



HOP
ERING WOMEN

Diversify the InterBay way

Your guide to
commercial mortgages

FOR INTERMEDIARIES ONLY

InterBay

Welcome to commercial and semi-commercial lending

More investors are moving into commercial and semi-commercial, whether they're taking their first step into the sector or they're seasoned professionals – we're ready to help you get their deals done.

If you're starting to see more of these clients but haven't placed a case like this before, we've put this guide together to help you.

With InterBay, navigating a new sector is simpler than you think. Our expert team, specialist support and reliable service can give you the backing you need to succeed.

Our guide will simplify industry jargon, explain commercial mortgages, walk you through what to expect when you place a case with us and detail the support that's available when you partner with InterBay.

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As part of OSB Group, InterBay sits alongside some of the industry's most acclaimed specialist lenders, working exclusively with intermediaries.

PRECISE.

RELY

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Jargon buster

New to commercial? Here's a quick run-through of the terms you're likely to come across.

What are commercial properties?

Commercial properties are generally classed as those that aren't used as a residential dwelling. They're 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.

What's an 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.

What's a 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).

What does OpCo/PropCo mean?

The Operating Company (OpCo)/Property Company (PropCo) structure is a process that separates the property asset from the trading business. The OpCo 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.

What's a commercial loan?

A commercial loan is a type of financing provided by a bank or lender to a business (not an individual) to support its operations, growth, or investment needs.





What does EBITDA mean?

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.

What's 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.

What does market value mean?

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.

What's an EPC?

An Energy Performance Certificate (EPC) 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.

What's a 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. At InterBay, we only require this for trading companies.

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.

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.

How do my clients qualify for owner occupier products?

To qualify, each property securing the loan must be predominantly used for the applicants' own business purpose, rather than generating income from the property.

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

What's the difference between owner occupier and investment property?

Owner occupier properties: commercial spaces, such as offices, shops or warehouses, used by the borrower's own business for its day-to-day operations, rather than to generate rental income. Investment properties: properties purchased to generate rental income or capital appreciation, leased to commercial tenants rather than occupied by the borrower.

What's a Red Book valuation?

It's a formal property valuation by a Professional Member of the Royal Institution of Chartered Surveyors (RICS).

What costs should your client expect?

Commercial cases come with several fees that your client will need to factor in from the outset. Being upfront about these early in the conversation will help manage expectations and avoid any surprises further down the line.

- **Arrangement fee:** charged by the lender on completion of the loan. This is typically a percentage of the loan amount and will be confirmed in the terms we issue.
- **Valuation fee:** paid to the RICS-accredited surveyor who carries out the independent Red Book valuation. Fees vary depending on the size and complexity of the property.
- **Legal fees:** your client will need to appoint a solicitor to handle the legal work. They'll also be responsible for InterBay's legal costs, as is standard in commercial lending.
- **Broker fee:** if you charge a fee for your services, this should be agreed and disclosed to your client at the outset in line with your FCA obligations.

- **Early repayment charge (ERC):** an ERC may apply if your client repays the loan before the end of the agreed term. This will be set out clearly in the terms.
- **All applicable fees will be detailed in the terms we issue before your client commits to anything.**

Regulated or unregulated?

Commercial lending sits outside the regulatory framework that governs residential mortgages – but it's worth understanding the distinction, particularly if your client is newer to property investment.

Unregulated lending: The majority of commercial cases are unregulated. This means the loan isn't governed by the Financial Conduct Authority (FCA) in the same way as a residential mortgage, and the consumer protections that apply to regulated products don't apply here. This gives lenders more flexibility on criteria and structure, but it also means your client should take independent legal advice before committing.

When might a case be regulated?

A commercial case could have a regulated element if part of the security is a residential property that the borrower or a family member lives in, or intends to live in. If you're unsure whether a case has a regulated element, speak to your compliance team or seek specialist advice before proceeding.

What this means in practice: for most commercial cases you'll place with InterBay, the unregulated nature of the lending means we can be more flexible in how we assess and structure deals – which is part of what makes commercial an attractive proposition for your clients.

Commercial mortgages

What do businesses use commercial mortgages for?

Commercial mortgages are typically used to fund things like:

- Buying property (offices, warehouses, shops)
- Purchasing equipment or vehicles
- Funding cash flow or working capital
- Expanding the business
- Refinancing existing debt

Key features of commercial mortgages

1. Borrower

- A business entity – such as a limited company, partnership, or sole trader.

2. Loan amount

- Usually larger than personal loans because business needs are greater.

3. Repayment terms

- Repaid over a fixed period (e.g. 1–25 years).
- Could be fixed or variable interest rates.

4. Security

- Often secured against business assets (property, equipment) or via a personal guarantee from directors.

