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REAL ESTATE

Buying Your First Commercial Property: Lessons From a 48,000 SqFt Warehouse

By Scott Tischler · July 28, 2026 · 9 min read

I bought my first property in 1998. For the first decade I did what most investors do: single-family houses, small multifamily, the occasional fixer. Then I sold my portfolio ahead of the 2008 crash, waited, and re-entered on the other side. Over those years the deals got bigger, and eventually the largest single purchase I ever made was a **48,000-square-foot warehouse**. That building taught me more about how real estate actually works than the previous twenty houses combined.

If you have done residential and you are staring at your first commercial deal, this is the guide I wish someone had handed me. Commercial is not "residential but bigger." It runs on a different engine, and the mistakes cost more.

A quick, honest note: this is education based on my own experience, not personalized financial or investment advice. Your deal, your market, and your risk tolerance are yours. Talk to your own attorney, CPA, and lender before you sign anything.

Commercial Is Priced on Income, Not Comps

The single biggest mental shift is valuation. A house is worth what the house next door sold for. A commercial building is worth what it **earns**.

The math is **net operating income (NOI) divided by capitalization rate (cap rate)**. NOI is your rents minus operating expenses, before debt and before income tax. The cap rate is the market's required return for that asset class in that location. If a warehouse throws off $300,000 of NOI and the market cap rate is 7.5%, the building is worth roughly $4,000,000 ($300,000 / 0.075).

This changes everything, and it is where the opportunity lives. On a house, you cannot do much to change the value beyond a renovation. On a commercial building, if you raise NOI by $30,000 a year at a 7.5% cap, you just created **$400,000 of value** ($30,000 / 0.075). Signing a better tenant, passing through expenses, or filling vacant square footage is worth far more than it looks. This is called **forced appreciation**, and it is the whole reason serious money moves into commercial.

	Residential	Commercial
Valuation basis	Comparable sales	NOI ÷ cap rate
Typical loan term	15-30 yr amortized	5-10 yr term, 20-25 yr amort, balloon
Down payment	3.5-25%	25-40%
Recourse	Usually personal	Often non-recourse (with carve-outs)
Lease length	12 months	3-10+ years
Value driver	Neighborhood	Tenant quality & lease terms
Due diligence	Inspection	Inspection + environmental + financials

Financing Is a Different Animal

Residential lending is a consumer product with heavy regulation and long, friendly terms. Commercial lending is a **business loan**, and it behaves like one.

Expect **25% to 40% down**. Expect the loan to **balloon** — a common structure is a 5- or 10-year term amortized over 20 or 25 years, meaning your payment is calculated as if you had decades to pay, but the entire remaining balance comes due at year five or ten. You either refinance or sell before that balloon. If you are not planning for the balloon on day one, you are already in trouble.

Lenders underwrite the **property first, you second**. The key ratio is **debt service coverage ratio (DSCR)** — NOI divided by your annual debt payments. Most commercial lenders want a DSCR of at least **1.20 to 1.25**, meaning the building earns 20-25% more than the mortgage costs. On my warehouse, the lender cared far more about the tenant's rent roll and the lease term than about my personal tax returns.

A word on **recourse**. Many commercial loans are non-recourse, meaning the building is the collateral and the lender cannot chase your other assets — but almost every one carries **"bad-boy" carve-outs** for fraud, waste, or environmental contamination. Read those carve-outs. On an industrial property, the environmental carve-out is not boilerplate.

Due Diligence: Where the Real Work Lives

On a house, due diligence is a home inspection and a title search. On commercial, it is a project. Here is what actually mattered on the warehouse.

Environmental

This is the one that can end you. Industrial and warehouse properties have histories — old tenants, stored chemicals, floor drains, buried tanks. You order a **Phase I Environmental Site Assessment**, a records-and-visual review by an environmental firm. If the Phase I flags something, you go to a **Phase II**, which involves actual soil and groundwater sampling.

Do not skip this to save money or close faster. Under environmental law, an owner can be held liable for contamination they did not cause. A Phase I is also what preserves your **innocent landowner defense**. On a 48,000-square-foot slab that had housed who-knows-what for decades, the environmental review was non-negotiable, and my lender required it anyway.

