

Capitalize on Financing Alternatives to Grow Your Business

Welcome

Bank of America Merrill Lynch welcomes our existing and prospective business clients as well as our associates who work with small businesses every day.

Today's Speakers

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Small Business and
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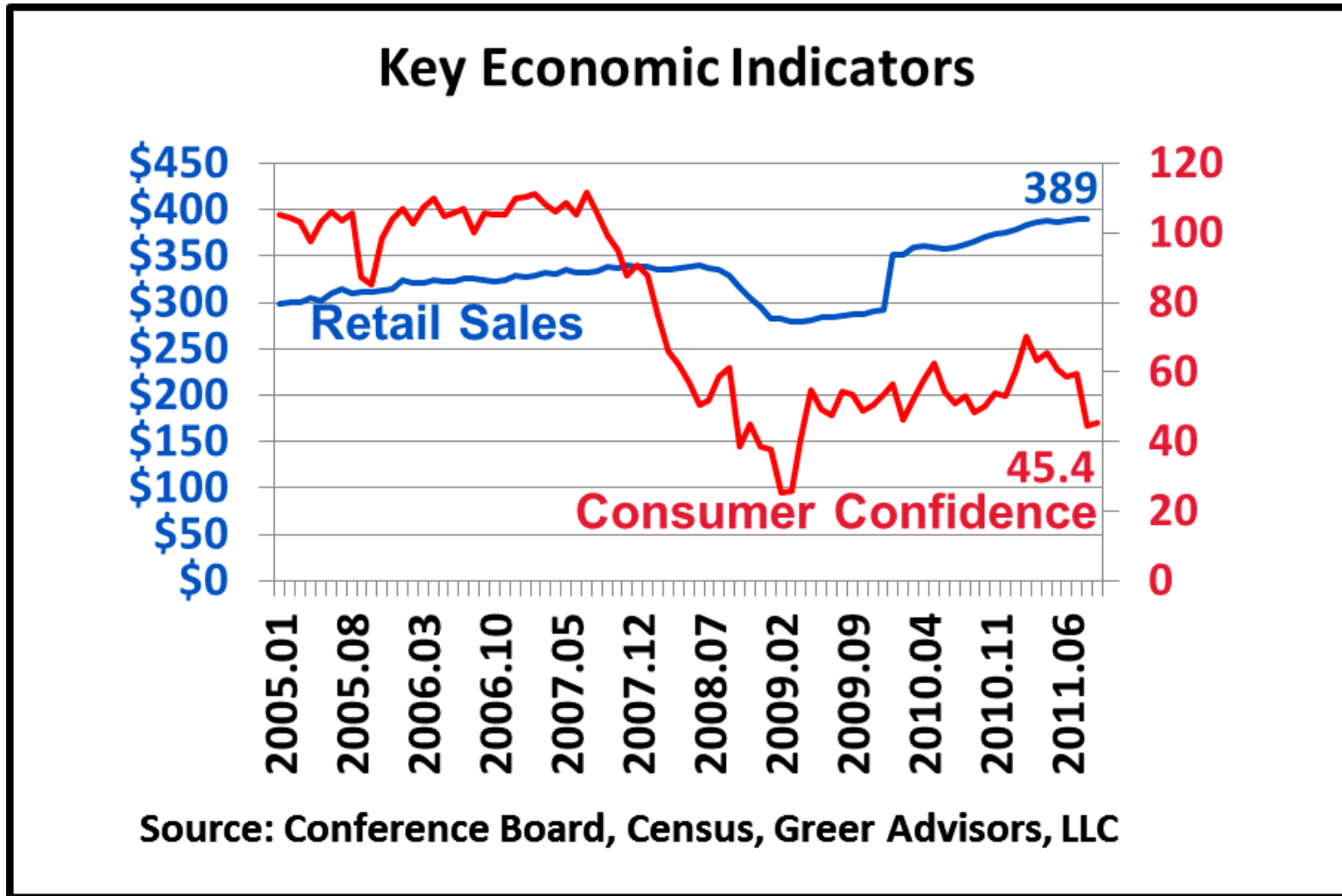
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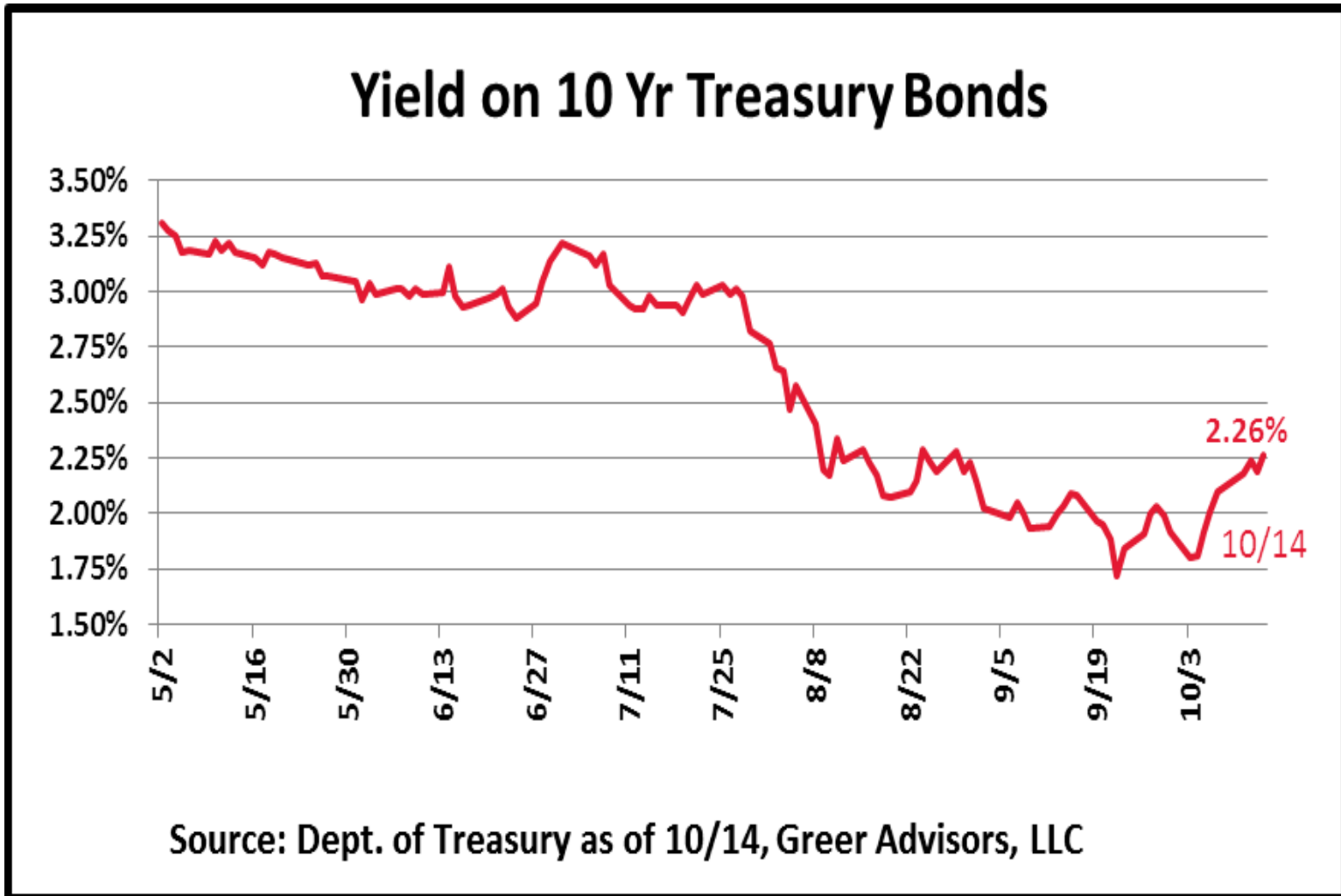
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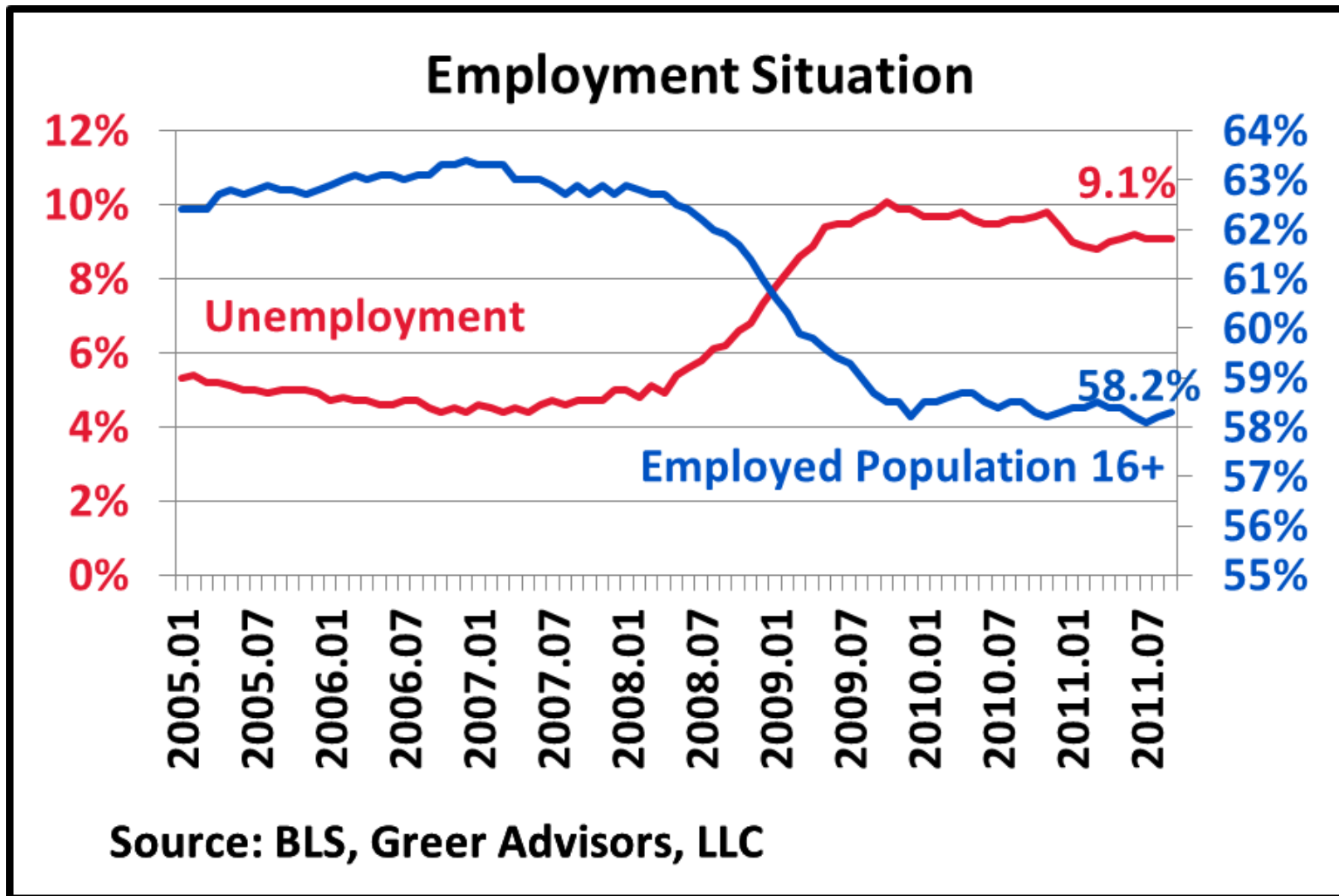
Primary Economic Indices



