




COMMERCIAL REAL ESTATE FINANCING FOR BUSINESS OWNERS

A Business Owner's Guide to Smart Property Investment







BUSINESS INSIGHTS
series provided by:



HomeBank
of CALIFORNIA

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Commercial Real Estate Financing 101

A Business Owner's Guide to Smart Property Investment

Grab your coffee and let's make sense of buying your business property.

The Bottom Line: Commercial real estate financing opens powerful opportunities for business growth, but success requires understanding the fundamentals, preparing thoroughly, and choosing the right financing structure for your situation. While the process may seem complex, informed business owners who approach it strategically can secure favorable terms that support long-term success.



Welcome to Property Ownership 101

Picture this: You're paying \$8,000 a month in rent for your business space. Your landlord just raised the rent again, and you're thinking, "I could be building equity instead of making someone else rich."

You're absolutely right.

This guide will walk you through everything you need to know about financing your first commercial property – without the confusing jargon or overwhelming details that make your eyes glaze over.

 **Think of this as your friendly neighborhood guide to one of the smartest business moves you can make.**



Why Buy Instead of Rent? (The "Aha!" Moment)

Let's start with a simple scenario that might sound familiar:

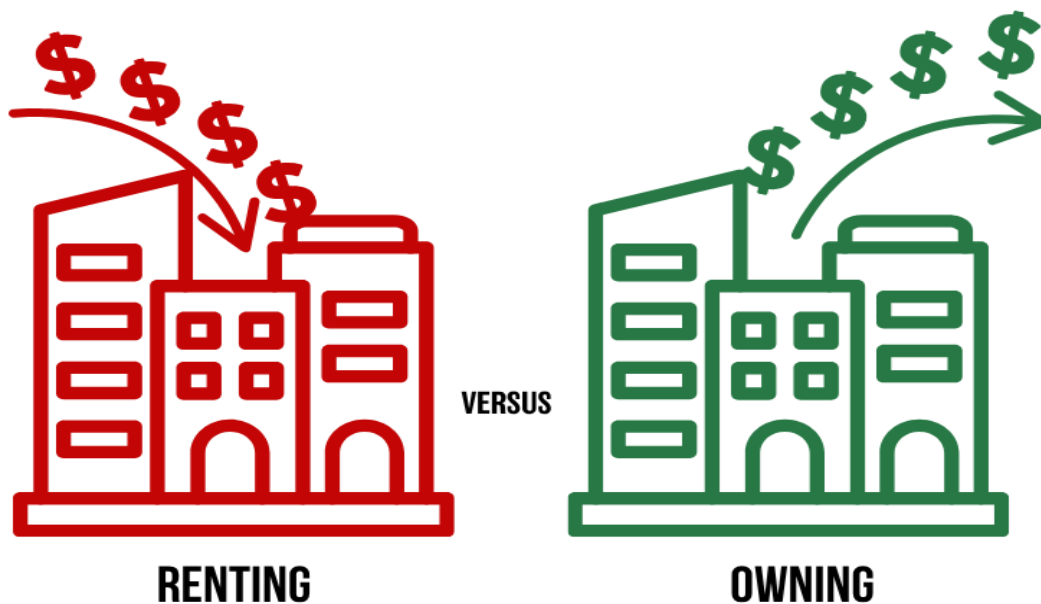
Meet Sarah, Coffee Shop Owner

- Pays \$6,000/month rent (\$72,000/year)
- Been in business 5 years
- Has spent \$360,000 on rent with nothing to show for it
- The landlord wants to raise the rent to \$7,200/month

Sarah's lightbulb moment: "What if I bought this building instead?"

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Here's What Ownership Could Look Like:



Renting	Owning
\$6,000/month disappears forever*	\$6,000/month builds equity*
Some tax benefits	Big tax write-offs
Landlord controls your space	You control improvements
Rent increases every year	Fixed mortgage payments
Zero ownership after 20 years	Own valuable real estate

*Sample dollar figure only.

