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Take Energy-Efficiency Upgrades to the Bank

Small Business Administration 504 green loans offer major cost-savings advantages

The savings from low-downpayment financing combined with the long-term benefits of going green have the potential to be significant for businesses purchasing commercial real estate. When financing commercial real estate purchases, incorporating energy-efficient upgrades into the project may dramatically reduce energy and operating costs, and make Small Business Administration (SBA) 504 financing an attractive option for mortgage originators and their clients.

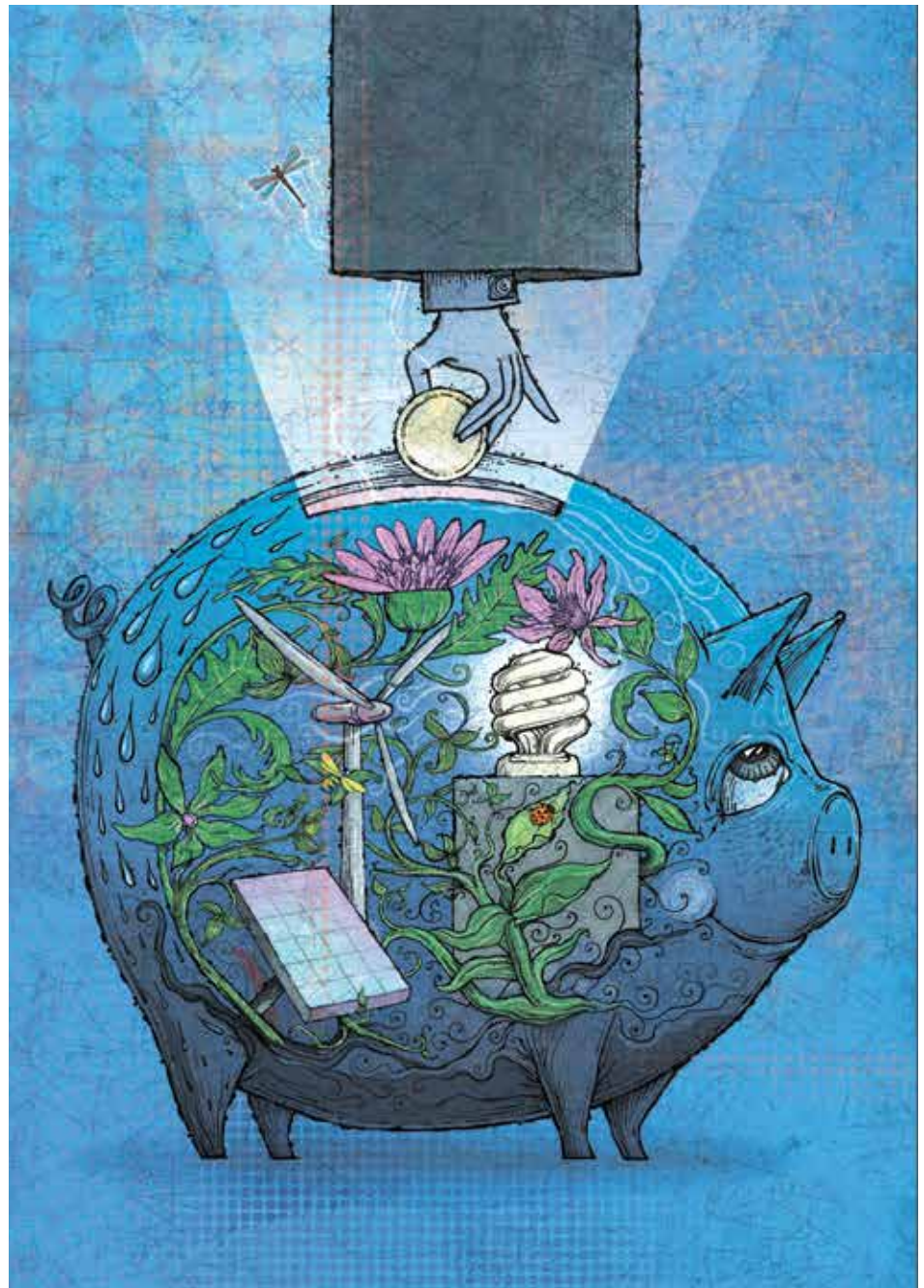
Under the SBA 504 green-energy program, there is no limit to the size or number of SBA 504 projects that a business may finance. Even if SBA limits have already been met, a business may borrow up to \$5.5 million in an SBA second mortgage for each project.

Many privately held businesses qualify for the SBA 504 program, which provides as much as 90 percent financing at below-market fixed rates. This financing is divided between a bank first mortgage and the SBA second mortgage. The SBA second mortgage is limited to a maximum of 40 percent of the project cost, or \$5.5 million.

Because there is no limit to the amount of the first mortgage, an SBA 504 loan has

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Barbara Morrison is founder and president of TMC Financing, a certified development company (CDC) that has provided real estate financing in California and Nevada for more than 30 years. TMC offers owner-user commercial real estate buyers up to 90 percent financing utilizing the U.S. Small Business Administration (SBA) 504 loan program. TMC ranks annually as the largest SBA 504 lender in Northern California and Southern Nevada. Visit tmcfinancing.com or e-mail info@tmcfinancing.com.



