CPD: ARTICLE

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Jargon Buster

What are commercial properties?

Commercial properties are generally classed as those that aren't used as a residential dwelling. They are intended to generate a profit or be used for business activity. They typically include offices, restaurants, shops, warehouses, and industrial units.

What are semi-commercial properties?

Semi-commercial or 'mixed-use' properties comprise both a commercial and residential element. This could be a shop on the ground floor and a self-contained residential flat above. They can present a range of opportunities (and challenges) for investors and landlords.

We don't specify a specific percentage split between commercial and residential to class it as semi-commercial. For example, it could be 99% commercial, with a very small residential element, but would still be classed as semi-commercial.

FRI lease

A full repairing and insuring lease, or FRI lease, is where the tenant is responsible for all the costs of repairs, maintenance and insurance for the property they're renting. However, landlords typically also take out insurance (such as buildings insurance for exterior repairs) to protect their interest. These leases normally range from 5-20 years.

Break clause

A break clause is a common feature of many leases. It allows either the landlord, the tenant (or both) to end a lease early. Usually they have certain conditions attached, such as being up to date with rental payments, ensuring repairs are up to date and meeting other terms of the lease. A minimum notice period will usually apply, and this may need to be provided in a certain format (i.e. in writing).

Opco - PropCo

The OpCo/PropCo structure is a process that separates the property asset from the trading business. The OpCo (operating company) is the entity that runs the business - manages day to day operations and employs the staff. The PropCo owns the physical assets and leases them back to the OpCo. For example, a hotel business could be run with the PropCo owning the real estate and the OpCo leasing the property from the PropCo and paying it rent. There may also be a HoldCo - a holding company which has shares in both companies and raises funds from investors.

EBITDA

EBITDA stands for earnings before the deduction of interest, taxes, depreciation and amortisation. It's used to measure a company's operating cash flow and compare the profitability of companies with different capital structures and in different tax brackets. Lenders will typically need to know the last two years' average EBITDA figures when assessing commercial and semi-commercial deals.

Vacant possession

Also known as the "bricks and mortar value", this is the value of an empty property, which is available for immediate occupation. It's used to determine the worth of an income-producing property if tenants weren't present. Its value is usually lower than the market or investment value.

Market value

Market value is the amount the property is worth on the open market. It's essential when securing financing, determining investment potential, and assessing rental income.

EPC

An energy performance certificate shows a property's energy use and its impact on the environment. It includes ways in which the impact can be reduced, and is required on the construction, sale and letting of a property.

Debenture

A debenture is a medium to long-term written agreement securing a loan against a company's assets, giving lenders protection. It's registered at Companies House. We only require this for trading companies.

What's broken freehold?

Using a semi-commercial example, if we originally had a commercial ground floor with 5 flats above, and 2 flats were sold on a long leasehold basis, our security would then be a broken freehold comprising the commercial ground floor and 3 flats.

What's ICR?

ICR stands for 'Interest Coverage Ratio' – it helps us evaluate a company's financial health and risk profile. A higher ICR indicates a greater ability to pay interest, while a lower ratio might suggest potential financial distress.

ICR calculations depend on the loan type:

- Investor products. For 2-year rates, ICR is based on 5%, or the initial pay rate – whichever is higher at 125%. For 5-year rates, ICR is based on the initial pay rate at 125%.
- Owner occupier products. ICR is based on 110% of market rent (confirmed by valuer), or 125% of the borrower's net profit/EBITDA.

What are terms?

In other sectors, these types of documents are referred to as your quotation, illustration or ESIS. In an unregulated space, they're referred to as terms.

How do my clients qualify for owner occupier products?

In order to qualify, each property securing the loan must be predominately used for the applicants' own business purpose, rather than generating income from the property.

In order to qualify, each property securing the loan must be predominately used for the applicants' own business purpose, this can't include generating income from the property.

Our underwriters determine the predominate use by considering factors including value, square footage and productivity (income generated). Applications that don't qualify for our owner occupier products will be assessed under our commercial investment products.

Semi-commercial

Snappy scenario:

- High street properties
- Fish and chip shop on ground floor
- Two flats above

That's semi-commercial. Simple!

To be classed as semi-commercial there simply needs to be a mix of retail or office, and residential living spaces. Typically this may comprise of a shop on the ground floor and a self-contained residential flat above, offering a range of opportunities for investors and landlords to maximise their income source.

MORE EXAMPLES:

- Cafe / coffee shop
- Barbers / hairdressers
- Takeaway
- Betting shop
- Restaurant
- Office/service business
- Dentist/doctor/clinic
- Nail/beauty salon
- Tattoo shop

Commercial

From retail to restaurants, offices or pharmacies, our commercial range supports a wide variety of asset classes. Our expert team will work with you to find the solutions you need to get your clients' cases over the line, no matter how complex.

To fully understand the commercial landscape, it's helpful to be aware of how the market categorises the following commercial sub-sectors. However, some of the following asset classes are considered 'unacceptable' under our lending policy, or are subject to review. It's always best to check our commercial criteria first. If you have questions or believe your asset requires a specialist review, please reach out to your specialist finance account manager.

EXAMPLES:

- **Retail:** Standalone shop, clothes store, grocery store, speciality retail space, lock-up shop, hairdressers, fashion and footwear, grocery/convenience stores, barbers, nail salon, tattoo studio, betting shop, coffee shop, café, pharmacy, retail warehouse, shopping centre
- **Offices:** Office, business centre and serviced office
- **Industrial**: Warehouse, logistics, storage, distribution, manufacturing
- **Licence and leisure:** Hotel, restaurant, public house/bar, takeaway, gym, cinema, nightclub, sports facility, golf course, music and concert venue, theatres, casino and bingo hall, destination leisure activity
- **Education:** University/school/college/teaching/campus/language school building and child day nursery
- **Healthcare:** Dentist, doctors/medical practice/clinic
- **Specialist residential:** Purpose built student accommodation, build to rent