

# Commercial Real Estate Closing Kit

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# Introduction

This comprehensive kit is designed to guide you through the complexities of commercial real estate transactions, from initial planning to post-closing considerations.

# Business Structures for Commercial Real Estate

## LLC (Limited Liability Company)

LLCs are popular for commercial real estate investments due to their flexibility and liability protection. Benefits include:

- Personal asset protection
- Pass-through taxation
- Flexibility in management structure

## LP and LLC Hybrid

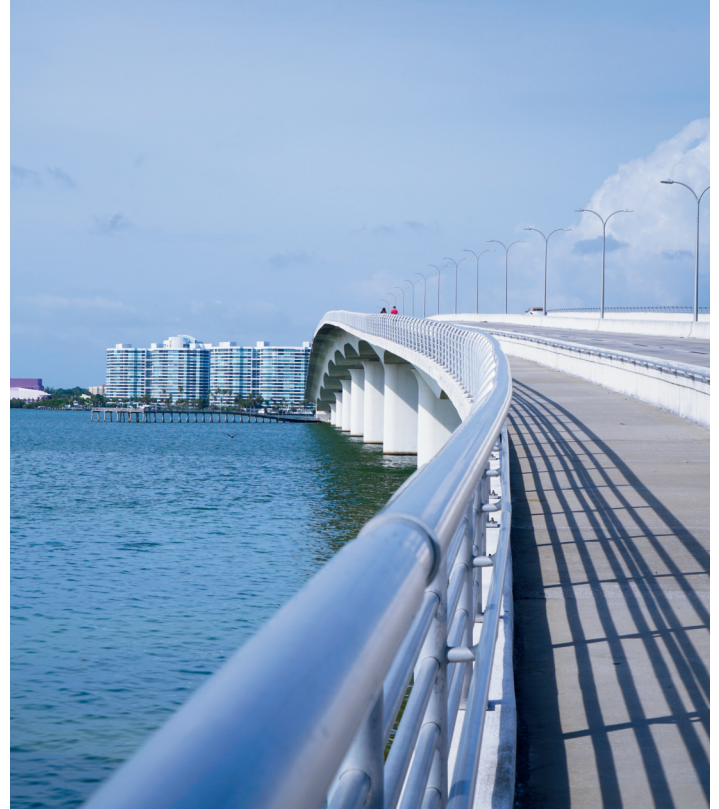
This structure combines a Limited Partnership (LP) with an LLC acting as the general partner.

Advantages include:

- Additional layer of asset protection
- Separation of management and ownership
- Potential tax benefits in certain states



# Tax Considerations & Liability and Asset Protection



## Capital Gains Tax

Capital gains tax applies when selling commercial property at a profit. Key points:

- Long-term capital gains rates apply to properties held over one year
- Rates vary based on income level (0%, 15%, or 20% for 2023)

## Tax Deferral Strategies

- 1031 Exchange: Defer capital gains by reinvesting in a similar property
- Opportunity Zone Investments: Defer and potentially reduce capital gains tax
- Installment Sale: Spread capital gains tax liability over multiple years

## Liability and Asset Protection

- Use separate LLCs for each property to isolate risks
- Maintain proper insurance coverage (property, liability, umbrella)
- Implement strong lease agreements and property management practices



# The Commercial Real Estate Transaction Process & Due Diligence Checklist



## The Commercial Real Estate Transaction Process

- Initial Planning and Property Search
- Underwriting and Financial Analysis
- Letter of Intent (LOI)
- Due Diligence
- Purchase and Sale Agreement
- Financing
- Closing

## The Commercial Real Estate Transaction Process

- Title search and insurance
- Property survey
- Environmental assessment
- Building inspection
- Zoning and land use review
- Financial analysis (rent rolls, operating statements)
- Lease review
- Property tax assessment



# Key Contract Elements & Buyer's Guide



## Key Contract Elements

- Purchase price and payment terms
- Due diligence period and contingencies
- Representations and warranties
- Closing date and conditions
- Allocation of closing costs
- Prorations (taxes, rents, utilities)
- Default provisions and remedies

## Closing Day Preparation

- Clearly define investment goals and criteria
- Assemble a team of professionals (broker, attorney, accountant)
- Conduct thorough market research
- Perform comprehensive due diligence
- Negotiate favorable contract terms
- Secure appropriate financing
- Plan for post-acquisition management



# Seller's Guide

- Prepare property for sale (address deferred maintenance, compile documents)
- Determine optimal pricing strategy
- Consider tax implications and 1031 exchange options
- Disclose material property information
- Negotiate favorable contract terms
- Prepare for due diligence inquiries
- Plan for transition of property management







# Closing Day Preparation

- Review closing statement
- Verify all required documents are prepared
- Confirm wire transfer instructions
- Arrange for property access (keys, codes, etc.)
- Schedule final walk-through
- Bring proper identification and any required funds

# Post-Closing Steps

- Record deed and other necessary documents
- Update insurance policies
- Notify tenants and vendors
- Implement new property management plan
- Address any post-closing adjustments or prorationss



# FAQs

**Q: How long does a typical commercial real estate transaction take?**

A: The process can vary widely, but generally takes 60-180 days from offer acceptance to closing.

**Q: What are the main differences between residential and commercial real estate transactions?**

A: Commercial transactions often involve more complex due diligence, larger sums of money, and fewer consumer protections.





# Resources

National Association of Realtors (Commercial): [www.nar.realtor/commercial](http://www.nar.realtor/commercial)

Urban Land Institute: [www.uli.org](http://www.uli.org) | CCIM Institute: [www.ccim.com](http://www.ccim.com)

Remember, commercial real estate transactions are complex and can have significant financial implications. Always consult with qualified legal, tax, and real estate professionals before making any decisions.



# Checklist

## Due Diligence (Buyer)

- Review title report
- Conduct property inspection
- Review lease agreements (if applicable)
- Obtain environmental assessment
- Review zoning and land use regulations
- Verify property tax information
- Obtain property survey
- Review financial statements and rent rolls

## Pre-Closing (Both Parties)

- Finalize purchase agreement
- Obtain necessary board/member approvals
- Secure financing (if applicable)
- Obtain title insurance commitment
- Review closing statement
- Arrange for wire transfer of funds
- Prepare entity resolutions authorizing the transaction



## Seller-Specific Tasks

- Provide all necessary property documents
- Disclose any known property issues
- Prepare deed for transfer
- Arrange for payoff of existing loans (if applicable)
- Provide tenant estoppel certificates (if applicable)

## Buyer-Specific Task

- Secure property insurance
- Schedule final property walk-through
- Confirm all contingencies have been met
- Prepare for property management transition



# Checklist



## Closing Day

- Bring company seal (if applicable)
- Bring proper identification for signatories
- Review and sign all closing documents
- Deliver closing funds
- Obtain keys, access codes, and other property access items


## Post Closing

- Record deed and other necessary documents
- Update insurance policies
- Notify tenants of ownership change (if applicable)
- File any required tax forms
- Update accounting records

# NOTES & IMPORTANT REMINDERS



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