

## LEASE VS. OWN

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Derrick Van Mell (October 15, 1993)

**Q:** The small town I live in has two downtown buildings for sale for \$100,000. I am thinking about trying to purchase these buildings and opening up an antique or resale shop. Can I go to the SBA to get a loan guarantee? What are other options? How much down payment is required on such a loan? Is it smart to start a business and buy buildings at the same time?

**A:** Your last question is the trickiest; I'll return to it after addressing the first three. While you can go directly to the SBA for a loan guarantee (their 7a program), you should begin with your bank or a community development organization, such as the Dane County Development Corporation (256-2799) or Wisconsin Business Development (258-8830). They can process SBA loans and you'll need their input before the SBA will give approval.

You might also consider the SBA 504 program, which provides direct loans linked to job creation (and can also be useful for large firms). There are many other financing options, but the DCDC or WBD are great places to start. The Department of Development's Wisconsin Financing Alternatives is also a good resource (call 266-1018 for a copy); the DOD staff can answer a host of new business questions. Closer to home, your own community may have a downtown revitalization program. I'm assuming you've already tapped your relatives and friends, the traditional source of start-up funds.

As with bank financing, the down payment on an SBA loan for a building with other tenants will vary with the amount of their rent, the condition of the property and the strength of your own business. While the minimum down payment is 10%, 20% or

greater is more likely. There isn't a rigid formula. Though getting an SBA loan is extra work, you can get below-market rates and longer-term financing than a bank.

I don't generally recommend buying a building in which to start up a business. A new business is volatile both in its future space needs and the certainty of earnings. While we're now seeing a higher start-up success rate, committing to a mortgage is still risky. It's better to begin by leasing and see how your business fares. After a few years, you can judge whether that location and store configuration make the building a good investment. (For an SBA loan, your business must occupy at least 51% of the property.)

It's tempting to buy a building that has tenants whose rent helps pay the mortgage. This can be great, but it puts you in the position of starting up a store and entering the real estate business. A new business takes all of your energy, leaving none for keeping your tenants happy and current in their rent. Real estate ownership is usually a better tool for more stable or larger firms.

However, in a small town there may be only one good storefront available--and leasing it may not be possible. If that's the case, don't compromise on location, and do your best to make the project work. After consulting with your accountant and attorney, take your business plan and ask these civic-minded lenders for their comments. They may suggest you approach the building owner for some form of seller financing. In any case, they'll help you improve your idea until it's obvious whether it'll work or not.