Mortgage Guides

by Key Mortgage Advice

Commercial Mortgages

Talk to the experts

If you wish to purchase a property to run your business from, or to let out to another business, you will need a commercial mortgage.

It may be a shop, office, factory or industrial unit and it doesn't matter if you want to buy through a limited company, sole trader business or partnership. In addition, finance is available to purchase land to develop or to buy a leasehold business where goodwill is the only asset and there is no actual property involved.

These types of loans are very different to residential mortgages and are not regulated in the way a residential mortgage is. Quite often they are arranged in more of a bespoke fashion, with lenders creating an individual commercial mortgage package based on the financial strength of the business, the property involved and the lenders appetite in the business sector the customer is in.

Commercial rates and the choice of lender is based on 4 key pieces of information:

1. The profitability of the business

If you are an existing business looking to purchase a premises to trade from, the lenders will assess your ability to cover the new commercial mortgage payments based on your net profits. The bank will want to see that the business can afford the payments once all expenses have been met and you have taken your monthly salary or drawings. If you currently rent your business premises and this arrangement will end, the banks will often build the rental payment back into your profits to help identify the true picture of affordability.

If you are buying the property to rent out to another business, the banks will expect the rental income to cover the mortgage payments by a certain percentage, normally 170%. Although the lenders want to make sure you can afford your own living costs etc, they would not normally expect you to be able to afford the new mortgage payment based on your personal income or business profits alone.

Most lenders need you to have tenants lined up if you plan to rent the building out and sometimes the banks will carry out due diligence of the anticipated tenants to understand their financial ability to afford the rent.

If you are new to business and plan to buy a commercial property with a business attached, for example a trading shop, the bank may consider a mortgage based on the business profits of the existing firm, so will want to see the business accounts and management information.

2. The security available

The property you wish to mortgage is known as "The Security" and it is vitally important to the lender that the value of the property more than sufficiently covers the mortgage you intend to take.

The bank may also want to understand the future saleability of the property to ensure that should it need to be sold, there would be ample prospective buyers, as properties that are unusual or unattractive in design or location may be more difficult to mortgage with the main high street lenders.

If the property you wish to buy is partially residential for you to live in, for example a flat above a shop that you plan to use for your own dwelling, you may find it more difficult to mortgage. Most banks wouldn't consider a commercial mortgage where you plan to live in the property where the residential space is more than 40% of the area.

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3.The experience of the business in this sector

Most lenders want to make sure that a business or individual has a successful proven track record in the industry you wish to work in, before lending on a commercial mortgage. Clearly many business sectors are specialist and it would be unrealistic to assume that a person who has never worked in a particular type of business would be able to pick up the reigns without any background or experience in this area.

Clearly not all sectors are as specialised as others, so it does depend on the type of business you plan to proceed with, however knowledge and experience will improve the attractiveness and competitiveness of the deal you will be offered. to see the business accounts and management information.

4. Your deposit

Finally the larger the deposit you have available, the more likely your mortgage will be approved. In fact most lenders need a minimum stake of at least 35% so the financial input from a client is sizeable. Of course there are some lenders who can work with a smaller level of deposit, but this can affect the attractiveness of the deal to the bank and mean less competitive rates are available.

If you have positive outcomes in all these four underwriting areas, the chances are you will be offered a really competitive deal. Furthermore, because commercial mortgage rates are not off the peg, there is a degree of flexibility with the products and if your case is very attractive to a bank, there may be more opportunity to negotiate on the rate and fees payable.

Getting mortgage ready

You will need:

- ✓ 3 years account for your business or the firm you are buying - make sure they are fully signed
- ✓ 6 months business bank statements
- ✓ 6 months personal bank statements
- ✓ Your tax returns known as "SA302s" and your tax year overviews - Download from HMRC
- ✓ A business plan - your accountant can help you with this
- ✓ Management information from your accountant to show profit and loss since the last financial accounting date - again your book keeper or accountant can provide this

Need help?
Book your FREE appointment with us now!

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