

# ASSET CLASS GUIDE: WAREHOUSES



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# YOUR COMPLETE GUIDE TO WAREHOUSE INVESTMENTS IN THE UK

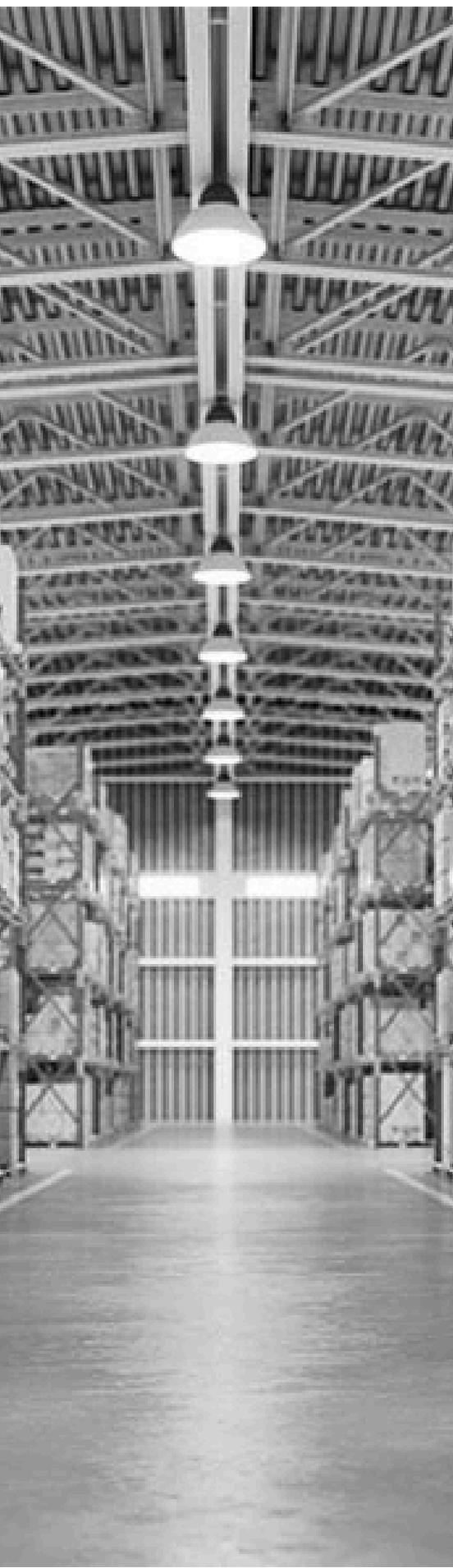
Warehouse investments have become an attractive asset class in the UK due to growing demand for logistics, storage, and manufacturing spaces.

Warehouses offer a lucrative opportunity for commercial investors for three core reasons:

- **Long leases**
- **Tenant stability**
- **Minimal landlord responsibilities**

This guide aims to provide essential insights for landlords looking to invest in warehouses, covering benefits, risks, and lender expectations.

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## WHAT ARE WAREHOUSES AS AN ASSET CLASS?

Warehouses are a key segment of the commercial real estate market. They serve multiple purposes, including manufacturing, storage, and logistics. The unique features of warehouses include:

- ✓ **Bespoke Layouts:** Many are customised to suit tenant operations, from large-scale manufacturing facilities to logistics hubs.
- ✓ **Long Leases:** Tenants often commit to extended lease periods due to the specialised nature of these spaces.
- ✓ **Low Maintenance:** Fully repairing and insuring leases (FRI) shift most responsibilities to tenants, offering landlords a hands-off investment.

## TYPES OF WAREHOUSES

### 1. Big Box Units:

These are large-scale warehouses, often exceeding 100,000 square feet, typically located near major transport hubs, motorways, or ports. They are used by major logistics companies, e-commerce giants, and large-scale manufacturers. Big box units are designed for high-volume operations and may include features like automated systems, large docking areas, and advanced storage technologies.

- ✓ **Advantages:** Strong tenant demand, long lease agreements, and economies of scale.
- ✗ **Challenges:** High capital requirements and dependence on a small pool of large tenants.

### 2. Specialised Warehouses:

These include cold storage facilities, hazardous material storage, or warehouses customised for specific industries. They often command premium rents due to their specialised nature.