5. Assessment

Lenders will look at things like:

- Business financials
- Cash flow
- Credit history
- Purpose of the loan
- Strength of the business plan

Why businesses use them

- A commercial mortgage can enable a business to invest in growth without using all its cash, improving financial flexibility and enabling expansion.

Examples of commercial properties

- **Retail** – such as convenience stores, clothing shops, off-licenses, takeaways, chemists, banks, estate agents.
- **Industrial** – such as storage warehouses, light manufacturing, research and development, car MOT centres.
- **Leisure** – such as gym and fitness centres, yoga, pilates and dance studios, and generally any property uses within planning use Class E(d) (indoor sport, fitness and recreation).
- **Hospitality** – such as restaurants, cafés, coffee shops, trading pubs and nightclubs.
- **Education** – such as day nurseries and pre-schools, children's day care facilities, and generally any property uses within planning use Class E(d) (day nurseries and crèches).
- **Medical** – such as dental practices, physiotherapy clinics, occupational health clinics, and generally any property uses within planning use Class E(e) (medical or health services, assuming the building is not a purpose-built GP practice with little scope for alternative use).

Some of the asset classes mentioned are considered unacceptable under our lending policy, or are subject to review. If you have any questions or believe your asset requires a specialist review, you can reach out to your specialist finance account manager.

How lenders assess commercial mortgages

Commercial lending operates very differently from residential finance. Instead of relying on personal income alone, underwriting is built around cash flow strength, income sustainability, and sector specific risk models, enabling more flexible but also more scrutinised credit assessment.

Key affordability considerations

At InterBay, we focus primarily on how well the property or business can service its debt, taking into account:

- **Debt Service Coverage Ratios (DSCR)** to determine the repayment buffer.
- **Rental coverage and stress testing** for investment assets.
- **Trading performance, management accounts and future forecasts** for owner occupied premises.
- **Borrower profile factors** such as experience, liquidity and financial structure, which help shape appetite and pricing.

Eligibility extends beyond personal credit. For example, InterBay's underwriting considers:

- **Asset class and sector risk profile.**
- **Lease strength, tenant covenant and income durability.**
- **Overall sustainability of the business or investment strategy.**



Our approach to commercial property valuations

Commercial valuations are driven by income rather than comparable sales. InterBay uses valuation methodologies that assess both present and future income security.

Valuation principles

- **Investment vs owner occupied models:** investment valuations rely heavily on yields and rent cover, whereas owner occupied models prioritise trading strength and viability.
- **Yield based valuation:** yields are derived from market evidence, covenant strength and lease profile. Stronger tenants and longer leases generally produce sharper yields.

Value types considered:

- Market value
- Investment value
- Vacant possession

Income factors reviewed

- Lease length, review mechanisms, tenant covenant quality and security of future income lines.

Understanding these valuation drivers helps applicants set realistic expectations on loan size, leverage and pricing.

To consider how much a property is worth, InterBay will instruct a Professional Member of the Royal Institution of Chartered Surveyors (RICS) to provide an independent Red Book valuation on the subject property. Within the valuation report, the bank instructs the surveyor to provide two opinions of value, known as bases of value.

The first is market value, which is the amount for which the property could reasonably be expected to sell for on the open market, between a willing buyer and a willing seller, acting within reasonable timeframes, at the valuation date. If the property is tenanted and generating an income, the surveyor will reflect the value of this investment in their valuation calculations. This is why this basis can be referred to as investment value.

The second base is market value assuming vacant possession. If a property is empty, this will be the same as market value. However, if the subject building has an existing tenant in occupation, the surveyor will ignore this (and any income received) and value the property as if the bank could take possession and sell it with no one in it. Vacant possession is the basis of valuation that the bank will adopt as the value of the property for the purposes of calculating the loan.

In both valuation bases, any personal property, plant and equipment that isn't permanently attached to the land or buildings is excluded, as is any goodwill or value attributed to the tenant's business profits.

Understanding these valuation drivers helps applicants set realistic expectations on loan size, leverage and pricing.

InterBay's methods for assessing risk and structuring deals

InterBay's assessment typically involves:

- Bespoke underwriting tailored to the sector and borrower profile.
- Stress tested rent/serviceability modelling for investment and trading entities.
- Pricing matrices responsive to sector, covenant, security quality and borrower track record.
- Flexible repayment structures, including:
 - Interest only periods
 - Capital-and-interest terms up to long durations



Owner occupier

What's an owner occupier commercial loan?

An owner occupier commercial loan is a type of business mortgage used when a company buys a commercial property to run its own business from – not to rent out to someone else.

It's a loan a business takes out to purchase, refinance or renovate a property it will occupy and use itself.

Example scenario

A dental practice wants to buy the building it currently rents.

