

A logo featuring a stylized building with a grid of windows and a row of three trees with green foliage and a yellow sun-like circle above them.

The Commercial Branch



WHAT IS A COMMERCIAL MORTGAGE?

A commercial mortgage covers many types of borrowing entities and types of security (property), the common denominator is all lending is secured against property or land.

Here are the different entities to acquire a commercial mortgage:

- ✓ Trading business
- ✓ Investment companies typically known as special property vehicles (SPV's)
- ✓ Sole traders
- ✓ Partnerships
- ✓ Limited Liability Partnership (LLP)
- ✓ Trusts
- ✓ Unlimited companies



HERE ARE THE DIFFERENT TYPES OF SECURITIES/PROPERTY



- ✓ Warehouses
- ✓ Offices
- ✓ Retail buildings
- ✓ Multi-Unit freehold blocks of residential flats
- ✓ Land with planning for development; be that residential or commercial.
- ✓ Mixed commercial (residential and commercial properties under the same title)
- ✓ Hospitality
- ✓ Health Care
- ✓ Agricultural buildings and land.

At The Commercial Branch we categorise the different types of lending within commercial mortgages, explaining in more detail what each entails and the possibilities for securing the debt, required for your desired transaction.

HOW DO I GET A COMMERCIAL MORTGAGE

Across the commercial mortgage market there are a vast array of lenders who all consider different types of commercial mortgages and entities, a common trait is for customers to first approach their bank. However, this narrows down what options the customer has, compared to across the market.

We recommend customers speak to several commercial brokers, only to instruct one to act for them when sourcing deals from across the market, giving the customer a professional and comprehensive view of what is possible without tainting the market from themselves.



WHAT HURDLES WILL I ENCOUNTER WHEN APPLYING FOR A COMMERCIAL MORTGAGE



The hurdles you can come across when applying for a commercial mortgage are vast and these need to be identified and agreed from the outset to ensure a smooth journey along the application, valuation and legal process.

Here are a couple of examples:

- ✓ The security property may not be in satisfactory condition for the lender to accept
- ✓ Affordability does not fit the amount of funds required
- ✓ The clients personal circumstances do not meet the lenders requirements
- ✓ The entity being lent to is not acceptable to the lender

All of which and more needs to be identified and resolved or change tact with the lender applying through, before you start the application process and incurring fees. That is why we pride ourselves on our knowledge and expertise to assist you with these hurdles. We have this knowledge and want to share it with you, please call us to discuss your situation.

WHAT TYPE OF COMMERCIAL MORTGAGES ARE AVAILABLE

There are many different categories of commercial mortgages and they are spilt up into sectors of industry as lenders have different appetites for these industries.

Here are the different types of commercial mortgages:

- ✓ Trading business mortgage (known as owner occupier mortgages or Opco Propco)
- ✓ Commercial Investment Mortgages
- ✓ Multi-Unit Freehold Blocks
- ✓ Bridging Finance (Commercial or Residential)
- ✓ Development Finance
- ✓ Buy to Let Mortgages
- ✓ Holiday Let Mortgages
- ✓ Serviced apartment Mortgages
- ✓ Semi-commercial Mortgages

Each lender has different appetites for the types of business and this changes as external economic shifts changes in the business world. We keep our finger on the pulse to ensure you are getting up to date advice, in this forever changing market.



HOW MUCH CAN I BORROW ON A COMMERCIAL MORTGAGE



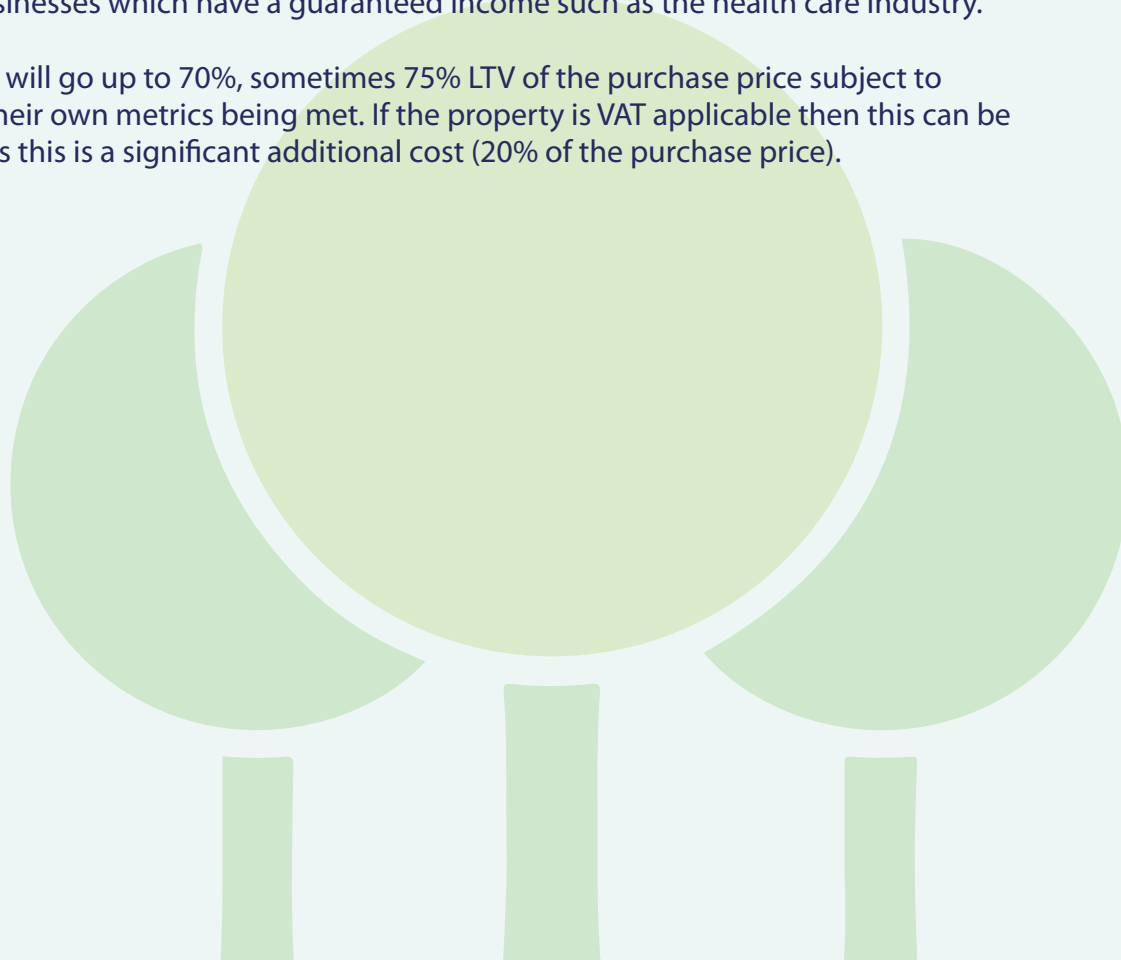
How much you can borrow on a commercial mortgage depends on the following factors and type of mortgage you are seeking.

