



Commercial Real Estate Guide



The world of commercial real estate (CRE) offers a number of benefits for established businesses looking to grow operations and improve stability, cash flow, and capital appreciation.





Perhaps you are looking for an ideal space for your business operation. Or, maybe you're envisioning the potential returns commercial real estate property may yield for you as an investor.

This guide covers a variety of topics to help you better understand the complexities of commercial real estate.

Explore how to navigate purchasing steps, compare buying and leasing, consider financing options, and get the most out of commercial real estate.

Whether you're entering into the commercial real estate world as a business owner or an investor, Wells Fargo offers guidance as you navigate the lending process and provides financing for owner-occupied and investment properties. Utilize the insights and tips in this guide as you pursue your commercial real estate venture.

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4 steps to remember when purchasing commercial real estate

Whether you're a business owner or an investor, include these items on your real estate to-do list.

As you prepare to shop for commercial real estate, you may have a lengthy list of considerations and to-dos. In searching for the right investment, you'll want to be sure the property has potential to yield a return. Though, if you're a business owner, ensuring this real estate will foster continued growth is likely at the top of your list.

To set yourself up for a smooth acquisition: aim to establish clear objectives, collect the proper documentation, research the property history, and focus on building a positive landlord-tenant relationship.

1 **Set objectives**
Clearly identify your expectations and understand which terms you are willing to negotiate on. For example, as an investor, how much are you allocating for property improvements? If your budget only covers the down payment and closing costs, then you won't want to view properties that need major renovations.

If you're a seasoned owner, you may only be interested in properties in a specific neighborhood because you know your client base resides there. Keep your search in scope, as overspending or compromising in the wrong areas could put your business or investment property at a future risk.



2 Prepare documents
If you've chosen to finance your purchase with a loan, it's important to be ready with the necessary documentation to help prevent delays. The required documents will likely depend on your intentions for the property.

For instance, during the loan process, a business debt schedule is only required for owner-occupied commercial real estate. In comparison, commercial real estate investors must provide current rent roll and lease agreements.

For more detailed information, Wells Fargo offers checklists that identify the documents required for financing commercial real estate valued up to \$5 million.¹ Talk to a banker to learn more.

3 Study the property history
Take time to research the history of a property and the current state of the surrounding area. Gaining this insight may help you handle potential challenges during the lending process or once you own the property.

For example, perhaps the property previously housed a gas station. Were there ever above- or below-ground tanks? Maybe the location is currently occupied by a dry cleaner. Are they using or storing chemicals onsite?

Similar considerations for the local community should also inform a decision. What other types of businesses are nearby? How successful are their operations based on the local economy? How does this relate to your business? How will the property values affect an investment opportunity? Balance the answers to these questions with your knowledge of where your client base lives.

4 Establish a positive landlord-tenant relationship
As an investor or as a business owner occupying only a portion of the property, you may plan to rent out the extra space to tenants. In this case, it's especially important to set clear expectations and build good rapport from the start.

First, learn your rights as a landlord. For this task, it might be helpful to consult a legal professional. To best protect yourself, your business, and your assets, be sure all tenant expectations are clearly established in a written contract.

Consider all aspects of the lease agreement, including the length of the lease, which utilities will be included (e.g., water, electricity, etc.), and which upgrades you're willing to cover.

Clearly identify your expectations and understand which terms you are willing to negotiate on.



¹ Financing from \$50,000 to \$1,000,000 on purchase and refinance loans in first lien position; \$50,000 to \$500,000 for equity loans and lines of credit, cash-out on refinance loans, and second lien position refinance loans.



Considerations for buying vs. leasing commercial property

Explore the benefits, considerations, and costs to determine the best option for you.