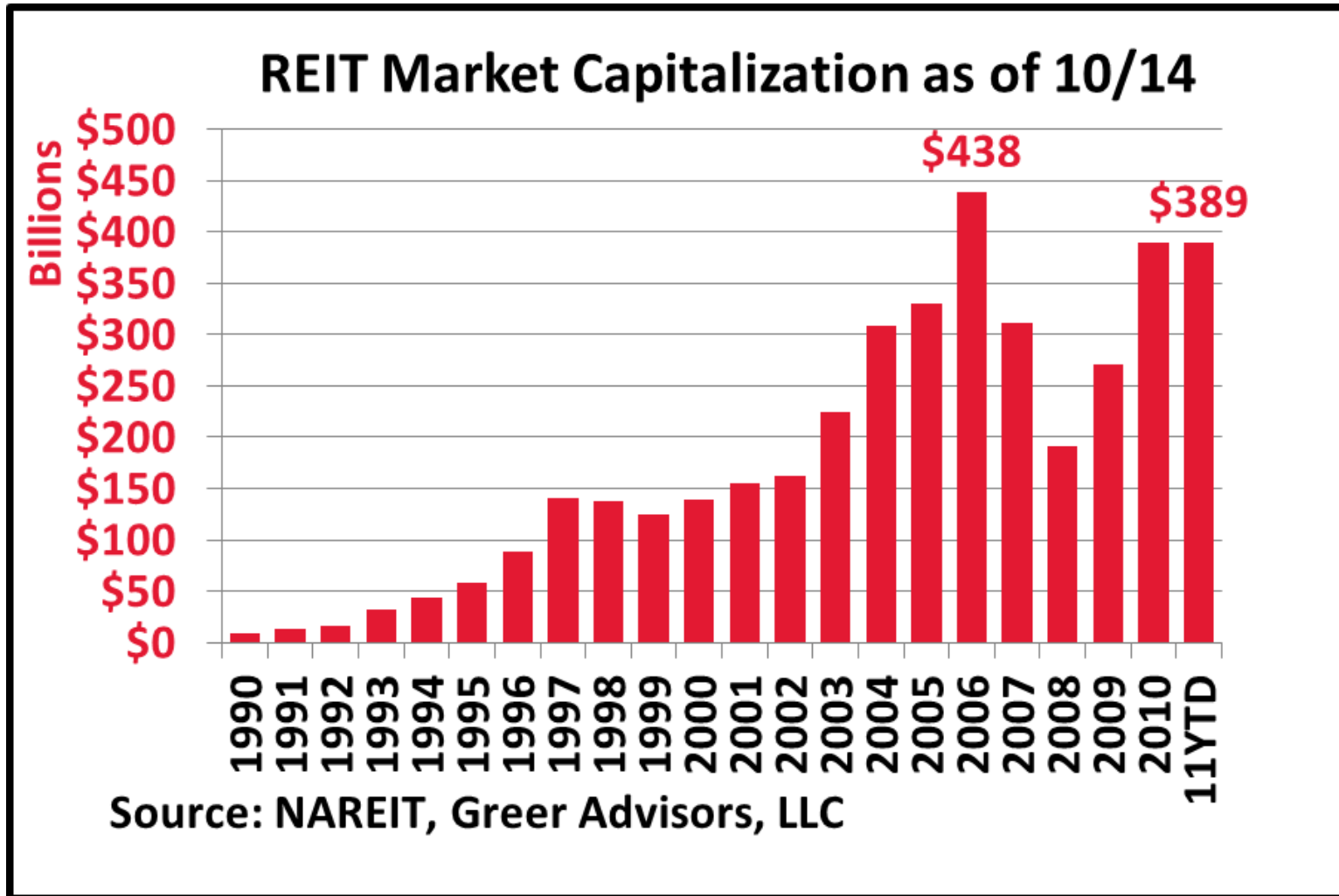
Interest Rates – New Lows



Employment - Economic Driver



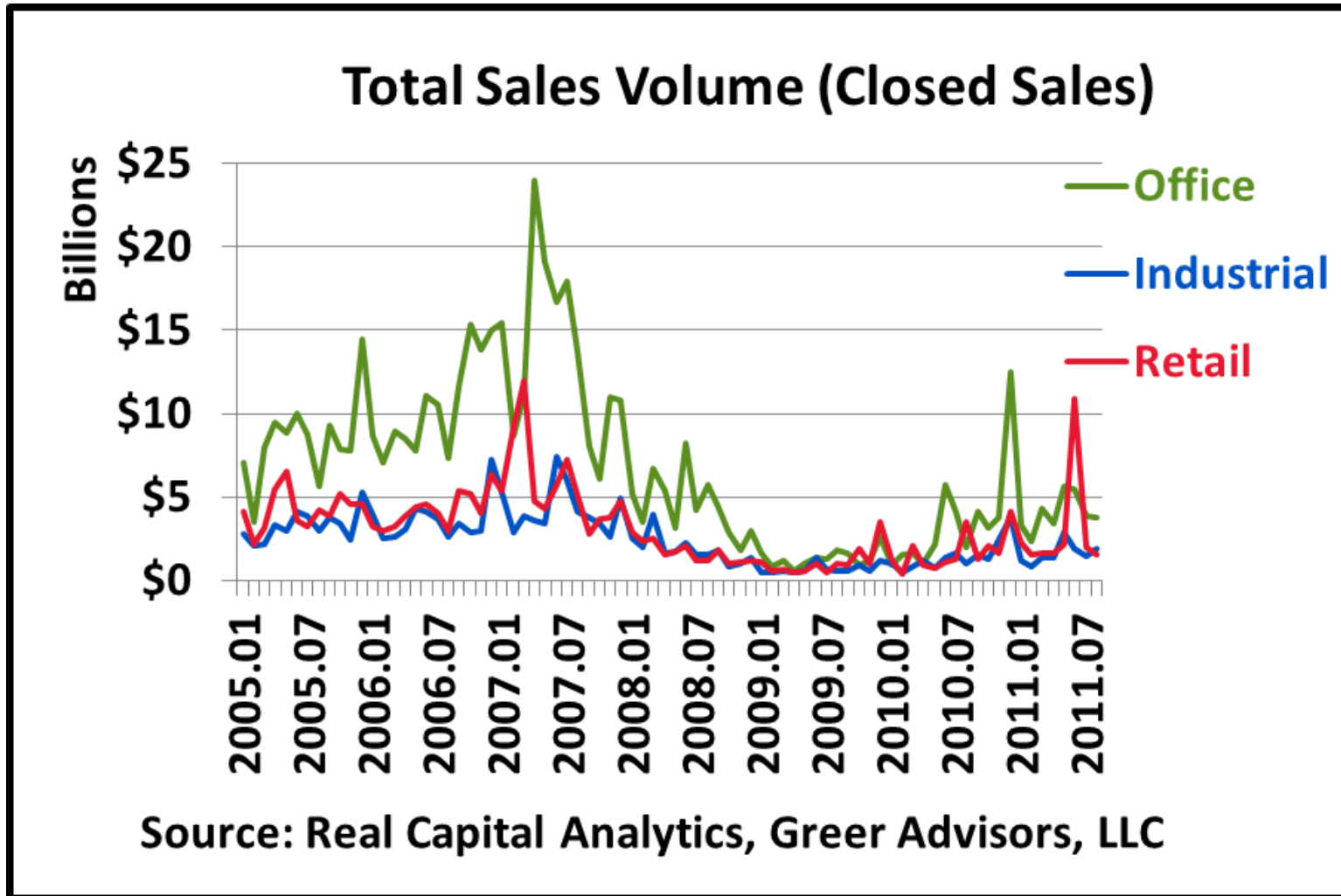