The Lease and the Estoppel

In commercial, **you are buying the lease as much as the building**. Read every page. Who pays taxes, insurance, and maintenance? What are the renewal options and at what rent? Are there co-tenancy clauses, exclusives, or early termination rights?

Then get an **estoppel certificate** — a signed statement from the tenant confirming the rent, the lease terms, the security deposit, and that neither party is in default. The seller's word is not enough. The tenant's signature is.

The Numbers Behind the Numbers

You will get a rent roll and a trailing profit-and-loss statement, usually presented to make the building look its best. Your job is to rebuild the NOI yourself with realistic, market-level expenses. Sellers love to under-state management, maintenance, and vacancy. I underwrite a **vacancy factor** and a **management fee** even when the seller shows zero, because someday the building will sit empty for a stretch or I will hire out management, and the deal has to survive that.

Understand NNN and Who Pays for What

Commercial leases are defined by who carries the operating costs. This is expressed as **gross vs. net**.

In a **triple-net (NNN)** lease, the tenant pays base rent **plus** their share of property taxes, insurance, and maintenance. That is the landlord's friend — predictable income, expenses passed through. In a **gross lease**, the landlord pays those costs out of the rent, and you eat every increase in taxes and insurance.

The catch first-timers miss: **NNN is only as good as the tenant's ability to pay.** A triple-net lease with a shaky local operator is riskier than a gross lease with a national credit tenant. Which brings me to the thing that actually determines whether a commercial deal is good.

Tenant Quality Is the Asset

On a house, a bad tenant is a bad month. On a commercial building with one or two tenants, a bad tenant is the **entire investment**.

I evaluate a commercial tenant the way a lender evaluates me: How long have they been in business? What is their credit and their financial statement? Is this location critical to their operations, or could they walk tomorrow? A tenant who has invested heavily in their space and depends on the location is a tenant who renews. **A long lease with a strong tenant is worth more than a slightly higher rent with a weak one** — because that lease term and credit quality is exactly what a future buyer or refinancing lender pays a premium for.

This is also why single-tenant buildings carry a hidden binary risk. When they are occupied, they are wonderful. When that one tenant leaves, your income goes to zero while the mortgage keeps running. Multi-tenant spreads that risk. There is no free lunch — the multi-tenant building is more management.

Capex Is Bigger, Lumpier, and Yours to Plan

Residential capital expenses are a roof, a furnace, a water heater. Commercial capex on a 48,000-square-foot building is a different order of magnitude: **roofs measured in tens of thousands of square feet**, HVAC systems, parking lots that need resurfacing, and the two line items that surprise everyone — **tenant improvements (TI)** and **leasing commissions (LC)**.

Every time you sign or renew a tenant, you often pay to build out their space (TI) and pay a broker (LC). Those are real, recurring costs of keeping the building leased, and they are not in the pretty pro forma the seller hands you. I set aside **reserves** for capital and for TI/LC from day one. A commercial building that looks like it cash-flows beautifully can quietly bleed out through capex if you did not reserve for it.

A commercial inspection — often a **Property Condition Assessment** — gives you the remaining useful life on the major systems. Use it to build a real capex schedule, not a hope.

Renting by the Room: Squeezing More From Square Footage

One more thing my years taught me, and it applies across property types: the standard use is rarely the highest use. Long before it had a name or venture-backed companies built around the model, I was **renting properties by the room** — co-living, essentially. More doors, more rent per square foot, and a diversified income stream where one vacancy did not sink the whole building.

I mention it here because commercial thinking is fundamentally about **income per square foot**, and that lens travels. When you start valuing a building by what it earns rather than what it looks like, you start asking a better question about every property you own: is this space configured to earn what it could? That question, more than any single deal, is what moved me from houses to a 48,000-square-foot warehouse.

How I'd Approach My First Commercial Deal Again

Start smaller than the warehouse. A small multi-tenant retail strip or a modest industrial building teaches you the mechanics — cap rates, NNN leases, estoppels, DSCR — without betting everything on one tenant. Build a team before you need it: a commercial broker who works that asset class, an attorney who reads leases for a living, an environmental firm, and a lender you have actually talked to about terms. Underwrite conservatively, reserve for capex you cannot see yet, and never let the balloon date sneak up on you.

