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Charlotte Commercial Properties

Charlotte, NC

What You Need To Know When Purchasing

SMALL BUSINESS SERIES

About The Author

Greg Hardee has over 25 years experience in Small Business, working as a partner, a project manager, a concept consultant, a business broker and finally as a commercial real estate broker.

Having achieved a high reputation in the hospitality industry, Mr. Hardee's passion is for entrepreneurs to reach their goals through the success of their small businesses.

For many, the beginning of the journey towards achieving their business goals is to find and afford that perfect location and/or investment. Helping navigate both your purchase and the market is what we in commercial real estate do and this short E-Book, titled **What You Need To Know When Purchasing** addresses the common scenarios and needs one should consider when looking for properties.

Read on and feel free to contact us at the info below.

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T H I N G S Y O U R E A L L Y S H O U L D K N O W !

AGENCY – WHO IS REPRESENTING WHO?

Who Represents the Seller? – Often, the Seller has an agent in place to help navigate the sale of their property. This agent is there to PROTECT the seller's interest! That relationship is in writing and that agent has already negotiated with the seller the amount of commissions that will be paid to all agents involved in the deal.

Just as often, the seller represents themselves, and should we pursue such a property, the commissions become part of the negotiation.

And so …

The BUYER Should Have Their Guy! - This agent works for the buyer and knows how to determine and present a fair offer. This agency relationship can be a casual or verbal one until it is time to submit a written offer-to-purchase contract to the seller's side or to broadcast to other brokers what type of property you are searching for.

Also the aforementioned "negotiated commissions" are paid at closing by the seller.

Sometimes An Agent Represents BOTH! - It just happens and we call that Dual Agency! Naturally commercial firms deal with both sellers and buyers ... so if an agent shows a property belonging to their firm it creates Dual Agency and you'd have to agree whether to allow for that right up front. And of course the dual agent has to create a WIN-WIN deal where EVERYONE IS SATISFIED!

Know that in the Charlotte market there are nearly 3,700 properties for sale, so dual agency isn't too common.

The North Carolina Real Estate Commission has a much more detailed brochure about agency entitled "Working With A Real Estate Agent" that we'll send to you. Just shoot me a note at gbhardee@charlottecommercial.com.

SOME BASICS

Purchasing vs. Leasing – When leasing property a landlord has a built-in profit of somewhere between 5.0 and 10.0%. Returns on investment (ROI) are always calculated by determining the most realistic lease-rate for a given property and before we present an offer-to-purchase we always run the numbers to show you what return you would pocket instead. It's a great exercise.

Advantages of a Contract – Most of the contracts that we present are from the North Carolina Real Estate Commission, however many buyers use their own attorney. In any case EVERY contract should have the due diligence, or soft money period, whereby the buyer can walk away from the contract RISK FREE for any reason or no reason. Any questions that we have about the property can be satisfied during this period because if we can't agree first on price then the rest is pointless. So our goal is to help you tie up the opportunity by getting it "under" contract and then using the soft money period to dig deeper.

And remember that no matter what anyone says, it's what is in the contract that always prevails.

What about the Up-fit? – Altering the property to fit your needs is a budget item that we measure by its cost-per-square-foot. Purchasing a building and making cosmetic improvements allows you unencumbered access to your new property. However, changing its use and/or overhauling its mechanical systems means drawings, permits and meeting current code.

Occupying or Investing? – The question has bearing on the type of financing available, however it is worth noting that owning properties where someone else has a successful business, means you reap that ROI (return on investment) that we've mentioned.

Or, setting up your own successful business and having your operation lease the property from you the property owner, allows you, the business, to write-off the costs of renting, while you the landlord reaps the returns.

3.

THINGS YOU'D WANT TO KNOW

Concerning financing, so much of a buyer's standing has to do with the strength of several key factors; 1. Your business experience, 2. Your financial history and 3. Your available capital.

1. **Your Business Experience -** Start-ups, or starting from scratch is not easy but of course everyone does it! The question is, how much experience do you have in an industry that relates to your product or service? The more experience, the better. But let's say it's an idea that popped into your head and you have NO BACKGROUND! ... then we'd better have a rigorous business plan in place.

   A business plan answers the big WHY; why this business, why now, why me, why here, who's the customer (hopefully everyone), who's the competition and what are the 1, 3 and 5 year projections for sales, expenses, profit and growth. The plan holds the tension between an entrepreneur's optimism and a banker's realism. A good resource for guidance through the business planning process is found here at the Small Business Administration's website (the SBA), www.sba.gov/tools/business-plan/1.

2. **Your Financial History –** As with any mortgage; asset statements, net worth, and credit scores and history, all play into qualifying for the loan. However, if you have a corporation or LLC, putting forth the financials of the principals of the business, or outside investors, i.e., guarantors, spreads the burden and can sometimes create a more forgiving picture.

