



COMMERCIAL MORTGAGES: LAYING THE FOUNDATION FOR BUSINESS GROWTH

Wesleyan Bank acts as a broker and a lender.

Your property may be repossessed if you do not keep up repayments on your loan.

WESLEYAN BANK

we are all about you

Buying, rather than renting, can be a welcome dose of certainty in uncertain times. For every business working from rented accommodation, there is a point where it may be advantageous to purchase your own premises. This decision may be driven by a requirement for more office or storage space, or influenced by your landlord seeking to raise your rental agreement. A restrictive lease may even be holding you back in driving the business forward.

If these are situations you can relate to, then it may be worth considering whether the time is right to consider buying rather than continuing to rent. After all, each month's rent is money you will never see again, whereas buying represents an investment in a business asset which over time has the potential to increase in value should property prices rise. However, the UK commercial property market is rapidly changing and property values can fluctuate.

LAYING THE FOUNDATION FOR BUSINESS GROWTH - COMMERCIAL PROPERTY OWNERSHIP

Purchasing a commercial property is a significant financial investment but can be a sound strategy to drive a business's growth and fulfil your career aspirations. According to national property consultants *Matthews & Goodman, investment in commercial property brings returns of around 4% which compares strongly with other assets. They believe that there is evidence that this is set to continue, particularly as the government plans an almost unprecedented investment programme in infrastructure, the NHS and the regions which will help to stimulate the economy in a post-Brexit Britain.

You have two main options when it comes to paying for a property purchase:

- ▶ **Pay in cash that you have available**
- ▶ **Take out a commercial mortgage loan**

A commercial mortgage offers several advantages over financing a property from capital. Predictable monthly payments can make cash flow forecasting easier while the interest portion of the repayments is usually tax-deductible, although this depends on your personal circumstances and may be subject to change in the future. It can also free up working capital to invest towards driving business growth and expansion. A qualified accountant or specialist bank should be able to provide you with specific guidance around the pros and cons of your choice.

*2020 – The end of the paralysis – Matthews & Goodman

www.matthews-goodman.co.uk/market-view/2020-the-end-of-the-paralysis/



TAKING THE FIRST STEPS

Good research is vital to finding the right commercial premises which should meet both your immediate and future needs. Just like when buying a home, don't let your heart rule your head and ask yourself some honest questions such as:

- ▶ Is the property situated in the right location for my type of business?
- ▶ Are there good transport links making it easily accessible for employees, clients and suppliers?
- ▶ Can I visualise my business being there in five, 10 or 20 years' time?
- ▶ Is there room to expand if the business grows or will I soon outgrow the building?
- ▶ Is the building easy to maintain or will it need regular works?

GETTING YOUR HOUSE IN ORDER

Before applying for a commercial mortgage, it is important to determine the amount you can afford to repay each month as financial lenders will want to see tangible proof that you can comfortably afford the projected monthly repayments. You will therefore need to provide all of the relevant financial documents relating to your business which include, but are not limited, to:

- ▶ Bank statements
- ▶ Your firm's trading history
- ▶ Cash flow forecasts
- ▶ Estimated outgoings in employee salaries and other expenses
- ▶ Copies of sales contracts
- ▶ Tax returns

As well as carrying out necessary credit checks, financial providers will want to know about your background as well as that of key stakeholders involved in your business to assess your relevant trading experience. You may also be required to provide personal asset and liability statements to guarantee the loan. It's essential that you are familiar with the premises of the commercial property you wish to purchase (size, number of units, location, nearby surroundings, competition etc). This demonstrates a level of business acumen and will help to build confidence in lenders.

SELECTING THE RIGHT COMMERCIAL MORTGAGE FOR YOU

Whether you are looking for a new warehouse, office or factory, there are a multitude of commercial mortgage products on the market and financial providers from high street banks to specialist lenders offer a variety of options. However, attempting to compare them all can be confusing.