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The Magic of Building Wealth While You Work

When you own your building:

- **Every payment builds equity** (like a forced savings account)
- **Tax benefits** can save thousands annually
- **No more surprise rent increases** disrupting your budget
- **You control your space** – renovate, expand, or modify as needed

Your Financing Options: The Good, The Great, and The "Wow!"

Think of commercial financing like shopping for a car – there are different options for different needs and budgets.

Option 1: Traditional Bank Loans

The "Classic Sedan" of Commercial Financing

What it is: Standard business loan from your local bank.

Best for: Established businesses with good credit and steady income.

The Basics:

- Put down 20-30% of the purchase price
- Get a loan for the rest
- Pay it back over 5-10 years (then refinance)

Real Example: \$500,000 building with traditional financing:

- Your down payment: \$125,000 (25%)
- Loan amount: \$375,000
- Monthly payment: ~\$3,500-4,200 (varies based on interest rate)

Option 2: SBA Loans

The "Luxury Car at Economy Price" of Commercial Financing

What it is: Government-backed loans that give you better deals.

Best for: Small businesses buying buildings they'll work in.

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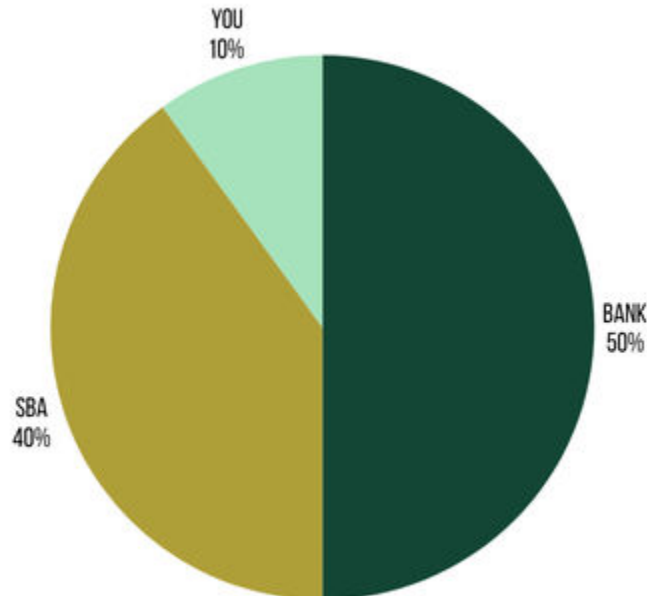
The Amazing Benefits:

- **Only 10% down payment** (vs. 25% traditional)
- **Fixed interest rates** (no surprises)
- **20-25 year terms** (vs. 5-10 years)
- **No balloon payments** (no refinancing stress)

Same Example with SBA 504: \$500,000 building with SBA financing:

- Your down payment: \$50,000 (10%)
- Monthly payment: ~\$2,800-3,200 (varies based on interest rate)
- **You just saved \$75,000 upfront!**

SBA Loan Ownership



Option 3: Alternative Lenders 🚀

The "Sports Car" – Fast but Expensive

What it is: Private lenders who move quickly.

Best for: Time-sensitive deals or unique situations.

Trade-off: Higher rates (8-14%) but faster approval.

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The Numbers Game: What Lenders Really Look At

Don't worry – this isn't as scary as it sounds. Lenders basically want to know two things:

1. Can the building pay for itself?
2. Can you handle the payments?

The Magic Formula: DSCR (Debt Service Coverage Ratio)

Think of DSCR like this: If your building were a person, could it afford its own mortgage?