- ✓ Your trading companies earnings before interest, taxes, depreciation, amortization and restructuring or rent costs. Abbreviated to EBITDAR. Over usually the last 2 to 3 years and potentially projected accounts. This is then stress tested against an elevated interest rate and a multiple of the debt from 1.5 to 2.5 times, to ensure the entity can afford the repayments in a worst case scenario.
- ✓ Investment mortgages use the gross annual rental or lease income received with usually 20% – 25% deducted either based on an interest only or repayment basis with the more rigorous lenders, who will arrive at your borrowing amount. However, if this is semi-commercial they would calculate it differently based on the 2 income streams.
- ✓ Short-term lending is based on a percent of the market value, however lenders use different valuations. Market value typically being the highest and vacant possession being the lowest, some also incorporate a period of 90 to 180 days to sell the property which can reduce the value further. But you can borrow up to 85% gross on this basis, after they deduct the retained interest for the term of the loan as you don't pay the interest until you redeem the loan.
- ✓ Development finance is based on the gross development value (GDV) which is the end value once the project is completed. This can be up to 70% gross of the GDV, but there are other factors such as loan to cost, contingency required, term of loan as the longer it takes the bigger the difference is between the gross and net loan. You can find 100% financing for these projects but expect to share the profit!

WHAT IS THE MAXIMUM LOAN TO VALUE (LTV) ON A COMMERCIAL MORTGAGE

The maximum loan to value (LTV) you can get on a commercial mortgage is up to 100% of the property value and potentially some of the going concern of the business. However, this is for A* businesses which have a guaranteed income such as the health care industry.

Usually, lenders will go up to 70%, sometimes 75% LTV of the purchase price subject to valuation and their own metrics being met. If the property is VAT applicable then this can be 100% funded, as this is a significant additional cost (20% of the purchase price).



WHAT INTEREST RATE CAN I EXPECT ON A COMMERCIAL MORTGAGE



The interest rates you can expect on a commercial mortgage varies hugely from type of property, strength of the trading business or tenant, to experience in the development world.

The most competitive is 2% above bank of England base rate approximately, the highest could be circa 10%.

It very much depends on so many varying factors that until a commercial mortgage broker or lender looks at the case as a whole it is difficult to say with confidence what interest rate you can achieve, we have given indications of what you can expect in the different lending fields on our website.



HOW LONG DOES IT TAKE TO COMPLETE A COMMERCIAL MORTGAGE

To complete a commercial term mortgage it can be as quick as 2.5 months and short term finance with the full legal pack can be a matter of days, you have to bear in mind that there are following parties involved with this transaction:

- ✓ Broker
- ✓ Lender
- ✓ Surveyor
- ✓ Your solicitor
- ✓ The lenders solicitor
- ✓ Local Authority for the relevant searches
- ✓ The vendors solicitor
- ✓ Vendor themselves and the estate agent (purchase)
- ✓ Separate solicitor for independent legal advice (ILA) if the borrowing is being taken in a company name and a personal guarantee is required.

It is vital to have someone managing and communicating with all relevant parties to ensure the transaction completes efficiently, here at The Commercial Branch we have a dedicated person whose sole responsibility is to do exactly that, so you can get on with your day job!



WHERE DO I START TO GET A COMMERCIAL MORTGAGE



To start the process of obtaining a commercial mortgage you will need to have a comprehensive idea of what is achievable and be open to being educated about the process to complete getting a commercial mortgage, with advice and guidance throughout.

This is why we recommend to use an experienced commercial mortgage broker who also has the team to support you throughout the whole process.

Get in touch today by calling our office on 01242 696235 or email hello@thecommercialbranch.com and we will get you started on your journey to a commercial mortgage.