The Commercial Real Estate Buyer Guide

ACQUIRING OWNER OCCUPIED AND INCOME PRODUCING PROPERTY

Commercial acquisition is an underwriting exercise before it is a real estate one. This guide covers how to define the asset, how to verify income instead of trusting a marketing package, how a letter of intent sets your risk, what belongs in a due diligence checklist, and how the closing is actually assembled.

Patricia Kibbe, REALTOR®
The Opulence Realty Group at Epique Realty
832-736-8852 | opulencegrouphtx@gmail.com
instagram.com/patriciakibbe_ | patriciakibbe.app

A Note From Patricia



Commercial deals reward the party that reads carefully and asks the uncomfortable question early. I came from twelve years in the legal field, and documents are where I am most useful to you. I will get you the leases, the expenses, and the title exceptions, and I will tell you what I see in them, including when the answer is that we should walk.

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Step One: Define the Asset and the Objective

- Owner occupied for your business, stabilized income, or a value add repositioning. These are three different deals with three different risk profiles.
- Confirm permitted use. Houston has no traditional zoning, but deed restrictions, plats, parking requirements, and city ordinances still control what you can do.
- Match the capital structure to the plan: conventional commercial debt, an SBA 504 or 7a for owner occupied, cash, or a partnership.
- Decide the hold period and the exit before you buy, because both drive how you should structure the debt.
- Choose the ownership entity with your CPA and attorney before contract, not at closing.

Step Two: Underwrite It Yourself

A broker's proforma is a marketing document. We rebuild the numbers from primary sources and treat anything unverified as unproven.

- Read every lease and amendment. Confirm term, escalations, options, expense pass throughs, exclusivity, and termination rights.
- Reconcile the rent roll to actual bank deposits or the trailing twelve months of operating statements.
- Verify real expenses: taxes at the reassessed value after your purchase, insurance quoted today, management, utilities, and repairs.
- Underwrite realistic vacancy and a capital reserve. A roof or a chiller does not care about your model.
- Test the debt service coverage against a higher rate and a longer lease up than you expect.
- Compare rents to the immediate submarket, not to a citywide average.

Step Three: The Letter of Intent Sets Your Risk

Most of the deal is decided before the purchase and sale agreement is drafted. Terms conceded here are difficult to recover later.

- Feasibility period long enough for third party reports, lender review, and municipal responses.

- Earnest money staged, with a clear statement of when it goes hard.
- Access rights for you, your inspectors, and your lender's appraiser, plus a document delivery list with a deadline.
- Extension options priced now, in case a report or an approval runs late.
- Clarify seller deliverables: estoppels, subordination agreements, service contracts, and warranty assignments.

Step Four: Due Diligence Checklist

- Title commitment with every exception document, plus an ALTA survey showing easements, encroachments, and access.
- Phase I environmental report, and a Phase II when the prior use or the Phase I warrants it. Dry cleaners, fuel, and auto uses deserve extra attention.
- Property condition assessment covering roof, structure, mechanical, electrical, and paving, with remaining useful life.
- ADA and life safety review, and confirmation of the certificate of occupancy for the intended use.
- Tenant estoppel certificates confirming what the leases say and that nothing was promised verbally.
- Utility capacity, drainage and detention, and any pending assessments or municipal projects nearby.
- Verify parking count against the requirement for your use, not the current one.

Step Five: Financing, Closing, and the First Ninety Days

- Lender timelines drive commercial closings. Appraisal and environmental ordering should start the week the contract is signed.
- Coordinate estoppels, tenant notice letters, and security deposit transfers before closing, not after.
- Prorate taxes, rents, and prepaid expenses on a written settlement statement you have reviewed line by line.
- Day one: insurance in force, vendor contracts assigned or replaced, and tenants introduced to the new ownership and payment process.

- First quarter: reset the operating budget, review the tax assessment, and protest it if the purchase price supports doing so.

How I Work: Transparency, Integrity, and Privacy

Commercial pursuits are handled quietly. Your interest in a site is not discussed with tenants, competitors, or the market. You will get the documents rather than a summary of the documents, and I will bring in the attorney, CPA, engineer, or environmental consultant the deal requires rather than pretending the answer is mine to give.

Questions Worth Asking

Bring these to me, to your lender, or to your attorney. If I do not know an answer, I will tell you and get it from the right professional. Use the space to write down what you learn.

- ☐ Does the rent roll reconcile to actual deposits?
- ☐ What will taxes and insurance be after my purchase, not before?
- ☐ What capital expense is due in the next five years?
- ☐ What do the estoppels confirm, and do they contradict the leases?
- ☐ What does the environmental history of this site show?
- ☐ Is the current use legally permitted and adequately parked?
- ☐ When exactly does my earnest money go hard?

Speak With Patricia

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