

# Owner Occupied Space

For Businesses Ready to Take Advantage Of:

Tax advantages

Owning an Asset

Creating Residual Income

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What We Learned On Our Project We Put  
Into

A Step by Step Guide To Help You With Your  
Office Project.

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## Introduction

Welcome to Owner Occupied Space! A book that was inspired by my own journey to becoming owner occupied with our medical business. Hi my name is John Grant and I have 10 years of Corporate Real Estate Experience and 12 years of Business ownership experience. I am Certified by IFMA (International Facilities Management Association) and BOMA (Building Owners and Managers Association) and want to share with you some things that could have a lasting impact on you and your business.

After 10 years of leasing space and growing our business the time was right to become owners of our office space and take advantage of the many privileges afforded to Owners. Putting our lease/rent money towards owning an Asset just makes sense. There are also many tax advantages to being an owner of space with your business occupying that space. The following information packed pages will educate you on the process of becoming an owner occupied Tenant and realizing the many advantages by taking action Now. Current Market conditions are excellent and some say we may never see conditions like this again in our life. The knowledge you will have after completing this book will help you avoid the many pitfalls and challenges you are sure to encounter. In fact I added a section called “Expect the Unexpected” to this book due to the fact that at the eleventh hour of your project you will encounter challenges either created by you or one of the many vendors you are working with. By understanding the overall process you will apply the techniques taught in this book and reach your outcome – Being Owner Occupied!

## Overview

When my wife and I started our project I remember asking the Broker, The Banker, and anyone else if they could give me a timeline of how things would happen. My background is in Corporate Real Estate, so I expected to know how things would unfold. Well, that timeline was never talked about, because in this type of project there are too many variables that can interrupt even the best laid out project management timeline. No one will commit to a timeline because many of the variables depend on you. Yes – you. The future owner has much of the control on how your project will flow. Organization of financial documents, working with the right project team, and communication between vendors and team is critical to smooth flow of your project. This is what I specialize in – the action items and getting them completed.

Things start to become complex when the tasks that need to be completed start to run concurrently. It is important to take things step by step so that you are not waiting for something during your “Due Diligence” period. The challenge to your finances will begin immediately so take the time to determine a budget with your Accountant/Bookkeeper. Set aside the money up front and estimate to the best of your ability the total project cost. Use the help of your accountant and banker. Share this information with your broker as soon as possible. After choosing a space, determining a source of funding, hiring an architect, and starting the process towards closing escrow on your new space it tends to start in many directions. I have put together a timeline that I share with you on my website <http://www.OwnerOccupiedSpace.com>. This book will take you step by step through the process – and by understanding the process, you will determine right away the level of help you will need to complete your project. Why would you not continue growing your business and increasing revenue while hiring me to manage the process for you?

During this book you will learn that if you are financing the bank requires things of you in order to complete the loan process and fund the purchase and construction of your new office space. The bank calls this a needs list. They require you to get things to them quickly so that your project continues forward while your “Due Diligence” clock is ticking. A space plan, construction estimate and eventually approved construction drawings are all needed to complete your loan process. In order for the bank to start the funding process they need to know the space layout and a construction estimate. Time and Money are your constant pressures driving you forward. If your current lease runs out at a certain time – the money you are spending could be paying for an asset that will create residual income for you and your business for years to come. Your budget is determined by your businesses revenue, your personal financial record and the banker’s ability to find a loan program that fits your profile. Have your accountant involved from the start and set aside enough time to complete the

project before your current lease comes due. The more organized you are the better flow and less surprises you will have during the project. Knowing and doing are two different things. Remember to delegate as much as possible and manage the process. Or hire me to manage the process for you while you continue to grow your business and increase your revenue.

## Budget and Accountant

During our project our accountant and her organization of our business financial documents was critical to the project flow and completion. Having your accountant or bookkeeper on board from the start with all your documents organized and digitized will save you time. Both business and personal financial information will be looked at if you are seeking a loan or Small Business Administration (SBA) funding.

- Tax returns for the last 3 years
- Profit and Loss (P&L) reports for last 3 years
- Current (P&L)
- Bank statements for last 6 months and possibly last 2 years
- Legal entity documentation (i.e. Corporation documents including shareholder certificates)
- Insurance
- Leases
- Tenant Improvement plans (Space Plan)
- Construction Estimate
- Licenses
- Tax ID numbers for businesses

The list goes on and is never ending really until you have satisfied the lenders requirements and fulfilled what they have asked you to provide.

