SEPTEMBER 2021 | COMMERCIAL VIEW

FIDÚCIA
COMMERCIAL SOLUTIONS

Fiducia Commercial Solutions' Monthly Newsletter For Introducers, Network ARs and Partners

YOU SAY REPURPOSE, I SAY CONVERSION...

Whatever you call it, there's a shortage of residential property stock

An issue compounded by an over supply of commercial property versus demand post-pandemic. While residential property market prices are HOT, investors are looking at increasing diversification and weighting of investments towards residential.

A property investor will consider property where they can make capital gain through converting its use from commercial to residential before either selling or letting out as a BTL. Property Conversion is a common reason to take a Bridging Loan - converting a commercial space to residential or a single space into an HMO. Terms vary according to the initial value of the property, the cost of works, the projected value of the completed development and your previous experience:

- **Light Refurbishment and Conversion** - Cosmetic work with no structural changes
- **Heavy Refurbishment and Conversion** - Usually including structural changes or changes to the property footprint

Why not weigh up your client's conversion project with us to discuss their options?

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FIDUCIA'S COMMERCIAL VIEW

This Month:
Jonathan Sealey - CEO - Hope Capital

Q: Have you seen a change in demand for your products at Hope Capital reflecting any post-pandemic changes in the UK property landscape, and how does your new product range reflect this?

Commercial View:
At Hope Capital, we have certainly seen both an increase and a shift in demand for certain products. An area we have seen significant growth is for refurbishment bridging loans, with 35% of our deals completed in the last quarter being light to heavy refurbishment projects. In total, our loan book for refurbishment deals is now 25%, whereas last year it was 3%.

This increase and shift to refurbishment loans is most likely due to two reasons:
1) Investors want to take advantage of the booming property market post-lockdown and make up for the many lost months while the country stood still.
2) Following the shift to remote working, there's a real demand, and therefore opportunity, for property which meets this new need for home to also be a place of work.

With many companies and employees considering working remotely as a permanent option, properties designed to meet this demand are being snapped up, sometimes within hours of coming to the market. As a result, the number of investors and developers focusing on refurbishment projects has spiked significantly over the last few months.

At Hope Capital, we recognised this and created the Refurbishment Range, which comprises two products, designed to enable borrowers to undertake light to heavy refurbishment works across all property types. The Refurbishment Range is a great opportunity for investors and developers, who are looking to either improve their existing buy-to-let properties, increase yield or for capital gain.

Find out more about the Refurbishment Range here.

COMMERCIAL MORTGAGES – AFFORDABILITY ASSESSMENT

Lenders Don't Have A Crystal Ball To Assess Future Affordability

We are seeing a lot of activity in Commercial Mortgages – both owner-occupier and investment – and as with a personal mortgage it is logical to think one of the primary things a lender will look at is whether the business can afford to repay the mortgage – now and in the future.

With a Commercial Investment Mortgage the maths is relatively straightforward; there'll be a commercial lease in place with the tenant, and the lender will 'stress' the mortgage with simulations of interest rate rises to ensure that even if rates were to rise from their current levels then the commercial lease still makes the mortgage payments affordable.

Commercial Mortgages for trading businesses have far more moving parts as affordability is based on the future trading performance of the business. In the absence of a crystal ball the lender has to use past performance as a guide to whether the business can service the mortgage moving forward. The prospective lender would want to know all about income, together with the other debt and outgoings that the company have to service regularly. From this they will derive how much 'headroom' there is to be able to afford the mortgage.

When a lender takes away outgoings for debt from income, they will be left with the current 'headroom' in finances from which a company's mortgage can be paid moving forward. But there are still variables in this number such as business turnover decreasing, or other costs or debt increasing.

So the lender won't want to see that headroom is equal to (or less than) the future mortgage payments, but a multiple of them. This is called the **Debt Coverage Ratio (DCR)** – and commonly lenders are looking for a DCR of 1.5x to 2x.
Calculate the Debt Coverage Ratio (DCR):
Annual Net Income Divided By Annual Debt Payments = Debt Coverage Ratio

Of course it couldn't be so easy that the lender could just cherry pick a line from the company's last set of filed accounts and use that; oh no, they have to go and make us calculate what lenders generally call 'adjusted net profit' or 'adjusted EBITDA'.

We are not qualified accountants, so these calculations really do stay on the 'back of an envelope' for our purposes. In simple terms take the profit before tax and add back to that items such as:
Lease or Rent | Depreciation | Amortisation | Directors' Dividends

Armed with the accounts and full facts we can work with lenders to find suitable and affordable solutions for the roof over your client's business.

TOP ISSUES FOR UK TRADING BUSINESSES RIGHT NOW?

Delays In Their Supply Chain, Staff Shortages And Cost of Transport

The UK supply chain landscape is suffering some chronic issues:

- Staff shortages widespread in food processing, retailers and hospitality
- A shortage of drivers in logistics, and container freight costs at record levels
- Covid isolation issues still not out of the economy after further easing of rules last month

If the major firms are restricting trading operations, imagine the effect these issues are having on SMEs broadly in the UK and the drain on their cash flow from long delays and far higher costs.

Let's lose the common misconception first – Supply Chain and Trade Finance can be for stock, materials or goods sourced within the UK, as much as it can be used the purchase of raw materials and finished goods or parts internationally.

Supply Chain and Trade Finance can be used to fit a wide range of business types:

- Purchase raw materials or finished goods
- Trade can be with UK based companies as well as overseas
- Commonly finance companies are also experts in FX
- Goods can be pre-sold, or to provide a stock for sale

Funding the purchase of goods or materials that are either pre-sold or to stock leaves crucial cash in a business to cover overheads and unexpected cash calls on the company. This is especially true when supplementary costs like transport or freight may now be a multiple of what had first been budgeted for when pricing the project or order.

If your client's company buys materials or goods in the UK or from overseas, don't let that be the reason they cannot accept new business or orders, or take up any new opportunities.

Why not get in touch and discuss how we can support your clients with suitable solutions in Supply Chain and Trade Finance?

THE OPENWORK PARTNERSHIP AND THE FIDUCIA NETWORK

We value the long standing and close working relationship that we have with The Openwork Partnership, and all of our introducing partners in the network.
The Fiducia Network gives you the opportunity to work more broadly with commercial finance opportunities - by becoming a Fiducia Commercial Finance AR.
In addition to Commercial, Investment and Development property finance, The Fiducia Network allows you to source Business Loans, Asset Finance and Leasing, Invoice Finance, Trade and Supply Chain Finance and much more for your clients.