

FAQ for Commercial Real Estate

1. What is commercial real estate?

Commercial real estate (CRE) refers to property used for business purposes or to generate income rather than for personal residential use. This includes office buildings, retail centers, warehouses, multifamily buildings (with 5+ units), land, and specialized properties like hotels or healthcare facilities.

2. What are the main types of commercial properties?

- **Retail:** storefronts, malls, and plazas for customer-facing businesses.
 - **Office:** professional, medical, or corporate workspaces.
 - **Industrial:** warehouses, manufacturing, or distribution centers.
 - **Multi-family:** apartment buildings or mixed-use projects.
 - **Land:** vacant, development, or agricultural.
 - **Special-purpose:** hotels, gas stations, car washes, or schools.
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3. What is the difference between buying for investment vs. personal use?

- **Investment:** You purchase the property to generate rental income or long-term appreciation.
 - **Personal (Owner-Occupier):** You buy the property to operate your own business. This often allows you to build equity instead of paying rent.
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4. What are Triple Net (NNN) leases?

An **NNN lease** means the tenant pays base rent plus property taxes, insurance, and maintenance costs. It's common in retail and industrial spaces and helps landlords maintain predictable cash flow.

5. What is a Gross Lease?

In a **Gross Lease**, the tenant pays a single rent amount, and the landlord covers property expenses such as taxes, insurance, and maintenance. These are typical in office spaces.

6. What are Tenant Improvement (TI) allowances?

A **TI allowance** is money the landlord provides to help tenants customize or renovate their leased space. It can cover flooring, walls, lighting, or other buildout costs. The amount is usually based on rentable square footage.

7. How are commercial properties valued?

Properties are primarily valued by their **income-producing potential** using the capitalization rate (cap rate) formula:

$$\text{Cap Rate} = \text{Net Operating Income (NOI)} \div \text{Property Value}$$

Lower cap rates indicate lower risk and higher prices, while higher cap rates suggest higher returns and greater perceived risk.

8. What is due diligence when buying commercial property?

Due diligence is the investigation process before finalizing a purchase. It includes reviewing financial statements, leases, property inspections, title, zoning compliance, environmental studies (Phase I ESA), and verifying tenant information.

9. How does financing for commercial properties work?

Commercial loans differ from residential mortgages:

- Shorter loan terms (5–10 years) with amortization over 20–30 years
 - Loan-to-Value (LTV) typically 65–80%
 - Lenders focus on **Debt Service Coverage Ratio (DSCR)** — a measure of the property's ability to cover debt payments
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10. Should I buy or lease my business space?

It depends on your goals:

- **Buy:** if you want long-term stability, equity growth, and control over the property.
- **Lease:** if you prefer flexibility, lower upfront costs, or are testing a market.

Many business owners start by leasing and later purchase when their operations stabilize.

11. What are the key steps to selling a commercial property?

1. Prepare property documentation (rent roll, financials, leases)

2. Make basic repairs or upgrades to maximize appeal
 3. Price according to market data and cap rates
 4. Market through commercial brokers and digital listings
 5. Qualify buyers and review offers carefully
 6. Manage due diligence and close with professional support
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12. Can I buy or sell a business with its property?

Yes. You can purchase the business and the property together or separately. A combined transaction often increases total value but adds complexity — both the business and the real estate require independent valuation and due diligence.

13. What is an Asset Sale vs. Share Sale?

- **Asset Sale:** Buyer purchases business assets (equipment, goodwill, etc.) and may also acquire the property. Common for small to mid-size businesses.
 - **Share Sale:** Buyer acquires company shares, taking over existing contracts and liabilities. Often used for larger corporations.
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14. What are zoning and land-use considerations?

Zoning laws dictate what type of activities are allowed on a property — for example, retail, residential, industrial, or mixed-use. Before purchasing, verify zoning and whether your intended use requires a variance or special permit.

15. What is a 1031 Exchange (U.S.) or Like-Kind Exchange?

These allow you to defer capital gains tax when selling one investment property and purchasing another qualifying property. Rules are strict — you must identify a replacement within 45 days and close within 180 days.

16. What are typical closing costs for commercial transactions?

Usually 2–6% of purchase price, including legal fees, title insurance, appraisal, due diligence inspections, environmental reports, and financing costs.

17. What are common lease negotiation points for tenants?

- Base rent and escalation clauses
 - Length of term and renewal options
 - Tenant improvement (TI) allowance
 - Exclusivity and co-tenancy clauses
 - Maintenance and repair obligations
 - Sublease and assignment rights
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18. What are common risks in commercial real estate?

- Market downturns affecting rents and values
- Tenant defaults or vacancies
- Unexpected capital expenses (roof, HVAC, parking lots)
- Zoning or regulatory changes
- Environmental contamination

Mitigate risk through careful due diligence, insurance coverage, and contingency reserves.

19. How can I maximize return on a commercial investment?

- Improve tenant quality and lease terms
 - Reduce operating costs
 - Reposition or redevelop underutilized space
 - Refinance to lower interest rates
 - Leverage tax strategies like depreciation and 1031 exchanges
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20. What professionals should be on my team?

- Commercial Realtor/Broker
- Real Estate Lawyer
- Accountant or Tax Advisor
- Mortgage Broker or Banker
- Building Inspector or Engineer
- Environmental Consultant

- Property Manager

Having the right team ensures a smoother and safer transaction.

Closing Tip

Commercial real estate is a powerful wealth-building tool, but success depends on informed decision-making, professional advice, and thorough research. Every property and business is unique — align your strategy with your financial goals, and always verify facts before committing.

For more guidance, contact your commercial real estate professional to discuss market trends, valuation tools, and available listings.