	Buying and owning	Leasing and renting
Benefits	<p>Control – Design and improve a property.</p> <p>Stability – Budget and plan with knowledge of mortgage payments and avoid losing a location due to rising rent or non-renewal at the end of a lease.</p> <p>Financial benefits – Build equity in the property and potentially benefit from capital appreciation and more income from market rent increases.</p> <p>Opportunity – An owner using only part of a property might rent out extra space and create a secondary income stream.</p>	<p>Liquidity – Tie up less funds by leasing. Growing businesses can allocate money elsewhere.</p> <p>Flexibility – Potentially lease a more expensive property, move to a new location without having to sell, or trial an area by leasing in it first.</p> <p>Low property responsibility – The landlord is responsible for repairs and maintenance while the leasee can focus on the business.</p>
Considerations	<p>Less liquidity – Assets tied up in the property. Recovering assets could mean selling or utilizing a cash-out refinance.</p> <p>Potential capital loss – The property's value could decline, resulting in a potential capital loss when selling.</p> <p>Liability – The owner may be responsible for injuries on the property. If the property is rented, the owner may be subject to property manager liability.</p>	<p>Less control – Rent could increase and strain budget. Leasees also have less freedom to make changes to the space.</p> <p>No equity or appreciation – You won't accumulate equity or potentially benefit from capital appreciation.</p>
Credit-specific considerations	A business with the borrowing power to take on a mortgage might lean towards buying. Note that credit profiles will be analyzed during the purchasing process.	When financing equipment or other investments, leasing may help a business avoid using its available credit on a large mortgage.
Costs	Expect to provide a down payment and pay an application and potentially an appraisal fee.	Signing a lease requires less cash up front. Costs typically include a security deposit, plus the first and last months' rent.

For more information about the tax implications or benefits of buying or leasing a commercial real estate property, consult with a tax advisor.



Discover the benefits of commercial real estate financing

The chart below provides information about the variety of financing available to you to fit your business needs.

	Purchase Loan	Refinance Loan	Equity Loan	Equity Line of Credit
Great for	Buying commercial property for your business Small business owners expanding to a new location Real estate investors purchasing commercial property to lease to a tenant	Paying off an existing mortgage on your commercial property for a lower rate or a longer term Refinancing a private party or maturing loan Leverage equity when refinancing an existing commercial real estate loan for property improvements, business expansion, or business expenses	Funding property improvements Expanding your business Purchasing large equipment	Funding property improvements Expanding your business Purchasing large equipment
Loan amounts	\$50,000 to \$1 million	\$50,000 to \$1 million	\$50,000 to \$500,000	\$50,000 to \$500,000
Title and escrow fees¹	Standard for purchase loans, no lender closing fees	None	None	None
Appraisal fee	None	None	None	None
Loan-to-value ratio	Up to 80%	Up to 75%	Up to 75%	Up to 75%

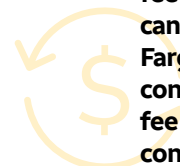
Other features



Low closing costs and competitive rates.²



A wide variety of term options – Term options are available in fixed or prime-based adjustable interest rates.



Wells Fargo offers rate and fee match assurance so you can decide confidently. Wells Fargo will match or beat a competing offer (rate and fee combination), when a competitor's formal written approval is provided, or pay you \$200*.

¹ If environmental insurance or an environmental assessment is required, you will be responsible for this one-time fee. You will be responsible for any mortgage or deed of trust filing fee imposed by a state or other taxing authority. Wells Fargo Bank will pay title policy costs, but you will be responsible for all other title-related closing or attorney fees and costs.

² Based upon analysis of application, appraisal and origination fees, and interest rates, for competing U.S. lenders as compiled by an independent third-party research firm on a quarterly basis.

*Terms for credit products are subject to final credit approval of the business and when applicable, its owners. A physical address is required to receive a Wells Fargo business credit product. Terms and conditions apply. Please speak with a banker to discuss eligibility requirements.



