholesalers, 40% of the project in a second mortgage, capped at \$3 million.

All of these programs can be combined in a second mortgage position for large projects and they work with IDAs and other government related programs to provide attractive financing for buyers. These programs often convince a bank to make the first mortgage loan and they enable buyers to put down just 10%, preserving cash for working capital.

Commercial brokers, keep SBA 504, New Market and JDA in mind when talking to buyers. These are fantastic tools to help customers afford their own facilities- ways to make it easier for them to recognize and act on commercial real estate opportunities.

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