This information is all given to your current banker or one that you want to form a new relationship with – and they will crunch the numbers and give you a preliminary approval letter. You will need this letter to give to a Real Estate Broker along with signing a letter of intent with that Broker on the space you intend to purchase. Whether you are seeking a loan or buying the space outright it is always smart to have a budget. A budget gives everyone involved pressure to meet a requirement and satisfy you the client. (Leverage) You are a business owner and used to dealing with budgets so it is no mystery. In the case of this project enlist the help of experts to help you develop your project budget. Share your budget with your Broker and at the right time with your contractors. All of these people need to be familiar with your business in order to help you complete the project to your standards. Typically with SBA funding you will have 50% of the loan funded by the Bank, 40% by the SBA and 10% will be your injection/down depending on what loan program you go with. In another part of this book we explain the various programs available to you. The right banker will match your business profile with the right loan product.

## Selecting a Real Estate Broker

Having a Real Estate Broker who knows your requirements and the flow of your business along with your budget is the right ingredients to finding appropriate space. The right Brokers come with a wealth of local knowledge, Associations with Bankers, Contractors, and Building Owners and their management companies, Business communities, as well as professional organizations. Many Brokers attend the development meetings of local municipalities to understand where future growth will happen, for example new highways or freeway off ramps. They have developed associations with people that have proven to be able to complete projects.

With a ½ hour interview call we can determine where you are in your thought process about your project. My services can be all encompassing or specific to where you will need help during the project. My fees for services are negotiable and able to fit into your budget.

## Working With Banks

Most business owners have an established relationship with a bank or a banker. This is great and you should start with your bank to find out the maximum amount your business can finance. You give them all of your business and personal financial information and they crunch the numbers and match your profile to a loan product. This establishes your budget for your project. Again having your accountant or book keeper involved from the start is crucial.

Now, if you have a long standing relationship with a bank and trust they will give you the best deal available – then stick with them exclusively. Otherwise start the bid process among local banks and be sure to tell them up front that this will be competitive bid environment. You are getting estimates from several banks. At least 3 is my recommendation. This has become the norm in the banking industry and many bankers know that they are competing for your business. Many will tell you they are the number one bank in certain loan products. Make them prove it by providing the best estimate and earning your business.

During the number crunching your banker will have matched your financial profile against what they think is the best loan product they offer. Look at all the financing options including Small Business Administration (SBA) loans from the government. These offer you a way to finance your project if your business or cash on hand does not qualify you to do a direct loan through a bank or if you just want to minimize your injection. We go into detail on the various types of SBA loans in another section of the book. Common options are 7A, 504, and 704 (not very common) options. Each one takes advantages of different things.

Once the bid process starts it will be a challenge to compare each bank estimate equally. Put the estimates in a spreadsheet (or have your accountant do this for you) and call each bank to clarify each item of the bid until you have equal comparisons. Interest rates, fees, and service are important. Trust your gut feeling!



## Pay Attention To Title

Once you select the space and sign a letter of intent (LOI)/purchase and sale agreement (PSA) several things start to run concurrently. You also have deadlines with the owner of the space called “due diligence” where you are given 30 – 60 days to start completing your examination of the space, land, or building. This is where Title comes into play. You have probably heard that you want “clear title” on your property. In corporate real estate it is no different.

You will start to use your budget as soon as Title/Escrow is open. On our project \$20K had to be deposited into the account. This money goes towards your injection/down payment in the end and is used in the process of closing escrow. This is the time when the bank usually asks for money to pay for appraisal and environmental reports. This starts the flow of documents either electronically or by paper to you and back to the Title Company. Lots of signatures are needed during the entire process right up to and sometimes beyond the loan document signing date. The signing date usually signals that closing is close and the funding and recording process happens after signing the loan documents with a notary present. More on signing and closing escrow in a later section of the book.

If you are a health business pay extra close attention to Title reports to make sure your space is zoned for health. This is due to the parking ratio that medical/health businesses require to serve their patients. The reports are full of information about the building, the building taxes, conveyances, and a host of other topics. Make sure to read through them and ask your Broker to clarify anything you do not understand. Large buildings have associations similar to residential communities and there can be amendments to the title report that no longer allow certain things on the building grounds. Those amendments may hinder your business plans. Here is an example of our findings: We wanted to give educational talks in our office space. The amendment read in such a way we interpreted it to not allow presentations of any kind. We had to have a letter from the management company stating we were allowed to give health related presentations and educational workshops.

Bottom line – spend the time to read and ask questions about your title reports.

