

## Client Briefing 3

### Commercial property funding

#### Introduction

If you are looking to raise funds against a property or there are a variety of options that may be open to you including:

- commercial mortgage;
- sale and leaseback;
- bridging; and
- pension purchase.

In addition there are specialist funding products available for property development (see Funding property development – client briefing 8).

#### Commercial mortgage

A wide variety of banks, building societies, package lenders and insurance companies provide mortgages against commercial property (whether owner occupied or investment properties that are rented out). These should be readily available so long as there are no major problems with the property (eg environmental issues) and the company has had reasonable trading results over the last three years (eg no catastrophic trading losses in any year).

Advances from banks are usually in the range 60% to 70% of Open Market Value (OMV) while through a brokerage like Creative Business Finance Ltd you may be able to raise 70% to 75% from specialist providers with some on occasions going to 80%, although this is rare.

#### Sale and leaseback

In a sale and leaseback, you sell your property to an investor realising its full OMV and in return take out a lease on the property typically of 15 or 25 years on normal institutional terms (eg rent reviews every five years). The new owner then holds this as an investment property and will be looking for the rent charged to provide a reasonable current market yield against the price paid for the property.

As the property is to be held as an investment, sale and leaseback is usually only applicable to larger properties (say over £500,000 in value), and the investors will be concerned to ensure not just with the value of the bricks and mortar but with the strength of the rental covenant being acquired (ie the company's likely ability to pay the agreed rent for the period of the lease).

Sale and leasebacks are often very useful in MBO/MBIs, where the ability to realise 100% of the open market value eliminates the need to tie up the available equity in bricks and mortar as would be needed with a commercial mortgage of say 70%.

Please reply to

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In some cases, the actual sales price achieved can be in excess of the surveyor's opinion as to open market value and the value attributed to the property in the business sale, resulting in an injection of working capital into Newco at the outset.

If timing or minimum value achieved is of critical importance there is a service available in the market which offers an underwritten sale where for payment of a premium, the selling agents guarantee that the property will sell within X period of Y amount. If this is not achieved, the agents will buy in the property themselves at this minimum price and seek to resell it. The level of premium charged depends on the speed of sale and value sought, as well as how any profit subsequently made by the agents on selling the property on is shared between you and the agents.

### **Bridging**

There are a limited number of serious players in the commercial property bridging market. These offer short term loans (typically a six month term) of up to 75% of OMV (falling to 65% for a second charge).

This is however expensive money. As well as valuation, broker and legal costs you can expect to pay a lender arrangement fee of 2% to 3% and discounted interest rates of up to 1.75%–2.5% per month. Against this such loans are usually very swiftly arranged and being interest only, can have short term cashflow advantages.

For more details see Commercial property bridging – client briefing 4.

### **Pension purchase**

For some businesses it may be possible and appropriate for the pensions scheme to raise a mortgage and to purchase the premises from the company by way of a sale and leaseback much as described above. This injects funds into the company from the realisation of the property while the property is under the control of a known party and in some cases the pension scheme may be able to borrow more cheaply than the company can.

To be able to undertake this sort of transaction, the pension scheme must have the appropriate structure and borrowing powers for which you must seek specialist advice and assistance from an Independent Financial Advisor (IFA) experienced in this area.

### **Free indicative offer**

**To obtain a free initial indicative offer of a commercial mortgage or property sale and leaseback, please simply complete the attached property information form and return it to the fax number shown.**

## Property information form

### Applicant

Name of company **or** names of individual applicant(s)

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Is the applicant a limited liability company? Yes  No

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Nature of trade/business

-----  
Turnover (£000)

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Does the applicant or a related person (spouse, common law partner, parent, sibling, child, grandchild, grandparent) dwell or intend to dwell at part of the property being offered as security? Yes  No

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If so, does this exceed 40% of the total security area? Yes  No

### Commercial mortgage

Loan required Value Years (10 – 30)

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Purpose of loan

### Sale and leaseback

Value sought

Please attach copies of detailed profit and loss accounts for 3 years

### Income evidence to be provided for commercial mortgage (please tick)

2 years audited accounts  Management accounts  Rental income for investment property

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Employment income  Self declaration & accountant's certificate  Self declaration & projections (new start ups)