Real Estate Investment Trusts – Market Capitalization



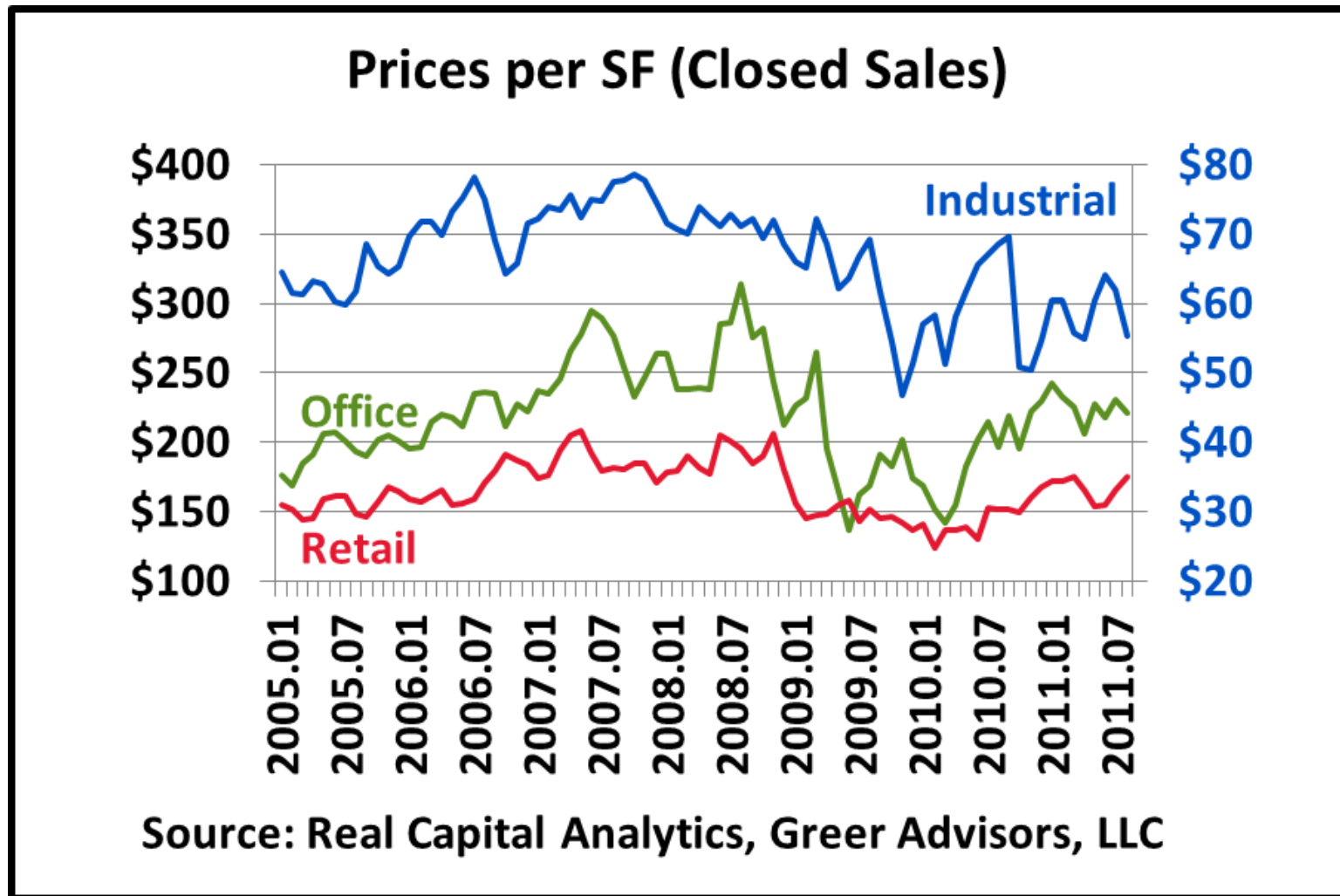
Commercial Real Estate – Rents and Vacancies