To update you on what is running concurrently at this point in your project:

- The bank – Financing and approval process
- The Space Plan – needed for approval by the bank and submission to SBA
- The Construction estimate based on the space plan also needed by SBA
- The appraisal report – needed by the bank and the SBA to check your construction costs against the value of the space.

- The Environmental Report
- The Title Report – Your “due diligence” time is ticking away.

All of these are generating documents that require signatures and return. This is an issue for busy professionals. That is where a project manager comes in to handle all of these documents so that you can continue to be productive in your business and generate needed revenue. The costs generated at this point are called “soft costs” and it is possible to be reimbursed by your lender at the end of the project. So keep your receipts and canceled checks. More on this topic later in the book.

The loan breakdown if you go with SBA financing is 50% from the bank, 40% from SBA, and 10% injection/down payment from you/your business. More on this in another section of the book.

## Selecting a General Contractor

### **I. Design Build Option:**

If you know a contractor and have a business relationship with his/her company, you may want to go with a design build option. This involves you dealing with the contractor from the start of your space planning and working with the general contractor as a complete manager of all construction services. Brokers prefer this arrangement because it can save time right from the start of the project. Remember that Brokers have associations with many of the vendors you will be working with on your project. This process will save you time later on during the project when you would have to do a contractor bid process once the Architect completes the construction drawings. We used the bid process on our project and that will be explained next.

Design Build Allows the Architect and Contractor to start the construction process as soon as the space planning starts. Giving them a jump on the construction drawings and the city/county approval process that is needed to fund the loan. You must have approved plans from the city/county in order to fund the loan. The contractor and Architect work closely to provide you a comprehensive estimate of the costs. They can do value engineering right from the start which should save you money.

### **II. Bid Process:**

The bid process is very different from design build. This process makes a competitive environment for General Contractors and their sub-contractors to estimate the construction costs of your project. The estimate/bid is given to you in detail and again you will want to put them all in a spreadsheet (or have your accountant/book keeper do it for you) and analyze the bid and ask questions to the separate contractors to get as close to equal bids as possible. The bid process educates you about the (3) contractors competing for your project. It also educates you about the different approaches to the project that are available. This will clarify your understanding of the construction and how it will flow. If your space plan and initial cost estimate were well done your bid process should confirm the price you gave to the bank at the beginning of the funding process. Be sure to talk to contractors about differing amounts for the same type of work being performed. This helps the contractor fine tune his/her bid and helps you get the bids more equal for comparison. All of this is leading you towards another bank requirement for closing escrow which is the Fixed Price Contract. For our SBA loan we had to have a contractor sign a fixed price contract and be approved by the bank financially. There is a

mandatory conference call between the bank and the contractor and new owner to go over disbursement of funds once construction starts. In our case the disbursement once construction started worked out to be 50/40/10 which meant the contractor had to be able to fund the cost of the first 50% of the project. That's right! The risk is assumed by the contractor for the construction of the space.

The bank/SBA will hold the cost of the construction over your head. Costs that go over the fixed price contract and built in contingency will be up to you to cover. That means more money out of your business or your personal pockets.

## Construction Drawings and Permits

In design build you would already be well on your way to having your construction drawings completed and submitted to city/county for approval and permits. This is not the case in the bid process. You do not get pricing from contractors until you submit the construction drawings to the city/county. The bid process can take up to two weeks and runs concurrently with the city/county approval process that can take 4 -6 weeks. Remember that stamp approved drawings are needed to close escrow and fund your project. We had to extend our “due diligence” time twice due to this process. Are you noticing the inherent risk to purchasing space? Time and Money are a constant pressure in our lives. That is amplified in these projects. The longer the process takes the higher the risk of interest rates going up. The seller may grow tired of your extensions – especially if you are not showing progress towards a closing date.

Construction Drawings are created by a licensed Architect and must pass the approval process at the city/county to be able to have permits to start and complete construction. Along with your approved drawings and permits you get a job card that has to be displayed on the job site. Permit fees are your responsibility if you are the owner builder listed at the city/county. If you are not going owner builder your contractor will handle all of this for you and it will be reflected on the total construction costs.

The construction process is all based on the construction drawings and any change orders to those drawings once approved can cause delays/increased costs in your project. Once the construction process ends you are issued a Certificate of Occupancy by the City/County and given the right to move into your completed space. The move process is discussed in a later section of the book.

## Documents and More Documents

These projects are based on incredible amount of information exchanged between your business and all the vendors that help you complete the project. Keep track of your signed documents as if they were gold. Organize and file all signed documents because if they are needed at critical times during the process you will want them available to send. Scanning is very efficient way of organization. The fax is still used but less and less. There is software and internet sites that help you store your project documents for retrieval and emailing. Be sure that you, your business, and your accountant/book keeper are well organized with regard to your financial documents.

