

Nine Landmines to Avoid When Selling a Commercial Building

Even seasoned owners commonly miss #4, #5, and #9.

For most owners, selling a building is one of the largest financial decisions of their lives, and it usually happens only once. The costly mistakes rarely come from bad luck. They come from a handful of predictable situations that are easy to avoid when they are known in advance.

This brief describes nine of them, explains why each happens, and lists the steps owners take to protect themselves.

How to read this brief. The nine landmines are grouped by when they occur: before the sale, while the buyer is under contract, and after the check clears. Each ends with the steps owners take to protect themselves. Numbered references are listed on the final page. A companion guide, *How to Vet a Buyer: 12 Questions to Ask Before You Sign*, turns them into questions for any buyer.

PART ONE

Timing the sale

Two landmines that cost owners money before a buyer is ever involved.

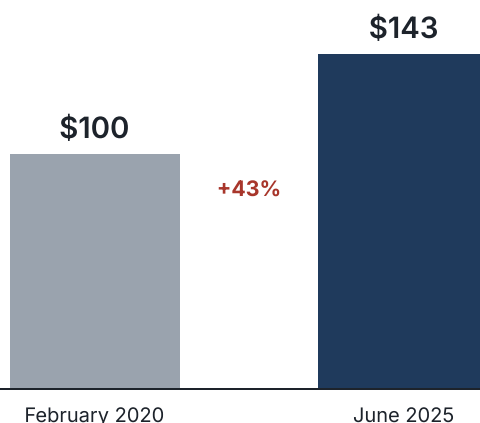
1 Holding while capital costs rise

As buildings age, the roof, HVAC units, parking lot, and code updates tend to come due within a few years of each other. Each repair belongs to whoever owns the building when it fails. Buyers price known issues into their offers either way, so owners who hold too long often pay for the repair and then take the discount anyway.

The cost of those repairs has climbed sharply. Prices for nonresidential construction materials rose 43% between February 2020 and June 2025,¹ and rose another 11.2% in the twelve months ending September 2026.²

EXHIBIT 1

What \$100 of construction materials cost in February 2020 cost \$143 by June 2025



Source: Associated Builders and Contractors analysis of U.S. Bureau of Labor Statistics Producer Price Index data.¹ Prices rose a further 11.2% year over year as of September 2026.²

HOW OWNERS PROTECT THEMSELVES

Estimate the next five years of capital costs before deciding to hold, and compare that number to the price available today.

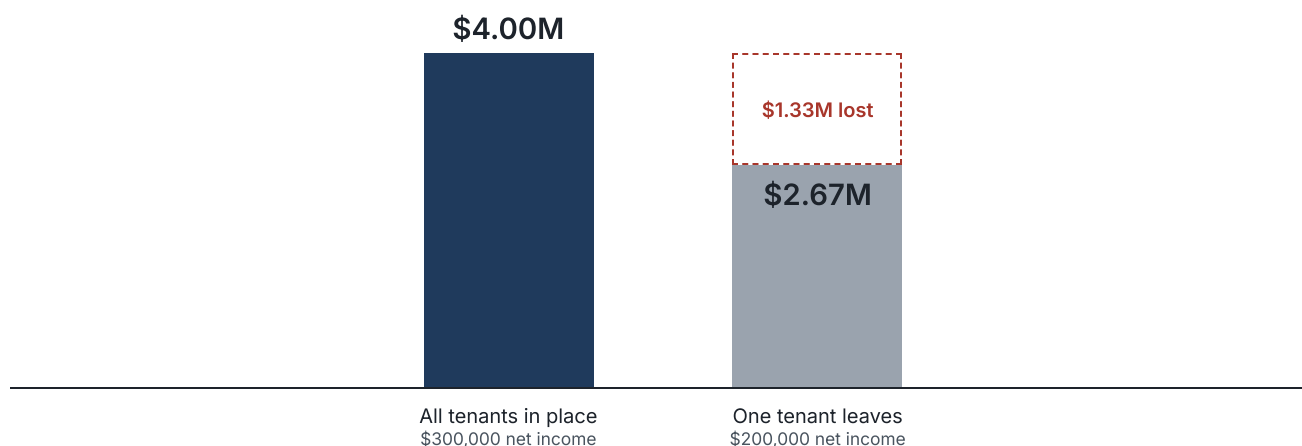
2 Selling into a lease rollover

A building's value rests on its income. When a major tenant has less than two years left on a lease, buyers price in the chance that the tenant leaves. If the tenant does leave before a sale, the owner carries a vacant space, the cost of finding a replacement, and a lower sale price.

Because buyers value a building as a multiple of its income, a single tenant departure can remove far more value than the lost rent itself.

EXHIBIT 2 | ILLUSTRATIVE EXAMPLE

One tenant leaving can cut a building's value by one third



Illustrative only. Assumes a building valued at a 7.5% capitalization rate, with one tenant paying \$100,000 of the building's \$300,000 in annual net income. Value equals net income divided by the cap rate. Leasing costs and vacancy time would reduce value further.

HOW OWNERS PROTECT THEMSELVES

Know the expiration dates of the largest tenants, and either sell with meaningful lease term remaining or secure a renewal first.

PART TWO

Vetting the buyer

Five landmines that occur after the contract is signed and the buyer controls the property.

3 Show me the money

Many buyers sign a contract before they have the money. They plan to raise the down payment from investors while the building is under contract. If the investors don't commit, the buyer asks for more time or walks away, and the seller has lost months.

A buyer who says the money is "lined up" has not shown that it exists.

HOW OWNERS PROTECT THEMSELVES

Before signing, ask the buyer to show proof of funds for the full down payment, such as a recent bank or brokerage statement. If investors are funding the purchase, ask whether they have already committed. Ask how many deals the buyer has closed in the last two years.

