

What is commercial property finance?

Commercial properties include office, retail and warehouse space, as well as multi-dwelling residential (such as a block of units or townhouses) and sometimes a combination of these. Borrowing to purchase or construct one of these properties is often much more complicated than standard residential finance because:

- The purchaser/borrower may be an individual, company, group or trust. There are various pros and cons for each and you will need to decide which one of these is the best way for you to purchase.
- Your borrowing capacity is based on your income stream (particularly the expected rental income), the lease terms of the property, the valuation of the property and the security the borrower can provide.
- Your loan-to-value ratio is usually only around 65–70%, so you will need a significant deposit.

Who needs commercial property finance?

- a business owner who wants to buy their office, shop or factory to operate the business from
- an investor wanting to diversify their portfolio by purchasing commercial property
- a new business owner, where the premises are included in the sale of the business.

Why should I use a mortgage adviser?

Not all lenders have an appetite for commercial property finance because of the perceived risks associated with it. This reluctance, combined with the more complicated nature of commercial lending, means using a mortgage adviser experienced in this area is highly recommended to give you every chance of a successful finance application. Your Smartline Adviser can help you by:

- knowing which lenders will be most likely to lend to you given your circumstances and which type of loan is appropriate in your situation
- preparing and structuring the application – including addressing things such as feasibility and due diligence – based on their experience and knowledge of what lenders are looking for
- having an existing relationship with lenders that specialise in commercial finance, which helps lenders feel more comfortable and therefore more inclined to lend to a Smartline Adviser's client.
- knowing common pitfalls associated with your type of lending scenario and helping you avoid anything that could create issues or added expenses in the future.

Do your research:

- Purchasing a property to run your business from may be a better financial decision than renting, depending on your circumstances.
- Commercial property investment may deliver higher yields than residential property, but it can be more risky due to its heavy reliance on tenant demand, the risk of vacancy and more volatile capital value changes.
- It pays to understand the drivers of demand for your particular type of commercial property and the inherent risks involved before you take out finance for your investment.
- Speak to your accountant or financial planner before you start. Your Smartline Adviser can work with the advice they provide to ensure that all your financial interests are being looked after.

Need help?

This fact sheet provides general information only and is correct at the date of publication (21/02/2019). Please contact your Smartline Adviser for full details.