Simple Formula:

None

$$\text{Building Income} \div \text{Loan Payments} = \text{DSCR}$$

What Lenders Want:

- DSCR of 1.25 or higher
- This means the building makes 25% more than needed for payments

Real-World Example: *Tony's Auto Repair Shop*

- Building generates \$8,000/month in rent
- Mortgage payment would be \$6,000/month
- DSCR = $\$8,000 \div \$6,000 = 1.33$ **Approved!**



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Your Personal Financial Report Card

What Lenders Check:

- **Credit Score:** 680+ is great, 640+ is workable
 - **Business History:** 2-3 years of tax returns
 - **Cash Flow:** Consistent monthly income
 - **Down Payment:** Money in the bank, ready to go
-


The Step-by-Step Journey (Don't Panic – We've Got This!)

Phase 1: Getting Ready (The "Prep Work")

Timeline: 2-3 months before you shop

Your To-Do List:

- Get your financial documents organized
- Check your credit score (and fix any issues)
- Start talking to lenders (relationship building)
- Decide how much you can afford

 **Document Gathering Made Simple:** Think of this like tax prep, but for your business dreams:

- Last 3 years of business tax returns
- Last 3 years of personal tax returns
- Current business financial statements
- Personal financial statement (assets and debts)


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Phase 2: Property Shopping (The Fun Part!)

Timeline: 1-2 months

What to Look For:

- Location that supports your business
- Building condition and potential issues
- Rental income potential (if applicable)
- Room for business growth

 **Pro Tip:** Drive by at different times of day. Is it busy? Safe? Easy for customers to find?

Phase 3: The Application Process (The "Paperwork Marathon")

Timeline: 60-90 days

What Happens:

1. **You apply** with your chosen lender
 2. **Property gets appraised** (lender arranges this)
 3. **Environmental check** happens (standard requirement)
 4. **Underwriter reviews** everything
 5. **You get approved** (celebrate!)
 6. **Closing day** (you get the keys!)
-

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Property Types: Finding Your Perfect Match

Office Buildings

Best for: Professional services, consulting, healthcare

The Good:

- Stable, professional tenants
- Predictable income
- Good financing options

The Reality Check:

- Remote work has changed demand
- Location is everything
- Tenant improvements can be expensive

Example: *Dr. Martinez bought her medical office building. Fixed costs, controlled environment, and built equity while practicing.*

Retail Spaces

Best for: Restaurants, shops, service businesses

The Good:

- High visibility for your business
- Customer convenience
- Strong resale potential in good locations

The Reality Check:

- Success depends heavily on foot traffic
- Seasonal income variations
- Competition affects property values

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Industrial/Warehouse

Best for: Manufacturing, distribution, storage

The Good:

- Lower cost per square foot
- High demand from e-commerce growth
- Easier maintenance

The Reality Check:

- May not work for customer-facing businesses
- Location might be less convenient
- Zoning restrictions to consider

Mixed-Use Properties

Best for: Businesses wanting rental income

The Good:

- Multiple income streams
- You use part, rent part
- Diversified risk

The Reality Check:

- More complex management
- Different tenant needs
- More complicated financing

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The Tax Benefits: Your Government Gift

This is where owning gets really exciting.

Depreciation: Your Annual Tax Break**

Here's how it works:

- The government says your building loses value over 39 years**
- You get to deduct 1/39th of the building value each year
- **It's a paper loss** – the building might actually be gaining value!

Real Example: *Building worth \$400,000*

- Annual depreciation deduction: ~\$10,250
- If you're in a 25% tax bracket: \$2,563 tax savings per year
- Over 10 years: \$25,630 in tax savings

Other Tax Goodies:

- **Mortgage interest:** Fully deductible
- **Property taxes:** Fully deductible
- **Maintenance and repairs:** Fully deductible
- **Property management:** Fully deductible

**Always consult your tax advisor before committing to any investment. This is a tax rule, not a guarantee that the actual market value of the property will decline at the same rate

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Avoiding the "Oops" Moments

Mistake #1: Falling in Love with the Wrong Building

The Problem: You find a "perfect" building but ignore the numbers.

The Fix: Run the numbers first, fall in love second.