4 A buyer who can't secure the bank loan

COMMONLY MISSED

A buyer can have the cash and still fail to close. The appraisal comes in low, the lender tightens its terms, or the buyer's track record doesn't satisfy the bank. A financing contingency lets the buyer walk with the deposit, often late in the process.

Commercial lending remains selective. In the Federal Reserve's July 2026 survey of bank loan officers, a moderate share of banks described their standards for commercial property loans as tight compared with their range since 2005, and a significant share said construction and land loan standards were at the tighter end of that range.³

HOW OWNERS PROTECT THEMSELVES

Ask who the lender is, whether the buyer has closed with that lender before, and whether the deposit is still at risk if the loan falls through.

5

Tenant contact before the buyer is committed

COMMONLY MISSED

Buyers often interview tenants during diligence, and some discuss future rent increases. If that buyer walks, the tenants now know the building is for sale and that rents may rise. Some start touring other space, delay renewals, or negotiate harder.

The damage outlasts the failed deal. The next buyer underwrites a less stable rent roll and offers less, and the owner is left managing tenants who know a sale is coming.

HOW OWNERS PROTECT THEMSELVES

Allow tenant contact only after the deposit is non-refundable, and control who speaks to tenants and what is said.

6

Long diligence with a refundable deposit

Standard contracts give buyers 30 to 90 days of diligence with a fully refundable deposit. During that time the buyer controls the property. Some use it to test the leasing market, shop for financing, or raise money, and they can walk for any reason. Meanwhile, the other interested buyers move on.

HOW OWNERS PROTECT THEMSELVES

Negotiate a shorter diligence period and a fixed date when the deposit becomes non-refundable.

7 The late-diligence price reduction

On day 59 of a 60-day diligence period, the buyer presents a property condition report and asks for a price reduction, often in the hundreds of thousands of dollars. The timing is deliberate. By then the seller has told family, made plans, and lost the backup buyers.

The report itself is scoped by the buyer, who decides what to inspect and how to estimate repair costs.

HOW OWNERS PROTECT THEMSELVES

Ask how many of the buyer's recent contracts closed at the contract price, and disclose known issues up front so they can't be "discovered" later.

PART THREE

Protecting the proceeds

Two landmines that determine how much the owner and family keep.

8 No tax and reinvestment plan before signing

A sale can trigger three federal taxes at once: capital gains tax of up to 20%, tax of up to 25% on the depreciation taken over the years, and the 3.8% net investment income tax.^{4,5} State tax comes on top.

Tools that reduce the bill, such as a 1031 exchange or an installment sale, must be set up before closing, and often before signing. A 1031 exchange allows 45 days to identify a replacement property and 180 days to close, with no extensions for hardship.⁶ Owners without a plan often end up holding cash that earns less than the building did.

EXHIBIT 3 | ILLUSTRATIVE EXAMPLE

On a \$4.0 million sale, federal tax alone can exceed \$640,000

Owner keeps about \$3.36M

\$645K

\$4.0M sale price

Federal tax, before state tax

Illustrative only. Assumes a \$2.5 million taxable gain, including \$1.0 million of depreciation, taxed at top federal rates.^{4,5} Actual results depend on each owner's situation.

HOW OWNERS PROTECT THEMSELVES

Meet with a CPA and financial advisor before signing a letter of intent, and decide in advance where the proceeds will go.

9 No plan for heirs or family

COMMONLY MISSED

Many owners manage their buildings personally, with the leases, vendors, and history kept in their heads. If the owner can no longer manage, a spouse or children inherit the building and the decisions, often under time pressure. Sales made under pressure rarely get the best terms.

Inheritance also changes how a property is taxed. That is worth understanding with an estate attorney and CPA before deciding when, and whether, to sell.

HOW OWNERS PROTECT THEMSELVES

Decide whether the family should inherit the building or the proceeds, document how the property runs, and review the plan with an estate attorney.

References

1. Associated Builders and Contractors, "June Nonresidential Construction Materials Prices Up 2.5% Year-Over-Year, 43% Since February 2020," July 2025, based on U.S. Bureau of Labor Statistics data. [constructionexec.com](https://www.constructionexec.com)
2. Associated Builders and Contractors, September 2026 construction input price analysis, reported by Rock Products, October 15, 2026. [rockproducts.com](https://www.rockproducts.com)
3. Board of Governors of the Federal Reserve System, "Senior Loan Officer Opinion Survey on Bank Lending Practices," July 2026. [federalreserve.gov/data/sloos/sloos-202607.htm](https://www.federalreserve.gov/data/sloos/sloos-202607.htm)
4. Internal Revenue Service, Topic No. 409, "Capital Gains and Losses." [irs.gov/taxtopics/tc409](https://www.irs.gov/taxtopics/tc409)
5. Internal Revenue Service, "Net Investment Income Tax." [irs.gov/niit](https://www.irs.gov/niit)
6. Internal Revenue Service, Fact Sheet FS-2008-18, "Like-Kind Exchanges Under IRC Code Section 1031." [irs.gov](https://www.irs.gov)

About the examples. Exhibits 2 and 3 are simplified illustrations built from published tax rates and standard valuation math. They are meant to show the size of each risk, not to predict any specific owner's result.

This brief is general information for commercial property owners. It is not tax, legal, or investment advice. Owners should consult their own CPA, attorney, and financial advisor before making decisions about a sale.

From Good Harbor Commercial Real Estate. Want a straight number on your building, or a second opinion on a buyer? Call or text 617.398.4324, or visit [goodharborcre.com](https://www.goodharborcre.com).