INDUSTRIAL - 2011.Q2				OFFICE - 2011.Q2				RETAIL - 2011.Q2			
Vac	Metro	Vac %	Eff Rent \$	Vac	Metro	Vac %	Eff Rent \$	Vac	Metro	Vac %	Eff Rent \$
1	Los Angeles	7.3%	\$6.68	1	Honolulu	7.9%	\$21.99	1	San Francisco	3.8%	\$29.71
2	Salt Lake City	8.4%	\$4.86	2	Albany	8.4%	\$14.94	2	Fairfield County	4.5%	\$24.99
3	San Francisco	10.1%	\$7.87	3	New York	8.9%	\$55.26	3	Northern New Jer	5.8%	\$24.42
4	Houston	10.4%	\$5.59	4	Pittsburgh	10.6%	\$17.80	4	Long Island	5.9%	\$22.68
5	Orange County	10.4%	\$8.13	5	Long Island	11.9%	\$19.88	5	San Jose	6.1%	\$26.61
6	Portland	10.6%	\$6.19	6	San Francisco	12.0%	\$22.25	6	Los Angeles	6.2%	\$25.17
7	Kansas City	10.7%	\$6.49	7	Trenton	12.5%	\$24.50	7	Oakland-East Bay	6.4%	\$24.90
8	Long Island	11.2%	\$5.45	8	Oklahoma City	12.7%	\$14.66	8	Orange County	6.4%	\$26.58
9	Minneapolis	11.5%	\$4.96	9	Boston	13.1%	\$27.10	9	Suburban Virginia	6.4%	\$24.30
10	Seattle	11.6%	\$7.46	10	Louisville	13.3%	\$14.81	10	Boston	6.7%	\$19.51
National Average		12.8%	\$5.27	National Average		15.7%	\$20.59	National Average		10.4%	\$16.43
Min		7.3%	\$2.77	Min		7.9%	\$14.46	Min		3.8%	\$9.81
Max		23.4%	\$8.13	Max		25.6%	\$55.26	Max		17.1%	\$31.80
Spread		16.1%	\$5.36	Spread		17.7%	\$40.80	Spread		13.3%	\$21.99
Source: CBRE Econometric Advisors, Greer Advisors, LLC						Source: REIS, Greer Advisors, LLC					

Commercial Real Estate Volume



Commercial Real Estate Volume



Economic SWOT Analysis

Strengths:

- Best Source for Education
- Strong On Natural Resources
- Strong Military Power
- One of Most Stable Economies = Flight to Safety

Weaknesses:

- Deficit
- Consumer Confidence
- Poor Employment Situation

Opportunities:

- “All Time” Lowest Rates – Lock in Rates
- Large Spread in Class B & C Capitalization Rates vs. 10 Year

Threats:

- A Major Sovereign Default will Hinder Global Stability
- “Kicking the Can”

Economist's Conclusions

- Opportunities do not last forever
- Low rates won't last forever
- There is a limited supply of developable land
- Real estate bottomed out – volume in 2009 – price PSF in 2010
- Real estate normally is not the largest expense in a business
- Real estate goes up in the long run
- Real estate will always be in demand in growth markets
- Real estate is perceived as an excellent hedge against inflation

Benefits of Purchasing Commercial Property

- **Fixed Costs:** Locking in your commercial mortgage long-term can give your business clear, fixed costs.
- **Tax Deductions:** The associated costs of owning and occupying a commercial property can provide expense deductions in the form of mortgage interest, property taxes and other items.
- **Additional Income:** Owning your property can offer the advantage of renting out extra office space adding another source of income.
- **Retirement Fund:** The prospect of owning commercial space and having the property appreciate over time, allows the owner to sell out and fund their retirement.



Benefits of Leasing Commercial Property

- **Prime Property:** A leasing commercial space option provides a business with the chance to rent in an area with a good location and high image. If your business is dependent on location and image, such as retail or restaurants, the leasing option is much more affordable.
- **Free-up Working Capital:** With your money not tied up in real estate your business can respond to opportunities in the market. In addition, your ability to borrow funds will not be as limited as with buying commercial space.
- **More Time:** Any type of ownership comes with headaches. A leasing option affords the time to focus solely on running your business.