They apply for an owner occupier commercial mortgage at 75% LTV to purchase the property and fit it out.

Repayments come from the business income generated by the practice.

Examples of eligible properties include:

- Offices
- Warehouses
- Retail units
- Industrial units
- Mixed-use buildings (part commercial/ part residential)

If your client's business trades from the site, it's considered owner occupied.

Who uses this type of mortgage?

Typically:

- Limited companies
- LLPs
- Sole traders
- Partnerships
- Professional practices (e.g. doctors, vets, solicitors, accountants)

What lenders assess

Lenders typically look at:

- Business trading history and profitability
- Cash flow to support repayments
- Sector and property type
- Deposit and security available
- Strength of management team
- Credit history of business and directors

Why businesses choose owner occupier loans

- Avoid rising commercial rents
- Long-term cost stability
- Build equity in property
- Opportunity to refurbish or adapt premises
- Stronger balance sheet position

Key features of an owner occupier mortgage

1. Lower interest rates (usually)

Because the business is using the building itself, lenders see this as lower risk than investment property.

2. Higher loan to value (LTV)

Typical LTV: 70–80%, sometimes up to 85% depending on the lender and sector.

3. Longer terms

Terms often range from 10–25 years.

4. Capital repayment or interest only

- **Repayment:** most common for owner occupiers
- **Interest only:** sometimes allowed, usually with strong financials or clear repayment strategy

5. Flexible security

Usually secured against the commercial property, but lenders may also consider:

- **Debentures**
- **Additional property**
- **Personal guarantees (common for SMEs)**

How to start placing commercial cases

You may not realise it, but the clients you already work with could be sitting on commercial opportunities right now. Here's how to spot them – and how InterBay can help you convert them.

Look at your existing book

The best place to start is with the clients you already know. Landlords with residential portfolios who are looking to diversify, self-employed clients who rent their business premises, and limited company borrowers who are expanding – these are all potential commercial conversations waiting to happen.

Ask yourself:

- Do any of your clients own or rent commercial premises?
- Are any of your landlord clients considering mixed-use or semi-commercial property?
- Do you have self-employed clients whose business is growing and who might benefit from owning rather than renting their premises?

If the answer to any of these is yes, you already have a pipeline.

Start the conversation

Commercial clients often don't know that their broker can help them with property finance beyond the residential market. A simple conversation – or even a short follow-up email to your existing base – can open doors you didn't know were there. You don't need to be a commercial expert to have that initial conversation. You just need to know enough to identify the opportunity and know where to go for support.

That's where we come in

InterBay's specialist finance account managers are here to support you through every stage of a commercial case – from initial enquiry through to completion. Whether you're placing your first commercial case or looking to grow your commercial book, we'll work with you to find the right solution for your client.

We can help you with:

- Sense-checking a case before you submit
- Understanding our criteria and what we can lend on
- Structuring deals that work for your client's circumstances
- Supporting you through the underwriting process

Build your knowledge as you go

The more commercial cases you place, the more confident you'll become, and the more opportunities you'll spot.

InterBay's team is always on hand to talk through a case, answer a criteria question or help you understand a structure you haven't come across before.

What happens when you place a case with us?

Commercial cases are assessed individually – no two are the same. But here’s a straightforward overview of what to expect when you submit a case to InterBay.

1. **Initial enquiry:** get in touch with your specialist finance account manager or submit your case through our broker portal. We’ll give you an early indication of appetite and let you know what information we’ll need to progress.
2. **Terms issued:** if we’re comfortable with the case, we’ll issue terms (refer to jargon buster).
3. **Valuation:** we’ll instruct a Professional Member of RICS to carry out an independent Red Book valuation. For commercial cases, we use vacant possession as our basis of valuation for calculating the loan.
4. **Underwriting:** our specialist underwriting team will assess the full case – including the property, the borrower profile, business financials and sector risk. We’ll let you know if we need anything further.
5. **Offer:** once underwriting is complete and we’re satisfied with the valuation, we’ll issue a formal offer.
6. **Completion:** solicitors are engaged to handle the legal work and transfer of funds. We’ll keep you updated throughout.

Timescales vary depending on the complexity of the case. Your specialist finance account manager will be able to give you a more specific indication at the point of enquiry.

InterBay: your industry experts

However challenging or straightforward a case may seem, we’re always determined to deliver.

As we understand the importance of building strong, long-lasting relationships with our brokers, we’ll work closely with you, so that we’ll find the best possible solution for your clients, together.

Here are some of the ways we can support our broker partners:

Sector-specific lending – tailored criteria

Commercial mortgage appetite varies sharply across sectors. Each carries unique risks relating to income stability, operational skill requirements, and market liquidity, so InterBay sets different maximum LTVs, pricing and stress tests depending on property type.

