

SBA 504 Program Adds Up for Borrowers

BY MIKE HOBAN

BOSTON—Despite having fewer loans originated, the US SBA’s 504 program remained a formidable lending tool in 2013, helping borrowers reduce upfront costs and obtain favorable rates to buy or upgrade commercial real estate throughout New England. October’s government shutdown and conclusion of a stimulus-induced refinancing program were seen as key factors in the volume drop after several years of upside, but experts say the situation should not diminish the program’s extensive history and growth in popularity on both sides of the teller window.



BARBARA ARENA



PAUL FLYNN

“We’re still in an environment where lenders want to get deals done, and borrowers are seeing opportunity out there, because they made it through the recession and a lot of their competitors didn’t, and (they’re

looking to get a deal,” relays Davis, Malm & D’Agostine attorney and 504 expert George “Tony” Hewett, who tells the Real Reporter that “we definitely saw a lot of activity in the second half of the year, and there was a lot in the pipeline as well, so the (504 program) remains a valuable tool for commercial banks to get deals done that they wouldn’t otherwise do.”

Qualified businesses can borrow up to \$5 million, but if the funds are used for real estate, the borrower’s company is required to occupy at least 51 percent of the property (60 percent for new construction). The borrower must put up at least 10 percent of their own funds, their chosen bank lends 50 percent at their own rate and term (10-year minimum) and has a first lien on



DYER STREET HOTEL, 8 DYER ST., PROVINCETOWN MA

the assets being financed. A Certified Development Corporation (CDC) lends the remaining 40 percent (typically 20 years at a fixed rate), with a second lien.

Davis Malm closed on an eclectic array of deals in 2013, including 8 Dyer St., a 13-room bed and breakfast in Provincetown. Originated by Cape & Islands Community Development Inc. (\$458,000), Seamen’s Bank provided mort- continued on page 97

RECENT NORTHMARQ TRANSACTIONS



\$30,000,000

Tidewater at Salisbury

SIZE: 210 UNITS CITY: SALISBURY, MA
LENDER: REGIONAL BANK



\$1,700,000

Albert G. Brock Building

SIZE: 5,897 SF CITY: NANTUCKET, MA
LENDER: LIFE COMPANY



\$3,700,000

133 Portland Street

SIZE: 30,000 SF CITY: BOSTON, MA
LENDER: LIFE COMPANY

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gages of \$445,500 and \$742,500. Also south of Boston, New England Certified Development Corp. (CDC New England) delivered \$527,000 to the owners of the Rexhame General Store in Marshfield (mortgages of \$509,600 and \$637,000 from South Coastal Bank); and for an industrial building at 3 Thacher Ln. in Wareham where CDC New England provided a \$630,000 mortgage and Rockland Trust Co. loaned \$610,000 and \$762,500.

CDC New England did 80 deals last year, just slightly behind its 2012 production that posted 83 deals. "When you compare it to 2012, the industry as well as us was down, because the refinance program went away," CDC New England



GEORGE "TONY" HEWETT

Chief Operating Officer Paul F. Flynn Jr. Flynn recounts. "We held our own, but the industry as a whole was off." Under the temporary program, small businesses were allowed to refinance eligible assets in

its 504 program between October 2011 and late September 2012, which created a spike in loan originations last year. Among CDC New England's many deals last year was one in Lowell at 59 Technology Dr. on behalf of specialty keyboard manufacturer Cortron. Flynn characterized the deal as "a good example of the 504 being used for a manufacturing environment. It was 90 percent financing, a \$2.45 million project, it was land and construction, TD Bank was the mortgage lender and the bank of record and we provided a \$1.8 million debenture, and it created 11 jobs." CDC New England also helped Turner's Seafood open a restaurant, financing capital improvements at



TURNER'S SEAFOOD, SALEM MA

Lyceum Hall in Salem, providing a \$1.31 million mortgage, with Salem Five providing an additional \$1.09 million. In addition, CDC New England assisted a wide variety of businesses, from manufacturing companies to restaurants, hotels, and service and professional entities, including an automobile dealership in Connecticut that obtained a total of \$6.2 million in construction loans through the program for which CDC New England provided a \$2.55 million debenture. The owner of 310 Andover St. in Danvers was loaned \$943,000 on that 23,925-sf warehouse earlier in 2013 in a refinancing of the asset acquired by J3 Realty LLC for \$1.97 million in June 2012.

Granite State Economic Development Corp. Vice President Barbara Arena relays that the second half for her CDC was not particularly busy, concurring the government imbroglio may have played a role in the decrease in activity. "We had the shutdown in October and that put a damper on our end, because we couldn't get any loans approved because the SBA is consid-

ered non-essential," says Arena. "When that happened, I think there was a bit of trepidation on the part of business people in terms of 'Should I buy property at this point? Are we going to drop off the face of the earth with the debt ceiling?' That kept some holding back from making their decisions."

But GSEDC remained active, providing KWL Inc. a \$1.77 million mortgage for a 92,500-sf industrial building (sold by Campanelli) at 15 Liberty Way in the Franklin Industrial Park, with \$1.73 million and \$2.16 million mortgages from Avidia Bank; a \$1.19 million mortgage to the owners of the Golden Cannoli Shells Co. for a 24,550-sf industrial property in Chelsea where First Trade Union Bank committed mortgages of \$1.15 million and \$1.44 million; and a \$599,000 mortgage to Historic

Properties Development Company LLC borrowed to make capital improvements to Deluxe Depot Diner in Framingham, with East Cambridge Savings Bank providing an \$890,000 mortgage.

Outside of Massachusetts, Tom Madden, attorney for Madden/Brockman and SBA 504 specialist, says that Rhode Island is recovering, albeit slowly, and that is reflected in recent 504 activity, despite the nation's highest unemployment rate. "Volume in Rhode Island is down compared to neighboring states, but there are indications that it is on the way up," says Madden, whose firm is the exclusive closing counsel in Rhode Island for CDC New England. "Deals have been smaller overall, a lot of deals have been taking longer to close because often in the 504 structure the first commercial loan finances at least in part a construction project and I think that borrowers have been more cautious in seeing the construction projects done and have taken longer in completing them before the 504 takes out the second commercial loan." ◆

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as well, particularly in the form of 1031 exchanges. "We saw a lot 1031 exchanges last year and it's continuing into 2014, which is a good sign because it bodes well for the market in that they'll be buying other properties," observes Miller, and typically the client needs to do so in a prescribed time frame.

Miller also reports that his firm processed a significant amount of multifamily deals in 2013, especially involving luxury condominium proj-

ects in the Seaport, units he says "are going like hotcakes." There was also demand for construction financing from multifamily developers—and not always from the big guns. "(We saw) a lot more activity from builders and developers looking to refurbish two-, three- and four-families in Dorchester, Allston, Chelsea, and Mattapan," he recounts. "We have one (owner) who has bought about 50 properties in the past year, fixing them up and holding them, which is another good sign. They're holding them for future appreciation and for the high rental income." ◆

An increase in bridge loans brought more work for Pierce Atwood, Miller outlines, as investors eager to close deals were willing to pay a little extra in up front costs to react more quickly to opportunities. "I've also seen a jump in hard money lending, people who are looking for quick financing—much more quickly than a bank can accommodate because there have been some good deals and people don't want to pass them up," reports Miller. "So they'll include it as the cost of doing business paying 12 percent for 3 to 4 months and then refinance it and pay off that lender." ◆