Downside of Purchasing and Leasing Commercial Property

Purchasing Commercial Real Estate

- ✓ **Lack of Flexibility:** A new or growing business may experience unexpected needs in the future. If your business continues growing, your owned commercial space may become inadequate forcing a sale of the property.
- ✓ **Upfront Costs:** Buying commercial property will initially cost far more upfront. There are property, appraisal and maintenance costs along with a large down payment and possible property improvement costs.

Office Space Leasing

- ✓ **Variable Costs:** With a leasing option you may be subject to annual rent increases and higher costs at the time when your lease expires.
- ✓ **No Equity:** While leasing you will be funding someone else's retirement with your lease payments. However, owning requires you to get involved in the property management business.

Comparison of Own vs. Lease

OWN

Purchase Assumptions		Per sq ft	
Size (Square feet)		\$135.00	15,048
Initial Purchase Price			\$2,031,480
Tenant Improvements	\$50.00		752,400
Total Purchase Price			\$2,783,880
Down Payment	10%		\$278,388
Loan Amount			\$2,505,492
Loan Period			25

Start-up Costs			
Down Payment			\$278,388
Closing costs	1.25%		\$34,799
Cost Segregation			\$0
Total out of pocket costs			\$313,187

Monthly Costs		Per sq ft	
Mortgage Payment (P&I)	5.430%		\$15,281
Property Taxes	1.1%		\$2,598
Utilities	\$0.15		\$2,257
COA/CAM	\$0.40		\$6,019
Total Monthly Costs			\$26,156

Net Monthly Ownership Cost, Net of Tax Benefits			
Purchase and Alloc to Bldg	\$2,783,880	70%	
	39 yrs	12 mos	
Monthly depreciation @	40% tax bracket		\$1,666
Property Tax, Utilities, COA/CAM			\$4,350
Interest Deduction (5 year avg)			\$4,890
Total Tax Benefits			\$10,905
Net Effective Ownership Costs			\$15,251
Net Cost Per SF to Own			\$1.01

LEASE

Lease Assumptions			
Size (Square feet)			15,048
Lease rate per RSF			\$2.00
Monthly lease cost net of utilities			\$30,096
Monthly utilities	\$0.15		\$2,257
Monthly lease cost plus utilities			\$32,353

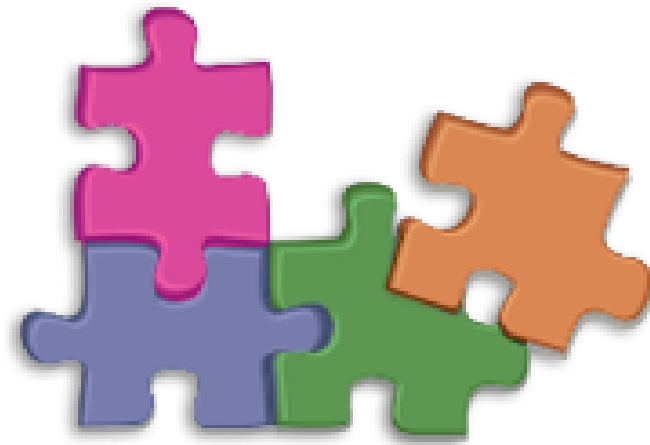
Start-up Costs			
Prepaid Rent			\$32,353
Security Deposit			\$32,353
Total out of pocket costs			\$64,706

Monthly Costs		Per sq ft	
Lease Payment		\$1.65	\$24,829
Property Taxes			INC
Utilities	0.15		\$2,257
COA/CAM			INC
Total Monthly Costs			\$27,086

Net Monthly Lease Cost			
Tax Benefits		40%	
Depreciation Benefit			n/a
Operating Expense Deduction			n/a
Lease Deduction			\$9,932
Utilities			\$903
Total Tax Benefits			\$10,835
Total Effective Monthly Lease Costs			\$16,252
Net Cost Per SF to Lease			\$1.08

Five Typical Ways to Buy Real Estate

1. Pay cash – not likely
2. Seller carryback – not likely
3. Conventional financing – 20% down payment
4. SBA 7(a) – 10% down, variable rate
5. SBA 504 – Borrower down payment can be as low as 10%



SBA Lending



The **Small Business Administration (SBA)** is a United States government agency that provides support to entrepreneurs and small businesses. The agency's activities are often summarized as the "3 Cs" of capital, contracts and counseling.

Capital - The SBA doesn't actually make loans. Instead, they guarantee a percentage of loans made by lenders and/or Certified Development Companies. The SBA guarantee reduces the risk, which means the lending partners are more likely to help small businesses that might not normally qualify for conventional loans.

