What Is Commercial Property Finance?

The term commercial property finance covers a number of products offered to business owners and property developers who want to refurbish, renovate or invest in commercial property. With a variety of options available, you can find the best product to suit your growth objectives and current financial circumstances, whether you are acting alone, as an owner of a small business or as an established limited company

When are commercial mortgages used?

A commercial mortgage generally takes over where business loans finish. Business loans up to £25,000 are unsecured, but for larger amounts lenders need security in order to reduce the risk to themselves. A business mortgage usually lasts from three to 25 years and you can usually find a 70-75% mortgage. This is a measure of loan-to-value ratio to see how much you're borrowing in relation to how much the property is worth. If it's an investment then the amount you can borrow will be determined by the rental income generated by the investment, but this will not exceed 65% of the purchase price. If you are buying a business which includes goodwill, stock etc then the amount available will be further reduced.

Key features of taking out a commercial mortgage

A business mortgage plan differs from a regular mortgage in the following ways:

There are usually no fixed rates for commercial mortgages

You'll usually pay a higher interest rate on commercial mortgages compared to regular home mortgages as these are considered higher-risk to lenders

Commercial mortgages tend to offer better interest rates than regular business loans as these require property as collateral

What Countries Is Commercial Property Financing Available For

Banks in all countries will cater for commercial property financing and mortgages in their respective countries. However specialist brokers will normally cater for Tier 1 countries and cities around the world such as United Kingdom, United States, Canada, France, Belgium, Netherlands, Spain, Germany, Portugal, Italy, Denmark, Sweden, Norway, Switzerland, Plus many more European countries.

How to apply for a commercial mortgage

Hiring a specialist broker could help ensure you're paired with the most suitable lender and make the application process more manageable. A commercial mortgage application works similarly to taking out a regular mortgage for your home:

1. You complete and submit the Asset and Liability form (this can usually be done online)

2. You'll then be asked to complete the commercial loan application form

3. You'll be required to provide information on your business (listed below)

4. The property is valued

5. All legal due diligence will be carried out by the lender's solicitors

6. If approved, you'll receive a mortgage offer by the bank

It's a good idea to collate the necessary documents ahead of time, so your application is processed more efficiently:

Bank statements usually covering the last 3 months

Trading figures usually covering the last 3 years

Proof of identity and address

Lease and/or tenancy agreements

You may have to provide a business plan for financial projections – this could help the lender determine how likely you're to be able to pay off the loan

Types of commercial mortgages

Commercial financing can be divided into two categories:

Owner-occupier mortgages: This is used to buy property that will be used as trading premises for your business.

Commercial investment mortgages: This is used for property you're planning to let out.

How do you pay interest on a commercial mortgage?

Most commercial mortgages are paid at a variable rate. Typically, a rate will be quoted as X% over base or LIBOR, and this in residential terms would be called a tracker mortgage. Fixed rate mortgages are available and for amounts under £500,000, where the lender takes the rate risk themselves, they may be advantageous.

The rates charged for commercial mortgages and business loans are not determined from the off-set like most personal loans are. Lenders usually have a risk profile that they work to, so if your loan falls outside their risk profile it will be refused.

With a commercial property mortgage, you won't have any sudden or unexpected rent increases, but obviously monthly repayments could go up if you have a variable rate deal. You may, however, be able to get a fixed rate mortgage for a period of time.

If the property increases in value, your business capital will go up and interest repayments on a commercial mortgage are tax deductible. You could possibly rent a portion of the premises to another company to help meet those monthly repayments, if your lender agrees to such an arrangement.

Repayment options are not unlike those found in the residential market, but there's usually a slightly higher rate of interest, as commercial mortgages are perceived as higher-risk. It's prudent to be able to offset this risk with as large a deposit as possible – at least 20%.

And as well as the standard valuation, arrangement, and legal fees, there can be additional costs associated with a commercial mortgage, so it's worth seeking clarification from a lender or broker.

There's a wealth of commercial mortgage providers out there, from the main high street banks to specialist lenders, so it's worth searching the market to find one that ticks all your boxes — for the right price.

Commercial mortgage loan terms

Typically, a loan term refers to the length of time it takes for a loan - whether it's a commercial mortgage or another type of business finance - to be paid off in full through regular repayments. Real estate financing can typically last for a term of anywhere between three and 25 years.

However, 'commercial loan terms' can also refer to the details of the loan (such as the interest rate you must pay) when you sign. These are the conditions you have to adhere to and are also referred to as the loan's Terms and Conditions (T&Cs).

How to get a commercial mortgage loan

Your ability to get approved for a commercial mortgage is based on your business' ability - in the eyes of the lender - to meet the loan's repayment terms. You could be asked to produce a detailed business plan to demonstrate this. Also, it's likely that a professional valuation will be required prior to securing the commercial mortgage.