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the potential to finance projects in excess of \$25 million. A business can retain its much-needed working capital by financing 90 percent of the total project cost, which includes property acquisition as well as all improvements.

Benefits

There are many business advantages for owners who make green updates on a commercial property using an SBA 504 loan. These range from reducing future energy costs to maintaining working capital with a low downpayment, and even attracting new customers. Among the benefits:

- **Unlimited SBA financing.** Using traditional SBA financing, borrowers may get multiple loans, provided that the total SBA funding does not exceed \$5 million. Using the green-energy program, however, borrowers may finance as much as \$5.5 million on the SBA portion of each qualifying project with no limit on the number of projects.
- **No limit on project size.** SBA 504 financing may include the cost of a real estate purchase plus improvements, equipment and soft costs. Land and new-construction projects also qualify. Although there is no limit to the total size of the project that can be financed, SBA 504 second-mortgage limits apply, but when paired with a traditional bank-first mortgage to achieve 90 percent financing, projects at and exceeding \$25 million qualify.
- **Potential tax savings.** Qualifying green updates to commercial buildings may offer significant tax savings. The Federal Business Energy Investment Tax Credit remains in effect through December 2016, allowing federal tax credits for owners of commercial buildings who make qualifying energy-saving upgrades. The exact amount varies, but in some cases owners could recoup as much as 85 percent of the initial cost. In addition, some states offer rebate programs and other incentives.
- **Ongoing utility savings.** Green improvements to commercial real estate help save more than just taxes. Many owners who have made green improvements have seen significant ongoing savings

in utilities. According to the U.S. Department of Energy, as much as 30 percent of energy used by commercial buildings is wasted, and green improvements help curb this waste. Although the SBA program requires only a 10 percent energy reduction, the actual cash savings may be considerable for many businesses. An example is a restaurant owner who saw a two-thirds reduction in energy bills after installing solar panels, leading to a total utility saving likely to surpass the cost of the solar panels in less than two years.

- **More attractive to customers.** An increasing number of consumers are taking green practices into consideration when making purchasing decisions. Business owners who tout their properties' green improvements may lure new customers or hotel guests. In addition, many businesses that take advantage of SBA's green program also seek Leadership in Energy & Environmental Design (LEED) certification or other energy-efficiency recognition, such as CoolCalifornia's Small Business Awards. These awards and certifications may drive additional business from the increasing number of green-conscious consumers.
- **Increased resale value.** Many projects currently appraise at the full cost of the building plus the cost of all green improvements. When it comes time to sell the building, the money invested in energy-saving upgrades is likely to continue to add value for future buyers.

Qualifications

Qualifying for the SBA green-energy loan program is easier than many people realize. One of two criteria must be met: a reduction in energy use by at least 10 percent, or the production of at least 10 percent of energy from renewable sources such as solar power.

The energy-reduction qualifier is only available for improvements to an existing or replacement property. Business-expansion projects must create renewable energy to qualify. A wide range of energy-saving upgrades may be included as part of green projects. These include:

- **Solar panels and renewable resources.** Solar panels that generate energy for electricity not only save on utility bills, but produce virtually zero emissions. In contrast, electricity generated from coal and natural gas power plants accounted for 32 percent of the greenhouse gases in the United States as of 2012, according to the Environmental Protection Agency. Solar panels aren't the only upgrades that qualify, however. Wind turbines and biofuels also are excellent renewable-resource options. The best part of harnessing any of these resources is that the energy itself is virtually free.
- **Heating, ventilation and air conditioning (HVAC) upgrades.** HVAC systems account for nearly 40 percent or more of energy use in the average commercial building, according to the SBA. Improving energy efficiency makes a big impact on the bottom line of a business. Recent technological advances make cooling systems particularly good candidates for replacement. According to the SBA, the average commercial building may realize a 20 percent savings by replacing a 10-year-old air conditioning system with a new energy-efficient one. Also, combined heat and power systems, often known as cogeneration systems, also may be considered for energy-efficiency upgrades.
- **Lighting upgrades and building automation.** Lighting accounts for 20 percent to 50 percent of a commercial building's energy usage, according to the SBA. Upgrades to lighting may be as simple as retrofitting inefficient fixtures to use LED bulbs or as elaborate as replacing the entire building's fixtures. Installing programmable lights or thermostats allows the building owner to retain control of energy usage, rather than relying on workers and tenants to monitor lighting, heating and cooling. Such controls also may be set up for multiple zones and schedules to minimize the usage of these energy-intensive systems.
- **Windows and insulation.** Swapping out existing single-pane windows with double-paned units designed to reduce heat penetration and evaporation is another

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way property owners may dramatically reduce their heating and cooling bills. Also, additional insulation helps keep heated and cooled air inside a building, where it belongs. Such improvements may be as simple as adding caulk and weather stripping or extra layers of batt insulation or as complex as installing a living roof — one covered with vegetation planted over a waterproofing membrane.

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Commercial property owners may think that incorporating energy-saving upgrades into their new or existing buildings is beyond their budget, but the potential tax and energy-cost savings offered by the upgrades often offset and even exceed the initial costs. Combine these savings with the SBA 504 green-energy loan program that provides financing for as much as 90 percent of the total energy-saving project costs, and mortgage originators have a compelling argument to make to their clients: that they can't afford not to incorporate green upgrades. ●