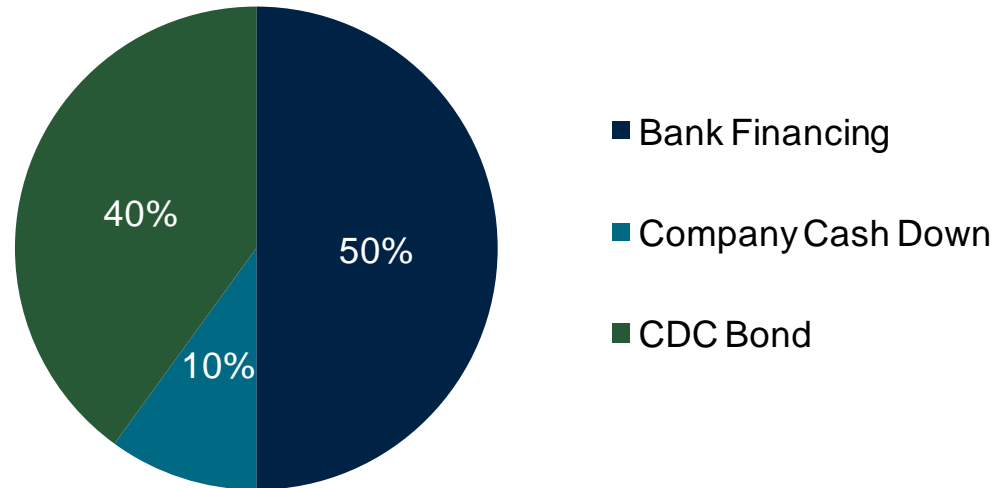
Contracts - The federal government spends \$500 billion a year in contracts. SBA works with all federal agencies to put at least 23 percent of that money in the hands of small businesses. SBA also works with small business directly, through training to help them compete for and win contracts.

Counseling – SBA's nationwide network includes 68 district offices (minimum of one in each state), nearly 900 Small Business Development Centers, 110 Woman Business Centers, and 350 chapters of SCORE. These business experts offer counseling and training (nearly always free) to over 1 million small business owners each year.

The SBA 504 Loan

What is the SBA 504 loan?

It is an economic development tool to assist small businesses in buying fixed assets. The purpose is to stimulate private sector investment in business lending, to increase business productivity, create jobs, and improve the local economic tax base.



- Bank – provides a first trust deed loan for at least 50% of the total project cost.
- Small Business Owner – contributes a down payment of at least 10%.
- CDC – provides SBA-guaranteed 504 loan for up to 40% of the total project cost, or a maximum of \$5 million (\$5.5 million for manufacturing businesses).

Benefits of 504 Financing

Benefits of an Owner Occupied Commercial Real Estate Acquisition

Bank

- 50% post debenture loan to value reduces risk to bank
- Strong Historical Asset Quality vs. conventional
- Branding – Leadership in national 504 lending
- Lower down payment provides higher deposit opportunities
- Can offer longer financing terms vs. conventional

Client

- Gives client additional financing options
- Reduced down payment for 504 (borrower down payment can be as low as 10%)
- Better terms – longer amortization & longer terms - lower blended rate
- Increased liquidity for client increases working capital
- SBA 504 debenture is assumable
- Reduced LTV allows for additional credit financing (i.e. line of credit, leasing etc.)
- Can be used for long term equipment financing

SBA 504 Loan Program

Quick Reference

Use of Funds

- Long Term Fixed Asset Financing
 - Owner occupied commercial real estate
 - Machinery and equipment (useful life of 10 years or more)
- No Working Capital

Loan Limits

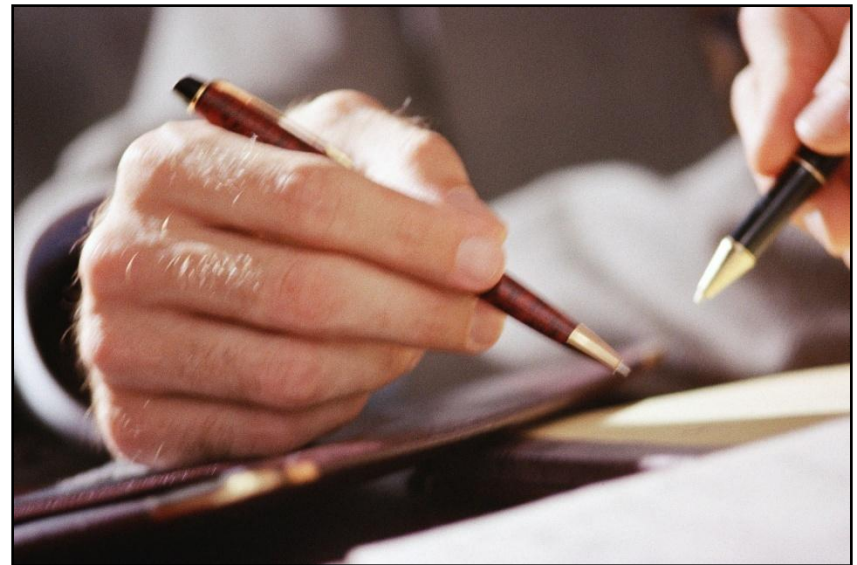
- Bank Portion – Minimum \$250M (Project size of at least \$500M – New Construction \$1MM)
- SBA Portion – Maximum \$5MM or \$5.5MM for manufacturers and green initiatives.

Fees

- Bank Portion = 1.50% Origination Fee on the 1st Deed of Trust
- SBA Portion = 2.65% plus attorney fees

SBA 504 Eligibility

- Company must be “for profit”
- Company’s average after tax income must be less than \$5MM over the past 2 years
- Tangible net-worth of company must be less than \$15MM
- Personal liquidity of owners \leq loan request
- Business owner must be U.S. Citizen or Permanent Resident Alien
- Commercial real estate must be owner occupied with at least 51% occupancy for an existing building. New construction requires 60% occupancy with the intent to occupy an additional 20% within the next few years



SBA 504 Loan Decisioning Process

Bank works concurrently with Certified Development Company (CDC) in the decisioning process