## Closing Escrow/Expect The Unexpected

Closing Escrow on a property involves the Loan processor from the bank and the Title officer making sure that all documents have been signed and notarized. Everything on the needs list from the Bank and the SBA has been met checked and double checked. Everything from the Title Company with signatures from the buyer and the seller has been completed. The funds are available and your injection/down payment has been wired (saves time over check or money order) to the Title company. The loan package is complete and the funding process concludes. Once funding completes then the sale of the property must be recorded and that is when you become the owner and are given the keys to your new property. Congratulations!

To expedite the construction process asks for a fast recording and a copy of the deed so that you can take possession of the space and with the banks approval start construction. **DO NOT START ANY CONSTRUCTION BEFORE GIVEN APPROVAL!** This is made abundantly clear during the closing process.

## Construction Process

It has been a long time 90 days or more to reach this step in the project. The culmination of countless hours of phone calls, emails, meetings, and discussions about how to build out the space and utilize it efficiently and effectively with future growth in mind. The first thing you should do is have your project team, which includes people from your business, the Architect, the Contractor, and any sublease tenants that are making the move with you, convene for a Construction meeting. Pour over the construction drawings and make sure how the space will be built. This is usually where a timeline is put together for the construction process where milestones are reached. Some Architects charge extra for the construction management services. Your Contractor is in control of your construction process. Be sure he communicates regularly with you on the progress of your office build out.



## Certificate of Occupancy

The final step in the construction permit process is to obtain the certificate of occupancy. This is a document from your City/County permit office that allows you to put your business in the space. Once you or your contractor has obtained this document you can conduct the next action step in your project the move/relocation of your business.

## Move Management/Keep Your Business Operational

The last thing a business owner wants is to show up to an office and have things not working properly. If this continues for days of course revenue will be lost and that is not good. So, plan your move well and work your plan until you are up and operational at the new space. If you can afford to move over a holiday weekend or typical slow time of year that is the best time. If this does not work out in your timeline then the move should take place over a weekend or after normal business hours.

Typically businesses will close down on a Friday evening and be operational at the new space by Monday morning. This requires in some projects having crews work around the clock from Friday to Monday morning so that everything is moved, unpacked, all phone/internet connections and computer networks are setup tested and operational. This type of move requires planning and understanding by all vendors and employees who are helping in the move. For large businesses a moving company is critical to the success of this type of relocation project. Much of the setup of the computer networks can be done prior to the relocation and anything else that can be done prior to the weekend move should be done and waiting for the equipment to be connected.

I have personally planned and executed many of these types of moves during my corporate real estate career. I have spent long weekends in cities all over America making sure that businesses are operational come Monday morning.

## Summary

I will list in order the items discussed in this book. The next section has a graphical depiction of the timeline for a project. Each projects timeline can become detailed but must allow for challenges that are sure to come up during the process.

Bottom line – Why would you do a project like this yourself when you can have a specialist like me with the experience to guide you through each step and make sure your project is on time and on budget. If you outsource the management of your project it frees you and your staff up to do what you do best – make your business profitable. Now – when do you think would be a good time to use your rent money to own an asset that will create residual income for you for years to come- and give you added tax advantages? Call me to discuss your project and become an Owner Occupied tenant (951)-775-0615.