Mistake #2: Skipping the Inspection

The Problem: Hidden issues cost big money after closing.

The Fix: Professional inspection is worth every penny.

Mistake #3: Borrowing Too Much

The Problem: No cushion for unexpected expenses.

The Fix: Keep 6-12 months of expenses in reserve.

Mistake #4: Ignoring Location Trends

The Problem: Great building in a declining area.

The Fix: Research neighborhood trends and development plans.

Mistake #5: Going It Alone

The Problem: Missing important details and opportunities.

The Fix: Build a team of professionals.

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Building Your Dream Team

Think of buying commercial property like building a house – you need the right professionals for each job.

Your Starting Five:

1. The Banker (Your Financing Coach)

- Helps you understand loan options
- Guides you through the process
- Becomes your long-term financial partner

Why community banks rock: They know your local market and can make decisions quickly.

2. The Commercial Real Estate Agent (Your Property Scout)

- Finds properties that match your needs
- Negotiates on your behalf
- Knows the local market inside and out

3. The Attorney (Your Legal Guardian)

- Reviews all contracts and documents
- Protects you from legal issues
- Handles the closing process

4. The Accountant (Your Tax Strategist)

- Plans tax benefits and strategies
- Helps structure the purchase optimally
- Guides ongoing financial decisions

5. The Inspector (Your Problem Detector)

- Finds hidden issues before you buy
- Estimates repair costs
- Gives you negotiating power

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SBA Loans: Your Secret Weapon Explained

This deserves its own section because it's that good.

Why SBA Loans Are Like Finding a \$20 Bill in Your Pocket

The Small Business Administration doesn't actually lend money – they promise banks, "If this business owner can't pay, we'll help cover the loss." This makes banks much more willing to give you better deals.

The SBA 504 Program: The Crown Jewel

How it works (The Three-Way Split):

- **Bank provides 50%** of the money
- **SBA provides 40%** through a special bond
- **You provide 10%** down payment

Real-Life Magic: *\$600,000 building purchase*

- Traditional loan: You need \$150,000 down (25%)
- SBA 504 loan: You need \$60,000 down (10%)
- **You just saved \$90,000!**

The Catch (There's Always a Catch, Right?)

SBA Requirements:

- You must **occupy at least 51%** of an existing building
- Your business must be "**small**" by SBA standards (usually under 500 employees)
- **No passive investment** – this is for your business, not as a rental property

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SBA vs. Traditional: The Showdown

Feature	Traditional	SBA 504
Down Payment	25-30%	10%
Interest Rate	Variable	Fixed
Loan Term	5-10 years	20-25 years
Balloon Payment	Yes	No
Refinancing Risk	High	None



Real-World Scenarios

Story 1: Maria's Restaurant Revolution

Before: Paying \$4,500/month rent, the landlord wouldn't allow kitchen expansion.

After: SBA 504 loan, \$45,000 down on \$450,000 building.

Result: Same monthly payment, owns the building, expanded kitchen, increased revenue by 40%.

Story 2: Jim's Auto Shop Empire

Before: Leasing shop, couldn't install heavy equipment permanently.

After: Traditional commercial loan on industrial building.

Result: Installed hydraulic lifts, expanded services, and building value increased \$100,000 in 3 years.

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Story 3: The Shared Office Success

Before: Tech consultants paying a premium for office rent downtown.

After: Bought a mixed-use building, use 2 floors, rent out two floors.

Result: Rental income covers mortgage, essentially free office space.



