



COMMERCIAL PROPERTY INVESTOR GUIDE

PROPP

PortalTM



IS COMMERCIAL PROPERTY THE NEW BUY-TO-LET?

An influx of investors is seeing commercial property as an increasingly attractive option. But how much more is there to commercial property investment? Read our guide to learn the basics.

We're seeing more investors turn to commercial property as buy-to-let margins are squeezed from all directions. Commercial property is an attractive option given its exemption from the tax changes that impact buy-to-let investments, and Stamp Duty is capped at 5% over £200,000.

However, there is much more to consider when purchasing commercial property. Doing your homework and consulting a property finance expert like Propp is crucial before taking the leap. Let's dive into the need-to-knows if you're thinking of becoming a commercial investor.

FINDING A PROPERTY

Unlike purchasing a residential doer-upper, flipping it, and letting it out, commercial property requires deeper insights before proceeding. Here's what you need to know:

Understand the Asset Class

Your choice of asset class impacts:

- Financing options available for the purchase.
- Planning permissions needed for changes to the building or its use.

Key Considerations

Evaluate the property's location, size, parking availability, and proximity to transport links. Familiarise yourself with the local area and think like a tenant. If you were renting the property, would it meet your needs?

GETTING A COMMERCIAL MORTGAGE

1. How Much Cash Do You Need Upfront?

Commercial mortgages usually require larger deposits than residential buy-to-let mortgages. Expect to put down at least 25%, though this varies by asset type. For example:

- ✓ High-street properties typically require a 25% deposit.
- ✓ Specialised assets like GP surgeries and dentists may require little to no deposit.

The Loan-to-Value (LTV) ratio also depends on your experience level. Lenders may be more flexible if you have a proven track record in commercial property investment or business.

2. What Does a Commercial Lender Want to Know?

COMMERCIAL INVESTMENT MORTGAGES

If you plan to rent the property, lenders will assess:

- ✓ Current tenant rental payments.
- ✓ Lease duration.
- ✓ Tenant reliability (e.g., rent payment history).

Vacant properties without tenants may make it harder to secure a commercial buy-to-let mortgage.

OWNER-OCCUPIER COMMERCIAL MORTGAGE

For owner-occupiers, lenders typically require:

- ✓ Two years of finalised accounts and up-to-date management accounts.
- ✓ Recent personal and business bank statements.
- ✓ A statement of assets, liabilities, income, and expenditure (SALIE).

Start-ups may face challenges purchasing commercial properties due to limited financial history.

3. Compare Commercial Mortgages Before Committing

To secure the best deal, compare commercial mortgage rates from multiple lenders. Tools like our comparison platform can give you an idea of potential costs and interested lenders.

Our property finance experts can negotiate with lenders on your behalf using our Optimiser service, guiding you through the entire process.

GET CLUED UP ON THE LENDING LANDSCAPE

Lenders Play Favourites

In the current market:

- Warehouses are favoured due to high demand driven by online transactions.
- Hospitality venues like pubs, restaurants, and bars remain risky investments, but opportunities exist for well-positioned propositions.

Size Matters

Commercial mortgage rates can be more attractive if the loan is larger. However, high-street banks like Barclays and NatWest currently offer smaller loans, albeit with stricter criteria.

Know Your Responsibilities as a Commercial Landlord

If you plan to let the property, you'll need to manage the following:

- ✓ Gas, fire, and electrical safety.
- ✓ Asbestos compliance.
- ✓ General maintenance and repair.
- ✓ Minimum energy efficiency standards.
- ✓ Commercial property insurance.

Failure to meet these standards can result in hefty fines or imprisonment.

In short, commercial property is a solid investment. However, before you leap at what seems like a great deal, make sure to do your homework.

NEXT STEPS

Consult with Propp's property finance experts to navigate the complexities of commercial property investment. Use our tools and services to ensure a seamless journey from selection to completion.