Dedicated Teams with specific knowledge of the SBA Programs

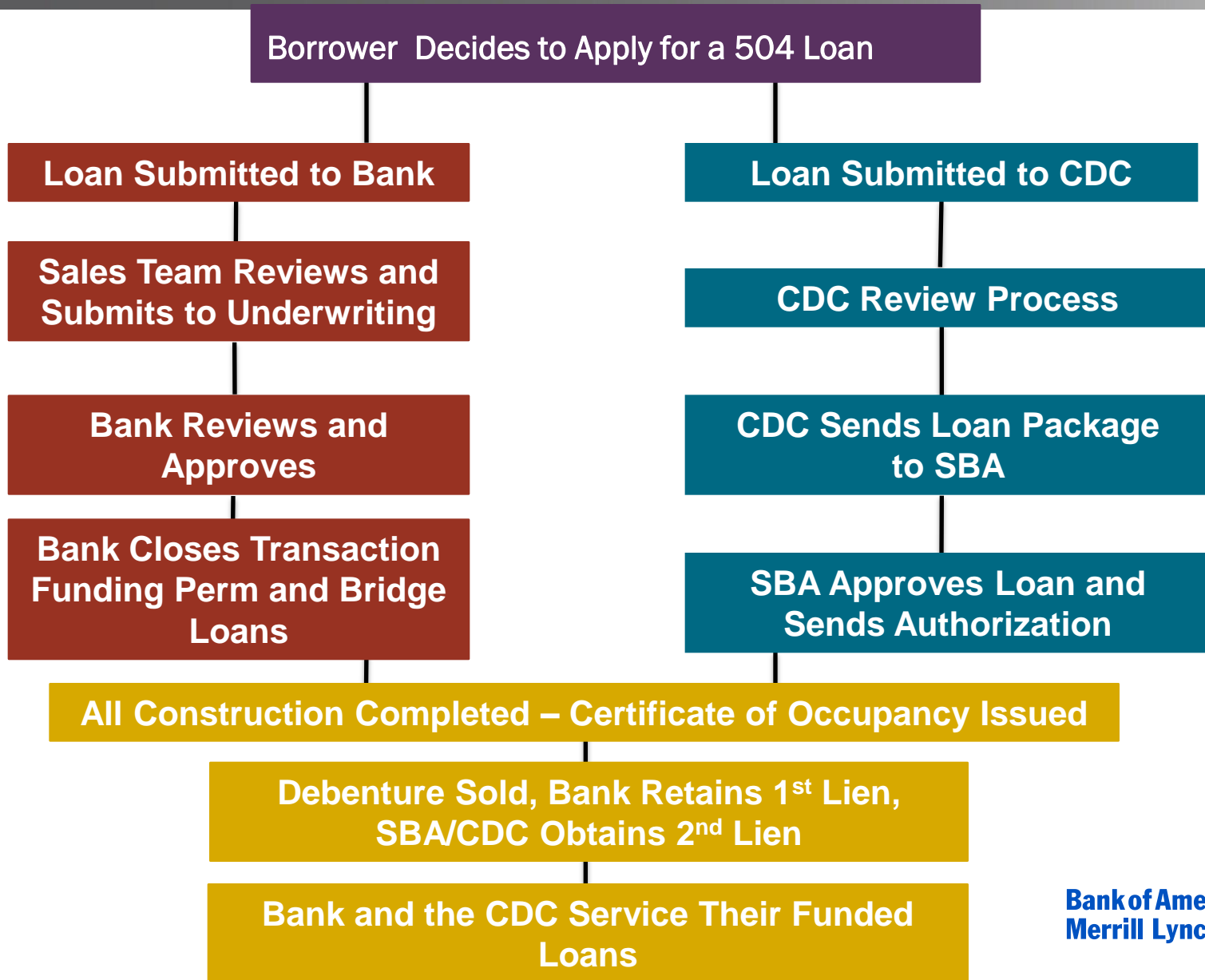
SBA 504 Loan

Bank Commitment Letter serves as verification for SBA approval and authorization

Bank Approval Officers help define and structure the total project

Documentation Teams work closely with our clients to ensure the closing process remains on track for both the Bank and CDC/SBA loans

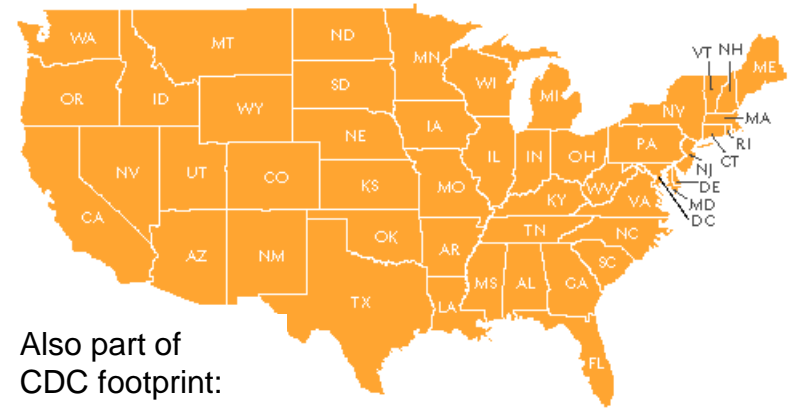
The 504 Loan Process Overview – Two Tracks



Finding the Right CDC Partner for Your project

Check the CDC trade association – NADCO... www.nadco.org

- Not all CDCs are equal
 - Some are part of a larger government (state, county, city) economic agency
 - Some are private, non-profit operations and operate similar to a bank
- The bank's associate could assist in choosing a CDC partner



Also part of
CDC footprint:
- Alaska
- Hawaii
- Puerto Rico
- Virgin Islands
- Guam

Please Submit A Question Now

Thank You

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