3. **Your Available Capital –** For those occupying … evidence of the capital needed for fixtures and equipment, up-fits, inventory, carrying costs and more, helps a bank determine that you can indeed afford all aspects of owning and operating your business.

SOME BASICS

Types of Financing – There are two basic types of financing, conventional and the SBA (Small Business Administration).

Conventional Financing – The loan-to-value ratio for conventional notes is usually between 25 – 30%, which is the amount of equity that you, the buyer, would bring to the closing. Conventional financing is also available for real property only and though it is amortized for a longer period, most loans have a 5, 7, or 10 year call, or payoff. For investors in income producing properties, this is the primary source of financing.

SBA loans – With SBA loans the burden for carrying the mortgage is shared by the federal government and participating banks. The loan-to-value ratio is 10.0% of not only the real property, but also of fixtures and equipment, up-fit improvements, inventory and more, and the call and the amortization are the same, roughly 20 – 25 years. There are three general requirements;

1. You need two years' experience in the business that you plan to operate.

2. You must be an owner/operator occupying at least 51.0% of the property.

3. You need to have an equivalent of 10.0% equity in cash available to cover the entire note.

Under these guidelines there is one scenario where you can qualify for SBA and reap the rewards of being an investor at the same time. For example, if you were able to purchase a 5,000sf building with two units, occupy and run your business out of one unit and then lease out the other, as long as that ratio is at least 51/49 % owner occupied, you can reap the landlord's returns AND qualify for SBA financing.

Costs per Square Foot – Building from the ground up, we can get you a Class A vanilla-shell for roughly $110/sf and upfit it for medical use for another $50/sf. Or, take a new cold-dark-shell of a retail space and make it into a vanilla-shell for $40 and/or rehab an existing restaurant space with new equipment and fixtures for $70/sf. So in estimating costs, we have to determine what is the base price per square foot and what are we planning to do with it?

Purchasing “As-Is” – Though we need to discover as many material facts as possible, commercial purchasing is a largely unregulated business and there is rarely a punch list that a buyer can use to negotiate with a seller. Another words what you see is what you get. That is why it is important to have contractors inspect and bid on the improvements that you’d want to make. Where there is a “change of use” from say an industrial to an office or services use, it is wise to have an environmental site inspection done to protect you, the buyer, from any unforeseen contaminants.

Just remember, that in North Carolina, during the due diligence period, we can back out of the contract for any reason or no reason.

6.

NEXT STEPS

Once the property is under contract it is time to move ahead with several key relationships including; your attorney, your contractor, your architect and your bank.

Closing the Deal – A first step is to immediately send your attorney the contract and a check for the earnest money. The attorney will note both the hard money date (when the due diligence expires) and the contract's closing date and then set about researching the title to make sure that the property can convey trouble free. Attorneys can also offer great advice should we need it.

Plans for Your Space – If you are going to make changes, plans will have to be drawn and submitted for approval to the local government and that is best done by an architect or a design/build contractor. Minimally, this is the time to have a walk-through with either and have them bid on the job. It's also true for the final general contractor that will do the work.

This is the time to begin the conversation with a city's Planning and Code Department. Submitting a rough sketch to answer the question, "Is this use permitted in this location?, gets you to the next level of getting the real plans drawn, submitted, approved.

The Bank Plays a Big Role – The bank too will immediately need a copy of the contract especially in light of a financing contingency. It is recommended that a buyer get pre-approved for a loan amount before we go under contract. Wanting to protect their and your investment, the bank is going to call in copies of any inspections and/or notes from the contractor, plus copies of rent rolls on investment properties and order the appraisal plus any other report they will need in order to justify lending on the property.

Insuring the Future – The third quote you'll need is a bid for property insurance on the structure, and if you are planning to run a business, content insurance for your finished interiors, fixtures and inventories.

As we prepare for closing, we are there with you to walk through these key relationships and timelines and to make sure that all are on the same page.

7.

P E R M I T T I N G and C O N S T R U C T I O N

This is where we talk about timelines and calculating how long till we receive the C.O. (certificate of occupancy).

You have purchased a property and you are eager to get started. The question now is, "How long could this take?"

In general, if you are changing the use, meaning going from office to retail, or industrial to a restaurant, or updating your space, then you'd have to meet current code. But if you move in and make no structural changes, then there's little delay in getting started.

At this point it's *"full steam ahead"* as we finish the process of plans, permitting and construction, a span of time that could take 120 – 180 days.

8.

SUMMARY

We are here to help you and to advocate for you and we have a network of trusted partners that will advocate for you as well.

Helping locate properties, build your file and negotiate a favorable offer for your small business is the work we do every day. Helping you to prepare and to understand the process is the other part of our job … and we love it!

We're pulling for you,

Greg Hardee