As detailed below, you can find a commercial mortgage through a high street bank, challenger bank or specialist lender. If you opt for a high street bank, you might have to move your business banking facilities there in order to get the most desirable terms. Some specialist lenders offer interest-only commercial mortgages, and may also offer a mortgage with a lower deposit (although in these cases interest rates tend to be higher).

Commercial mortgage deposit

As is the case when you buy a home to live in, a commercial mortgage deposit is the money you pay to the lender that is a percentage of the property's full cost. The lender provides you with a mortgage, enabling you to pay for the remainder of the property. Generally speaking, the more you pay in deposit the less you'll have to repay on the mortgage.

How much deposit do I need for a commercial mortgage?

The deposit amount for commercial finance is usually between 25% and 40%. The figure will depend on a number of factors, including the level of risk your business poses to the lender.

Owner-occupied commercial mortgages tend to have a 70% to 80% loan-to-value (LTV) ratio, which refers to the size of your mortgage in relation to the value of the commercial property you want to buy. The LTV for a commercial investment mortgage rarely exceeds 75%, unless the business is going to provide extra security.

Average commercial mortgage rate

Often, your commercial property mortgage rates will depend on the level of risk and it can rise or fall depending on the evidence you provide when you apply.

When it comes to pricing an application, the lender will consider the loan size, LTV, your credit history and your business' financials, as well as a range of other factors. Typically, the interest rate will tend to be lower if you intend to use the property as your business premises versus if you plan to let it out.

When it comes to owner-occupied mortgages, rates can be anywhere from around 2.25% to 18%. Commercial investment mortgages on the other hand tend to have higher interest rates - they usually range between 3.5% and 6% because they tend to carry more risk that residential properties.

Rates can be fixed or variable. It's possible to get a fixed rate commercial mortgage for anywhere from two years to the length to the loan. Variable rate commercial mortgages track either the Bank of England Base Rate or LIBOR (London InterBank Offered Rate).

Challenger Banks

The challenger banks generally have a greater appetite to do business, and can help some of the businesses that their high-street cousins can't. First, their DSCR requirements are usually lower, which means their income threshold for commercial property lending can be easier to satisfy. They will also consider applications with credit issues in the last two years, which the major banks won't usually do.

Challengers sometimes offer interest-only repayment options up to the maximum LTV, which makes sense for businesses who buy their premises for cashflow reasons rather than capital gains — for example where the interest-only mortgage payment would be less per month than their current rental payments.

The downsides of the challengers come down to cost and flexibility — in general, they're more expensive than the high-street banks, and will often have higher exit fees for the duration of the mortgage, which may limit your options if your future is uncertain.

Challengers may also agree the commercial mortgage amount based on a 180-day marketing period rather than the OMV, which can potentially lower the amount you can borrow.

Niche Lenders and Specialist Lenders

Compared to both types of bank, the smaller specialist lenders are a lot more flexible overall. If you want a commercial property loan but haven't been in business long, the niche lenders may be your best bet, because they are often prepared to lend to shorter trading histories and have lower affordability criteria (DSCR). In some cases, it's even possible to use projections instead of trading history if they've been signed off by an accountant.

The specialist lenders may also be more flexible in terms of location, considering applications for mortgages in most areas of the UK and in some cases even offshore territories. These situations will be looked at on a case-by-case basis, however.

As you might expect, the downside of these types of lenders is the cost — they're usually more expensive commercial mortgages than those you'll get from the banks. The smaller lenders tend to lend against the FSV too, which is usually lower than OMV and therefore can significantly reduce the percentage of the property value you can borrow.

They'll also have longer terms, and more restrictive exit fees. For example, you may have a tie-in period of 8 years on a 10-year mortgage with exit fees ranging from 2–6% — significantly more restrictive than the banks. Having said that, if your situation means you're only eligible for the specialist lenders, the comparison with major banks is irrelevant. Often when trying to distinguish between non-bank lenders, bank lenders and niche lenders it can be prudent to use the services of a commercial mortgage broker to locate the most attractive deal on the market.

Property Development Finance

For property developers seeking funds for new build projects, re-developments, renovation works and refurbishments, property development finance provides a short-term loan of up to 70% of the project value. This form of alternative business finance is typically repaid in regular installments over twenty-four months. In some cases, a developer can secure 100% of the funds required for the project through joint venture property development finance. Otherwise known as JV Finance, the investor supplies all the capital required throughout the project and receives a profit share on the sale of the development at the end of the project.

What Locations Can Our Commercial Lenders Lend In:

United Kingdom

Ireland

United States

Canada

Austria

Belgium

Netherlands

France

Spain

Germany

Portugal

Italy

Denmark

Sweden

Norway

Finland

Switzerland

Europe

Poland

Plus many more European countries

commercial finance

commercial loan

commercial mortgage broker

real estate financing

commercial mortgage

commercial property mortgage

commercial property finance

commercial property loan

commercial property mortgage rates

commercial property lending