Property types eligible for commercial real estate financing

Type	Description
Multi-family	Residential properties with 5+ family units.
Mixed-use	Property contains both business (commercial) and residential spaces.
Office	Commercial property with primary use as non-retail space, with layout improvements of a typical office environment.
Retail	Commercial property with primary use as storefront(s).
Warehouse	Commercial property with primary use for storage of goods. May include small office space.
Light industrial	Commercial property that is zoned for industrial use, typically for manufacturing but may include office or warehouse use. Would exclude refining and heavy manufacturing.
Commercial condo	Commercial unit (typically retail or office) in which the owner has an interest in improvements and a partial undivided interest in the land. First lien position only.
Special purpose	Commercial properties designed for single end-use and cannot be converted to other uses without significant investment. Generally, these are businesses with few potential buyers or sellers at any one time. First lien position only. Generally accepted special-purpose property types: amphitheater, amusement park, auto repair/ auto body, car wash, convalescent home / care facility, crematorium/mortuary, day care/preschool, funeral home, health club/ gym, ice or roller skating rink, movie theater, parking garage, refrigerated warehouse, restaurant, school (non-public), self-storage facility, medical/dental facility, gas station (less than 10 years old).

Line of credit options

When working capital is needed, small business owners have a few options when it comes to lines of credit. Below is a comparison of three options designed specifically for businesses.

	Business Line of Credit	Prime Line of Credit	Commercial Equity Line of Credit
Great for	<ul style="list-style-type: none"> Supplementing cash flow Expanding your business Covering unexpected expenses 	<ul style="list-style-type: none"> Providing short-term working capital Covering large purchases Making bulk purchases for pricing advantages 	<ul style="list-style-type: none"> Supplementing cash flow Expanding your business Covering unexpected expenses
Revolving credit limits	\$5,000 to \$100,000	\$100,000 to \$500,000	\$50,000 to \$500,000
Benefits	<ul style="list-style-type: none"> No collateral required Rewards program Evergreen 	<ul style="list-style-type: none"> Secured by business assets¹ Interest-only payments 1-year draw period, renewable annually 	<ul style="list-style-type: none"> Secured by commercial property No application fee; no appraisal fee 5-year draw period
Other considerations	<ul style="list-style-type: none"> Annual fee Multiple ways to access the account 	<ul style="list-style-type: none"> Origination fee Annual review 	<ul style="list-style-type: none"> Origination fee Annual fee (after the first year)² Early closure fee if closed within first three years



A variety of lines of credit are offered to support working capital needs.

¹ The security interest taken will be a first priority lien on all present and future accounts receivable, inventory, equipment, general intangibles and certain other non-cash personal property owned by the applicant business, and a Uniform Commercial Code financing statement will be filed against the applicant business to perfect the security interest.

² After the first year of the 5-year draw period, a fee of 0.25% of the line amount will be assessed annually for the remainder of the draw period; minimum of \$250 and maximum of \$1,000 yearly.



Loan option

Commercial Real Estate Equity Loan

Great for	<ul style="list-style-type: none"> Funding owner-occupied property improvements Expanding your business Purchasing large equipment
Loan amounts	\$50,000 to \$500,000
Considerations	<ul style="list-style-type: none"> Low closing costs Competitive rates – fixed or prime-based adjustable Wide variety of term options, up to 25 years
Other considerations	<ul style="list-style-type: none"> Origination fee Early closure fee for prime-based loans if closed within first three years Pre-payment fee for fixed-rate loans

Commercial real estate products generally come with an origination fee, which typically covers the cost of the property evaluation, standard title work, and loan processing. Depending on the property type, use, or location, environmental insurance may be necessary, and purchase transactions may require state tax or filing fees. Be sure to consult a financial professional as you compare options to suit your needs.

When it comes to purchasing or improving your business property, traditional financing sources may have stricter requirements or take longer to access funding. Weigh the terms, interest rates, fees, and speed of funding carefully when choosing a [financing or credit option](#).



Getting the most out of commercial real estate

Commercial real estate requires careful consideration and deliberate planning. Do your research, work with a professional, and weigh your options. Continue to reference the information in this guide along with other resources found on wellsfargo.com and wellsfargo.com/biz.

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 Equal Housing Lender

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