Your Action Plan: From Coffee to Keys

Week 1-2: Foundation Building

- Gather financial documents
- Check credit reports and scores
- Research local commercial properties online
- Start conversations with lenders

Month 1: Team Assembly

- Meet with 2-3 potential lenders
- Interview commercial real estate agents
- Consult with an attorney and an accountant
- Get pre-qualified for financing

Months 2-3: Property Search

- View properties with your agent
- Run preliminary numbers on favorites
- Make offers on suitable properties
- Begin formal loan application

Months 4-5: Due Diligence

- Property inspection and environmental assessment
 - Final loan underwriting and approval
 - Closing preparation and document review
 - Take ownership and celebrate!
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The Closing Circus (Don't Worry, It's Organized Chaos)

What Happens at Closing

Picture signing your name about 47 times while various professionals shuffle papers and exchange very large checks. Here's what's actually happening:

The Final Countdown:

1. **Final walkthrough** of the property
2. **Document signing** (bring a good pen!)
3. **Money transfer** (usually wire transfers)
4. **Key handover** (the magical moment!)
5. **Ownership transfer** recorded with the county

What You'll Need:

- Certified funds for closing costs
- Photo ID
- Patience (lots of patience)
- Maybe a celebratory bottle of champagne for later

Closing Costs to Expect:

- Loan origination fees: 1-2% of the loan amount
- Appraisal fee: \$2,000-5,000
- Environmental assessment: \$2,000-5,000
- Legal fees: \$1,000-3,000
- Title insurance and recording fees: \$1,000-2,000

Ballpark Total: Plan for 3-5% of purchase price in closing costs

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Your Future as a Property Owner

Year 1: The Adjustment Period

What to Expect:

- Learning property management basics
- Understanding cash flow rhythms
- Building relationships with vendors
- Enjoying tax benefits at year-end

Years 2-5: The Growth Phase

Opportunities:

- Property improvements and upgrades
- Potential rental income from extra space
- Building equity through payments and appreciation
- Refinancing opportunities if rates drop

Years 5+: The Wealth Building Phase

Long-term Benefits:

- Significant equity accumulation
 - Potential for additional property purchases
 - Property paid off or substantially reduced debt
 - Retirement asset that provides ongoing income
-

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Quick Reference: Your Cheat Sheet

Before You Start Shopping:

- **Credit Score:** 680+ (640+ workable)
- **Down Payment:** 10-30% saved up
- **Business History:** 2+ years operating
- **Cash Reserves:** 6-12 months' expenses

Red Flags to Avoid:

- Buildings with major structural issues
- Declining neighborhoods
- Properties with environmental problems
- Deals that seem "too good to be true"

Green Lights to Pursue:

- Growing business districts
- Buildings with good bones
- Multiple potential uses for the space
- Strong rental market, if applicable

Emergency Contacts for Your Phone:

- Your banker
 - Your real estate agent
 - Your attorney
 - Property inspector
 - Insurance agent
-

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Final Thoughts: You've Got This!

Congratulations! You've just completed Commercial Real Estate Financing 101. If your head feels a little full right now, that's completely normal – you've absorbed a lot of valuable information.

Remember These Key Points:

1. **Property ownership builds wealth** while rent just disappears
2. **SBA loans offer amazing benefits** for small business owners
3. **Good relationships with lenders** make everything easier
4. **Professional help is worth the investment**
5. **Conservative planning leads to long-term success**

Your Next Step:

Put down this guide, refill your coffee, and take a moment to imagine walking into your own building tomorrow morning. Pretty exciting, right?

Then pick up the phone and call a local community bank. Tell them you're a business owner interested in learning about commercial real estate financing. You'll be amazed how helpful they are and how much more confident you'll feel after that first conversation.

Ready to Start Your Journey?

The path from renter to owner begins with a single conversation. **Community banks specialize in helping local business owners just like you turn the dream of property ownership into reality.**

What to do right now:

1. Save this guide for reference
2. Gather your financial documents
3. Call a local community bank ([Home Bank of California](http://www.hbc.bank) is a great option!)
4. Schedule your first consultation
5. Start building the banking relationship that will change your business forever

Remember: Every successful property owner started exactly where you are right now – with questions, dreams, and the determination to build something better.

Welcome to the exciting world of commercial property ownership! 🎉

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