Frost

Small Talk

COMMERCIAL REAL ESTATE FINANCING: Is Your Business Ready to Buy?

UNDERSTAND HOW COMMERCIAL REAL ESTATE FINANCING CAN SUPPORT GROWTH AND HELP YOU MAKE THE RIGHT MOVE FOR YOUR BUSINESS

At some point, many business owners start asking the same question: Should I keep leasing, or is it time to buy?

Maybe your rent keeps increasing. Maybe you need more room for inventory, equipment or employees. Or maybe you are ready to stop paying a landlord and start building equity.

Buying commercial real estate can be an exciting step. It eliminates rent payments, creates more stability and builds equity for the future. But before you start looking at properties, it is important to understand how financing works and whether ownership makes sense for where your business is today.

WHAT IS OWNER-OCCUPIED REAL ESTATE FINANCING?

An owner-occupied real estate loan helps you finance property where your business occupies at least 50% of the space.

This could include purchasing an office, warehouse, retail location, medical practice or restaurant space. These loans can also help you improve or refinance your current property.

The biggest advantage is simple: instead of paying rent each month, you are investing in your own asset. Many owner-occupied real estate loans offer long-term financing, fixed rates and predictable monthly payments, which can make planning easier as your business grows. Before pursuing this option, however, it's important to know what lenders actually evaluate.

WHAT SHOULD YOU CONSIDER BEFORE BUYING?

The first question is not how much building you can afford, but whether buying supports your overall business goals.

Before moving forward, ask yourself:

- Do you plan to stay in this location long term?
- Will your space needs grow over the next five to 10 years?
- Would owning improve your monthly cash flow compared to leasing?
- Do you have enough cash for a down payment and other upfront costs?
- Would your capital be better used for hiring, inventory, marketing or equipment right now?

For some businesses, buying creates long-term value and stability. For others, leasing may still be the better fit, especially if flexibility is a current priority.

KNOW WHAT LENDERS ARE LOOKING FOR

The core question lenders ask is if your business can comfortably support the loan payment. This comes down to cash flow and debt service coverage ratio (DSCR) — a measure of whether your business generates enough income to cover its debt obligations. Lenders stress test your revenue for potential drops and expenses for increases, so the stronger and more consistent your cash flow, the better your position.

Many owners should plan for around 20% down, although equity requirements can vary depending on the loan amount and structure. A common misconception is that the property's value determines how much you can borrow. In reality, lenders focus on your ability to repay.

WHAT IF YOUR BUSINESS IS STILL NEW?

Most lenders require 2-3 years of established business history and clean financials before financing real estate. If your revenue is inconsistent, or your space needs are still evolving, leasing may give you more flexibility. Buying too early can drain cash that may be better used for staffing, equipment or day-to-day operations.

That does not mean buying is off the table. It simply means the best financing decisions happen when your business is ready.

LOOK BEYOND THE INTEREST RATE

When comparing loan options, the interest rate is only part of the decision. Compare repayment terms, amortization schedules, balloon payments, prepayment flexibility and how the loan fits into your monthly cash flow. Commercial loans typically amortize over 20-25 years, affecting cash flow differently from residential loans. A lower rate does not always mean the better loan. The goal is to find financing that works for your business, not just the option with the lowest headline number.

If conventional financing doesn't fit, you can explore alternatives like SBA 7(a) or 504 programs with your lender.

DOES IT MATTER WHO YOU BORROW FROM?

Yes. Commercial real estate is a major investment, and the right lender should do more than offer financing. They should help you understand your options, answer tough questions, and make sure the structure supports your long-term goals.

If ownership is on the horizon, our Frost business banking team can help you evaluate the options and choose the financing solution that fits your business best.