- ✓ **Advantages:** Higher rental yields and growing demand in niche markets.
  - ✗ **Challenges:** Expensive to develop and harder to repurpose for new tenants.
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### 3. SME-Specific Units:

These smaller warehouses cater to small and medium-sized enterprises (SMEs). They are often between 5,000 and 50,000 square feet and located near urban centres to support last-mile delivery or local distribution.

- ✓ Advantages: More affordable entry point for investors and a diverse tenant pool.
- ✗ Challenges: Shorter lease terms compared to big box units and potentially higher tenant turnover.

SMEs play a vital role in the warehouse market, particularly as demand for localised storage and distribution grows. Key factors when investing in SME-targeted warehouses include:

- Flexibility: Smaller units should be adaptable to meet diverse tenant needs, from storage to light manufacturing.
- Proximity to Urban Areas: Location is critical for SMEs, as they often require easy access to customers and workforce.
- Tenant Mix: Diversifying the tenant base helps reduce risks associated with tenant turnover.

By understanding the nuances between big box units and SME-specific warehouses, investors can align their strategies with market demands and tenant expectations.



## **BENEFITS OF INVESTING IN WAREHOUSES**

### **Long Leases**

Tenants frequently sign long-term leases because warehouses are tailored to their operational needs. This provides predictable and stable income for landlords, reducing the risk of frequent tenant turnover.

### **Fully Repairing and Insuring (FRI) Leases**

These agreements place the burden of maintenance and insurance on the tenant, reducing landlord expenses and operational headaches. This makes warehouses one of the lowest-maintenance property types in the commercial sector.

### **Booming Demand**

The rise in e-commerce post-pandemic, and nearshoring in the wake of war related supply chain disruption has increased the demand for warehouses. Warehousing plays a critical role in ensuring efficient and reliable supply chains, which makes this asset class indispensable.

### **Low Competition**

Limited supply of new warehouses in high-demand areas creates opportunities for capital growth and rental income. Local councils often prioritise residential developments, further restricting warehouse construction.

### **Resilient Asset Class**

Warehouses remain in demand during economic fluctuations, particularly due to their role in essential supply chains. They have shown resilience even during downturns when other commercial property classes have struggled.



## RISKS AND PITFALLS TO CONSIDER

### Vacancy Risks

Due to bespoke layouts, finding new tenants can be challenging if a previous tenant vacates. For example, a warehouse tailored for cold storage may require significant modifications for a new tenant with different needs.

### Contamination Issues

Properties previously used for specific purposes, such as car washes or manufacturing, may pose environmental risks, such as ground contamination. This can lead to costly remediation work and affect lender approval.

### Location-Specific Demand

While demand is high in certain regions like the Midlands and South East, areas with less industrial activity may struggle to attract tenants.

Understanding local supply and demand dynamics is crucial before investing. Access to transport links is crucial in logistics.

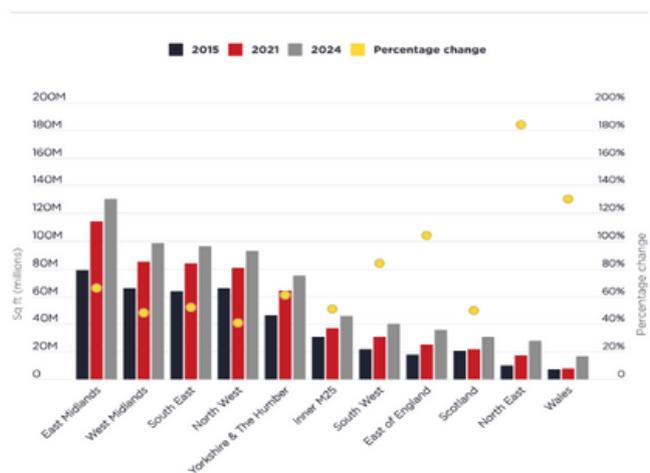
### Market Dependency

Economic slowdowns, geopolitical events, or shifts in trade patterns can impact demand for warehouse spaces. For example, global supply chain disruptions may reduce the need for large-scale distribution centres.

## TOP UK REGIONS FOR WAREHOUSE INVESTMENT

Core markets (for obvious reasons) tend to straddle the UK's motorway network. With regions such as the West Midlands, East Midlands and South East seeing growth of 61%.

