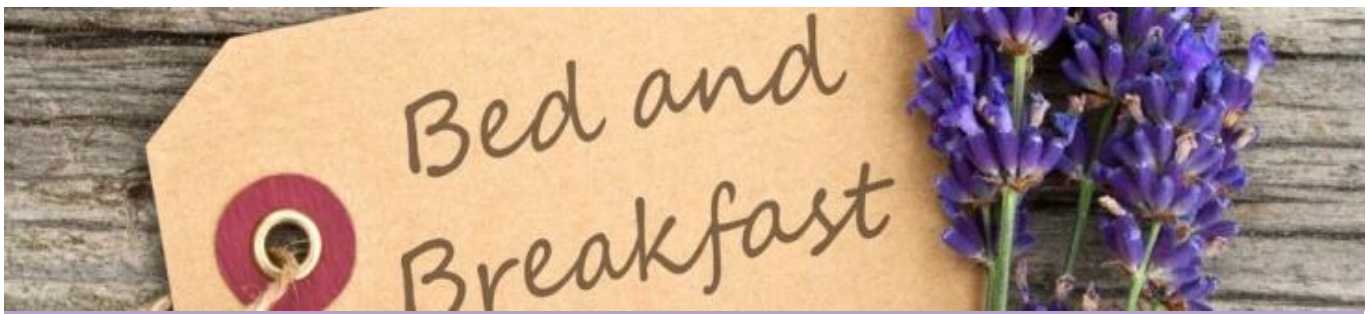




How to series

How to buy a B&B or Guest House

Are you thinking of buying a B&B, guest house or small hotel and want to know how to get a commercial mortgage? Read on...



First things first

Are you sure that you really want to run your own business? Whilst a B&B or guest house is generally operated from your home, it is still a business and must be treated as such. You will need to keep track of bookings and purchases, and pro-actively market your business online - including social media.

You will be your own boss, but must be disciplined. You'll get to meet some amazing people, but will also have to deal with those who aren't so pleasant. You need to be able to communicate in a non-confrontational manner and take criticism on board.

Having said all that, of course, it is a very rewarding way of life!

Now that you have decided to go ahead on this exciting journey, where do you start? By securing finance, naturally.

This guide provides an overview of the requirements of a commercial mortgage and what you need to do to achieve your goal.

When do you need a Commercial Mortgage?

If you are intending on trading 60 per cent or more of your property, you will need a commercial mortgage rather than a normal residential mortgage. If you intend to trade under 60 per cent, you may have to apply for a regulated mortgage. Most lenders will not allow trade to be conducted on a property that is funded by a residential mortgage.

"Why bother?" I hear you say. Well, if a lender finds out you are trading more than the agreed number of rooms, they may well 'call in the debt' - in other words, ask you to repay your loan due to a breach of covenant. This means you will have to re-mortgage your home, transferring it to a commercial mortgage and front all the associated costs. Worst case scenario is that the amount of trade you attract won't cover the debt service and you'll be forced to sell.



The Commercial Mortgage Process

For a new to trade operator, lenders will generally go to 60 per cent loan-to-value (LTV), however, in some cases, it is possible to achieve 70 per cent LTV, depending on location and experience. One thing most people don't initially take into consideration are the fees incurred when obtaining the mortgage. These vary depending on the cost of the establishment, but you'll need to cover: solicitor's fees, commercial valuation report, lender's arrangement fee (can sometimes be added to the loan depending on the lender), broker fee and stamp duty.

Once you have determined how much you can afford and have found a B&B or Guest House to buy, what comes next?

Contact your broker and ask them to provide you with a debt illustration, which shows the indicative costs of purchasing the business. Although the costs stated will be an estimate, it will help you to budget for the purchase. Your broker should also be able to give you an opinion on the viability of the trade and whether it will cover the debt service.

At Stewart Hindley & Partners, we work on an exclusive basis and would ask you to sign our Terms of Business. Once we have this, then it's full steam ahead!



What we need from you

For all named borrowers we require:

- Your Statement of Assets and Liabilities
- Your Statement of Income and Expenditure
- Your personal CV(s)
- Last six months' worth of personal bank statements
- Proof of income (last three months' wage slips or last three years' SA302s)
- Two utility bills pertaining to your current address
- Proof of ID (passport or photo driving license)
- Agreement to credit search

What we do for you?

- Analysis of vendor's trading accounts
- Analysis of management accounts to-date
- Debt proposal
- Re-profiled trading and management accounts for the lender's credit assessment purposes
- Three-year profit and loss forecast
- Three-year cash flow forecast
- Business plan
- Marketing plan
- Debt serviceability sensitivity analysis
- Cash flow serviceability sensitivity analysis
- Arrangement of valuation report



Timescale

Once we have all the paperwork from you we will produce a comprehensive debt proposal. This normally takes one week.

The lender will review the proposal and ask any questions before submitting the case to their credit team. This can take up to two weeks.

Hopefully the credit team will give the approval for the loan, subject to valuation, and generally provide their decision within one week.

A valuation will be instructed and carried out, and a report created by the valuer for the lender. The valuation fee must be paid before the survey is carried out. Please note that a commercial valuation is not a building condition survey. A valuer will look at the viability of the trade as well as the accommodation, location etc. If there are any obvious structural problems, the valuer may recommend that a building survey be carried out, at an additional cost. The timescale for the production of the report and submission to the lender is generally around two weeks.

If the lender is happy with the report, an 'offer of debt' is provided by the lender, which outlines the terms and conditions of the loan.

Then it is all down to the solicitors and legal work. This is more like a normal purchase and should take about six weeks.

Overall the timescale is usually 10 – 12 weeks from start to finish