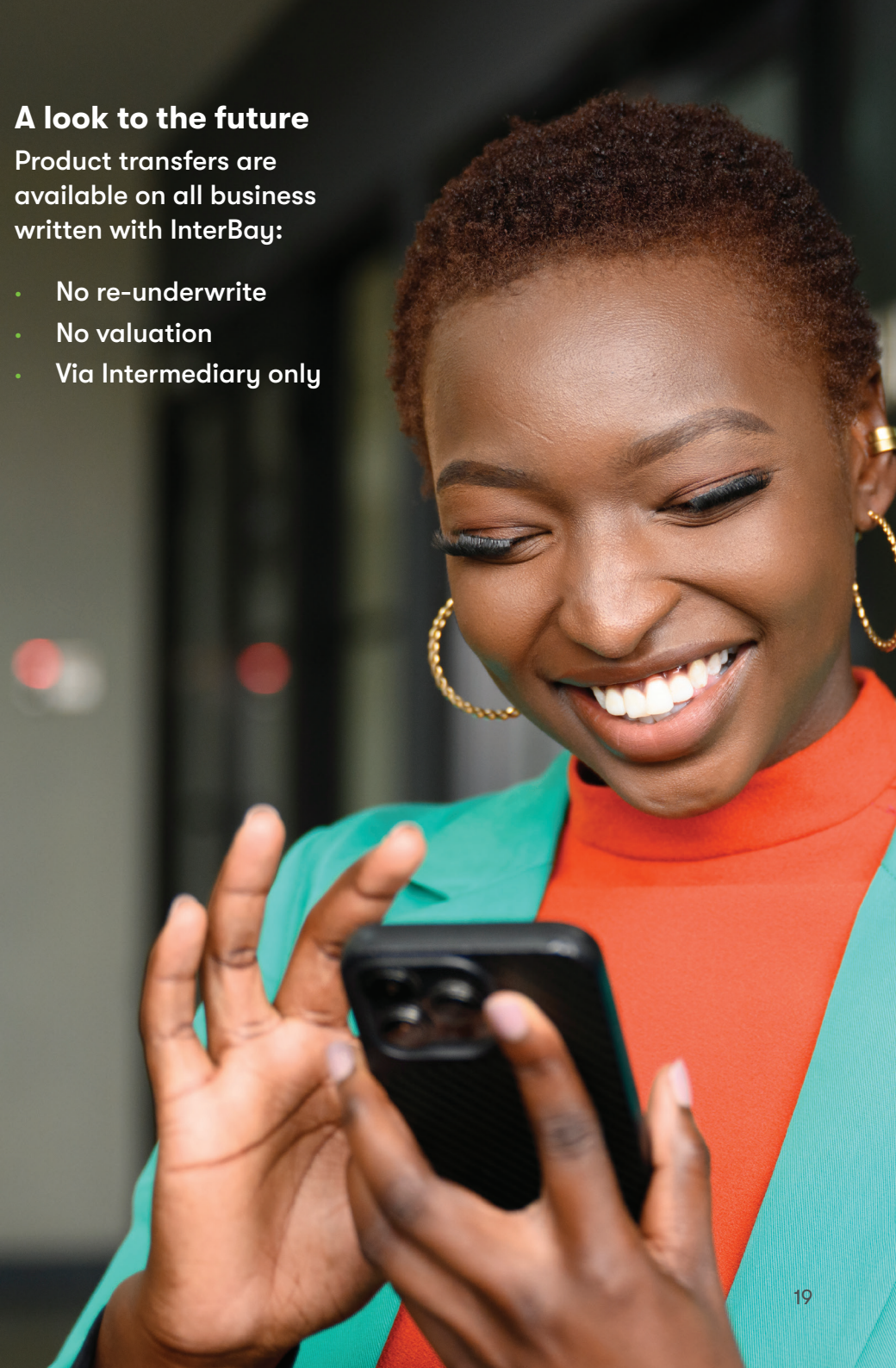
Increased support

- We have a team of dedicated specialist finance account managers with a wealth of knowledge and industry experience.
- Our Specialist Property Services team, made up of experienced underwriters and real estate professionals, is primed to structure innovative lending solutions that will support a broad range of requirements. Covering long and short-term lending on residential and commercial property, their remit also includes large buy to let blocks or portfolios, purpose built student accommodation, refurbishments and conversions.
- Our High Net Worth team work alongside brokers and clients to manage their relationship and borrowing needs.

A look to the future

Product transfers are available on all business written with InterBay:

- No re-underwrite
- No valuation
- Via Intermediary only



When it comes to placing a case with us, we aim to make things as straightforward and easy as possible.

Ready to get started?

Our website includes all the information you need.

Scan to find out more