Each provider will have different product features or terms including:

- ▶ **The minimum figure they will lend against the value of the property (called the loan to value ratio – LTV)**
- ▶ **Repayment periods, typically up to a maximum of 25-30 years**
- ▶ **The way in which interest is calculated ie on fixed or variable terms**
- ▶ **Security and deposit requirements**

But do be mindful that some lenders may also impose limitations on the property's use. So, if your plans include sub-letting part of the building to offset some of the costs of the mortgage check with the provider that their terms and conditions allow this. Furthermore, just as with purchasing a residential house, buying a commercial property comes with associated fees and costs which need to be budgeted for. Make sure you have suitable financial provisions for arrangement and valuation fees, legal costs and stamp duties as these figures can sometimes end up amounting to be more than you think.

When selecting a finance provider, it may be useful to ask about their specialist experience and knowledge of your industry sector. Do they possess an implicit understanding of the challenges your firm is likely to face and are they willing to offer you a flexible and bespoke commercial mortgage solution to fulfil your business requirements?

Whichever finance partner you opt for, make sure you have detailed conversations with a single point of contact and ascertain if they really understand you and your business. Choosing a financial partner with a good fit can be the catalyst to drive your business forward. In doing so, you will have greater control over your finances and improved cash flow to be in a position to invest in funding growth and expansion.



FIVE TOP TIPS WHEN SELECTING A COMMERCIAL MORTGAGE

1. Gather all relevant financial documents before approaching a lender as you will need to demonstrate that you can comfortably afford the monthly repayments.
2. Ensure you are familiar with the premises of the commercial property you wish to purchase as this encourages confidence from the financial provider.
3. Decide how you will be utilising the commercial property as this will influence the terms and conditions you are able to negotiate.
4. Not all commercial mortgages are created equal. Some alternative finance providers can offer greater flexibility, so shop around to get the best solution which is tailored to your business. Remember, not all rates will be available on the high street or on price comparison sites.
5. When opting for a finance partner, make sure you have access to a dedicated Relationship Manager that fully understands your business.

A CASE IN POINT: THE FRESH ACCOUNTANCY COMPANY

Based in Exeter, The Fresh Accountancy company provide a range of accounting and financial services. Established in 2011, initially out of founder and director Tom Baker's home, the firm moved into rented office space following the employment of three full-time staff. After a period of rapid growth, Tom discovered larger premises had become available in a more visible location, on a busy road, which was ideal to support his expanding number of clients and employees.

The Fresh Accountancy Company subsequently selected a commercial mortgage solution from Wesleyan Bank comprising a six-figure loan over a term of 25 years to purchase the modern and spacious building. From start to finish, the transaction was completed in six weeks.

"Although there is a big cash commitment in terms of putting down a deposit to get a commercial mortgage, if you decide to continue to rent you will probably exceed the amount of money you would pay on a mortgage due to commercial rents being quite high compared to interest rates at the moment," explained Tom Baker.

"We selected Wesleyan Bank due to it offering a higher loan-to-value compared to other high street lenders, the rate was competitive and the service we received throughout the was fantastic," adds Tom.

Whether it's to procure a solid foundation for your business to grow on, or to protect yourself from rising and restrictive rental agreements, a commercial mortgage could make a lot of sense.



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WESLEYAN BANK'S COMMERCIAL MORTGAGE SOLUTIONS FOR BUSINESSES

When considering the purchase of a commercial premises, Wesleyan Bank understands your need to work with a finance provider that you can trust, one that is flexible to your individual requirements and can tailor a commercial mortgage solution to help meet your needs.

Key features:

- ▶ Borrow from £100,000
- ▶ Spread the cost over 5 to 25 years
- ▶ Loans available for up to 85% of property value
- ▶ Minimum 5% cash deposit required with makeweight security options available
- ▶ Competitive rates
- ▶ Minimum 1% arrangement fee
- ▶ The property may include an aspect of rental area to a 3rd party
- ▶ Support from a dedicated account manager
- ▶ Only available on existing property and not on the build of new developments
- ▶ Long-hold lease properties must have a minimum of 50 years remaining at end of repayment period
- ▶ The acquirer must be able to show proof that they can cover the cost of 1.25 of the monthly repayments

To find out more

■ 0800 980 9348 (Mon-Fri 8.30am - 5.30pm)

■ wesleyan.co.uk/commercial/mortgages/mortgages-for-smes

■ bankcommercialsales@wesleyan.co.uk

Broker enquiries

■ bank.broker@wesleyan.co.uk

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For more information visit wesleyan.co.uk/ourcompanies

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