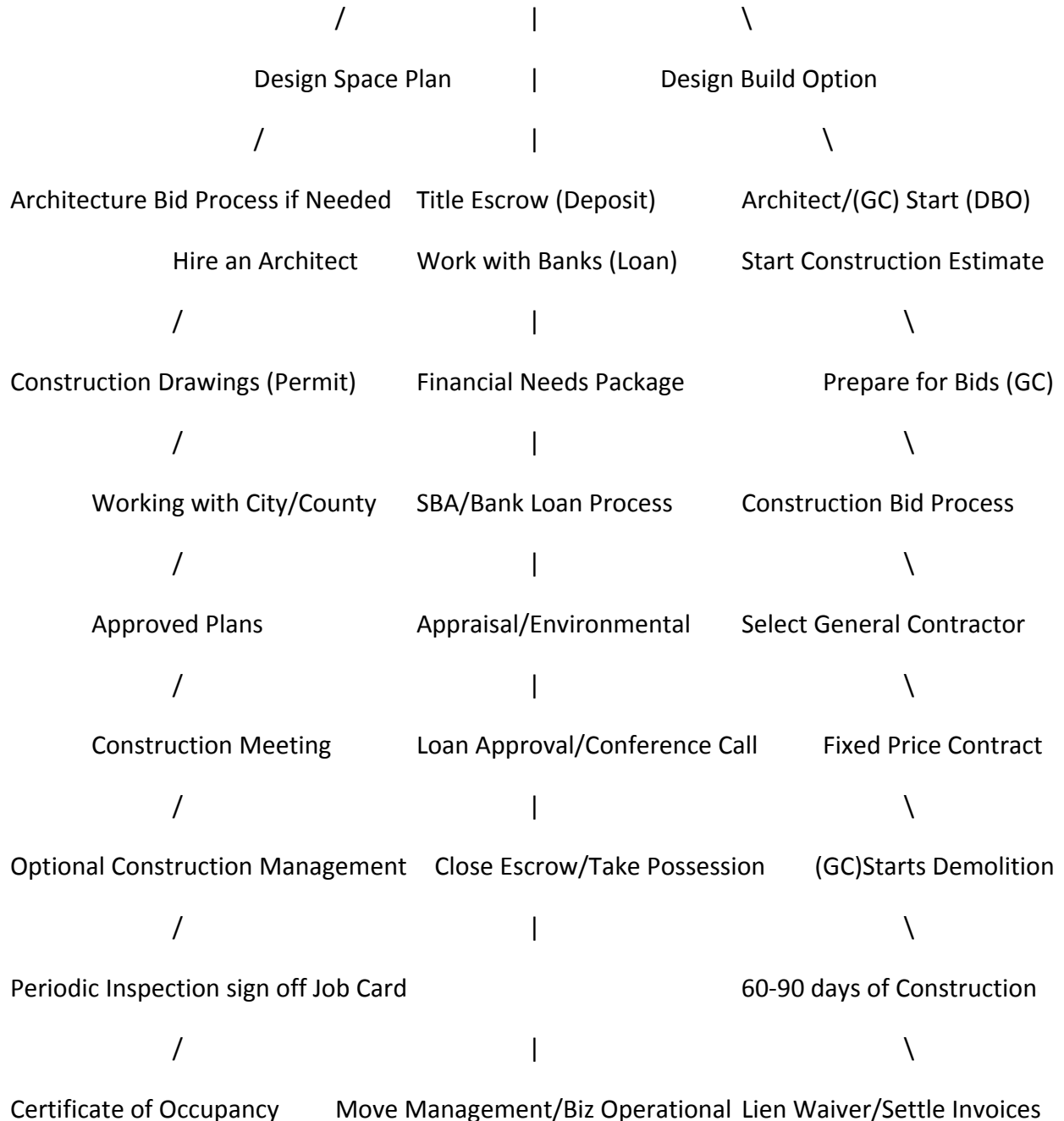
Example Timeline (60 – 90 days to Financing)(Additional 60 -90 Construction)

Select Project Completion Date

Work With Accountant and Banker Establish Budget and Qualification Amount

Select a Real Estate Broker

Find the Right Space



## Definitions

Letter of Intent (LOI) – Often required by Seller and Broker along with approval letter from bank.

“Due Diligence” – Period of time to purchase the space. Often times can be extended if showing progress towards a sale.

Needs List – Bank Requires lots of financial information and will provide you a list. With SBA funding this list is essential for the internal underwriter to approve the process.

Underwriter – Most banks have internal underwriter that checks all documents for accuracy and approves the loan before sending it to loan processors.

Permit – City/County require permits for construction of new office space or buildings.

Construction Documents – These are drawings prepared by a licensed Architect and need to be approved by the authorities for your project to start. Required by bank to complete the loan process.

Certificate of Occupancy – This certifies that all construction permits have been met and your business may now occupy the space.

## Links to Websites

John Grant (JGrant Enterprises)	<a href="http://www.igrantenterprises.com">http://www.igrantenterprises.com</a>
Dr. Laurie Blanscet D.O.	<a href="http://www.drblanscet.com">http://www.drblanscet.com</a>
An Optimal You (Hormone Balancing)	<a href="http://www.AnOptimalYou.com">http://www.AnOptimalYou.com</a>
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Brenda Wilson (bookkeeper)	<a href="http://www.bbbookkeeping.com">http://www.bbbookkeeping.com</a>
U.S. Small Business Administration (SBA)	<a href="http://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/sba-loan-programs">http://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/sba-loan-programs</a>
SBA Loan Application Checklist	<a href="http://www.sba.gov/content/sba-loan-application-checklist">http://www.sba.gov/content/sba-loan-application-checklist</a>

## Acknowledgements/References

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