Commercial rewards the investor who does the boring work. The upside is real — forced appreciation on income is the closest thing to a lever that real estate offers — but it belongs to the people who read the whole lease and order the Phase I.

Key takeaways

- Commercial property is valued by income (NOI ÷ cap rate), which means raising NOI creates outsized value — forced appreciation is the real prize.
- Financing means 25-40% down, DSCR-driven underwriting, and balloon payments you must plan for on day one.
- Environmental due diligence (Phase I, sometimes Phase II) is non-negotiable on industrial property and protects you legally.
- You buy the lease as much as the building — read every clause and confirm terms with a tenant estoppel certificate.
- Tenant quality and lease length are the asset; a strong long-term tenant is worth more than a marginally higher rent.
- Capex is lumpier and includes tenant improvements and leasing commissions — reserve for it from the start.

Frequently asked questions

How much money do I need to buy a commercial property?

Plan on 25% to 40% of the purchase price as a down payment, plus closing costs and cash reserves for capital expenses and tenant improvements. Commercial lenders underwrite the building's income first and your finances second, but they still want to see reserves. Budget more cushion than you think you need, because commercial capex arrives in large, lumpy amounts.

What is a cap rate and how does it set value?

A capitalization rate is the market's required return for a given asset class and location. You divide the property's net operating income by the cap rate to estimate value, so a $300,000 NOI at a 7.5% cap implies roughly a $4 million building. Lower cap rates mean higher prices and are typical of stronger markets and safer tenants.

What is a triple-net (NNN) lease?

In a triple-net lease the tenant pays base rent plus their share of property taxes, insurance, and maintenance, leaving the landlord with more predictable income. It shifts operating-cost risk to the tenant, which is favorable for the owner. But an NNN lease is only as strong as the tenant's ability to keep paying, so tenant quality still matters most.

Why is environmental due diligence such a big deal?

Under environmental liability law, a property owner can be held responsible for contamination even if a prior owner or tenant caused it. A Phase I Environmental Site Assessment reviews the site's history and helps preserve your innocent-landowner defense; a Phase II involves actual soil and groundwater testing if problems are flagged. On industrial and warehouse properties this review is essential and usually required by the lender.

What is a balloon payment and why does it matter?

Many commercial loans amortize over 20-25 years but the full remaining balance comes due at year 5 or 10 — that lump sum is the balloon. You must refinance or sell before it hits, which exposes you to whatever interest rates and lending conditions exist at that future date. Plan your exit or refinance strategy the day you close, not the year the balloon arrives.

How is commercial due diligence different from a home inspection?

It is far broader. Beyond a physical inspection or Property Condition Assessment, you review environmental reports, rebuild the property's financials with realistic expenses, read every lease in full, and obtain estoppel certificates from tenants confirming the terms. You are verifying the income stream, not just the structure, because income is what you are actually buying.

Is a single-tenant or multi-tenant building better for a first-timer?

Single-tenant buildings are simpler to manage but carry binary risk — when that tenant leaves, income drops to zero while the mortgage continues. Multi-tenant buildings spread that vacancy risk across several tenants but require more active management. For a first commercial deal, a modest multi-tenant property often teaches the mechanics with less catastrophic downside.

Can the skills from residential real estate transfer to commercial?

The discipline transfers — underwriting conservatively, reserving for capital costs, and vetting tenants carefully. But the framework changes: you must learn income-based valuation, cap rates, DSCR, commercial lease structures, and environmental review. Start smaller than your ambition, build a team of a commercial broker and a real estate attorney, and let the first deal be your education.

About the author. Scott Tischler is the Founder & Chairman of AIrecommend.ai and a practitioner-authority on AI search and Answer Engine Optimization. With 20+ years in marketing technology — including American Express, MetLife, and UBS — and executive study at Wharton, Harvard, Yale, and Oxford, he helps businesses become the ones AI recommends.