Warehouse stock by region



## SECURING FINANCE FOR WAREHOUSE INVESTMENTS

### What do lenders look for in Warehouse Investments?

✓ **Tenant Stability:**

Lenders prioritise tenants with a strong financial background and a history of long-term occupancy. Having a long-term tenant in place can significantly improve financing terms.

✓ **Supply and Demand Dynamics:**

Warehouses in areas with high demand and limited supply are highly favoured. Proximity to major transportation hubs, ports, and urban centres is often a key factor.

✓ **New Builds:**

New warehouses often come with warranties, lower maintenance requirements, and compliance with modern building standards, making them attractive to lenders.

✓ **EPC Considerations:**

Energy Performance Certificates (EPCs) are less critical for warehouses compared to office or retail spaces. However, newer regulations may require improvements, particularly for older properties.



## A GUIDE TO SECURING FINANCE

# 1

### **Step 1: Understand Loan Terms**

Familiarise yourself with market LTVs, interest rates, and repayment periods. Most lenders offer competitive rates for warehouses with stable tenants and long leases.

# 2

### **Step 2: Prepare Key Documentation**

Gather essential information, including:

- Tenant lease agreements
- Property history (including previous uses)
- Financial records and cash flow projections

# 3

### **Step 3: Build a Strong Business Case**

Highlight key factors such as:

- Stability and reputation of tenants
- Demand for similar properties in the area
- Future rental potential and market trends

# 4

### **Step 4: Choose the Right Lender**

Working with a specialist broker who lives and breathes the commercial market will ensure you're matched with the right lender. We'll compare the whole market for you so you can ensure you get the best deal. We like to explain the pros and cons of each option so you can make an educated decision for yourself.

# 5

### **Step 5: Source your 25-30% Deposit**

Most lenders offer up to 70% LTV, with potential for 75% in prime locations with stable tenants. This allows investors to leverage their capital effectively while maintaining manageable risk levels.

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## INVESTMENT RETURNS: YIELDS, RENTS AND KEY METRICS

### Yields

In prime locations, yields can compress to 4% but remain attractive due to the stability of income streams.

**Warehouses: 5-7%**

**Office Spaces: 3-5%**

**Retail Spaces: 4-6%**

### Average Rents

As of 2024:

- Big Box Units: Average rents range between £8 to £12 per square foot, depending on location and specifications.
- SME Units: Typically command £10 to £15 per square foot, with higher rates in urban or industrial hotspots.
- Specialised Warehouses: Can achieve rents exceeding £20 per square foot, reflecting their bespoke nature.

	Average £ per square foot
<b>Big Box Units</b>	<b>£8 - £12</b>
<b>SME Units</b>	<b>£10 - £15</b>
<b>Specialised Warehouses</b>	<b>&gt;£20</b>

## **INVESTMENT RETURNS: YIELDS, RENTS AND KEY METRICS**

### **Rental Growth – 6%**

Rental growth for warehouses has averaged 6% annually over the last three years, driven by high demand and limited supply. Key regions like the Midlands and South East have seen even higher growth rates.

### **Capital Growth Potential – 10%**

The capital value of warehouses has increased by approximately 10% annually in high-demand areas since 2021. This trend is expected to moderate but remain positive through 2025.

### **Occupancy Rates - 95%**

Warehouses in prime locations boast occupancy rates above 95%.

### **Lease Durations**

Big box units - 10-15 years

SME units average - 5-10 years

## **NEXT STEPS**

Investing in warehouses offers numerous benefits, from stable income to strong demand. However, understanding lender expectations and mitigating risks is critical. Partner with a trusted commercial finance broker to navigate the process and unlock the potential of warehouse investments.



## READY TO GO?

Contact a commercial specialist at Propp for tailored advice and funding solutions.

## NOT QUITE READY, BUT ON THE WAY?

Sign up to [Propp Portal](#) for free!

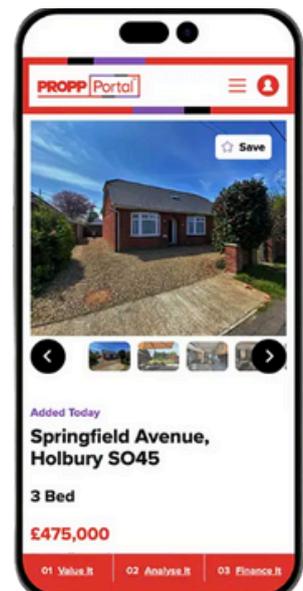
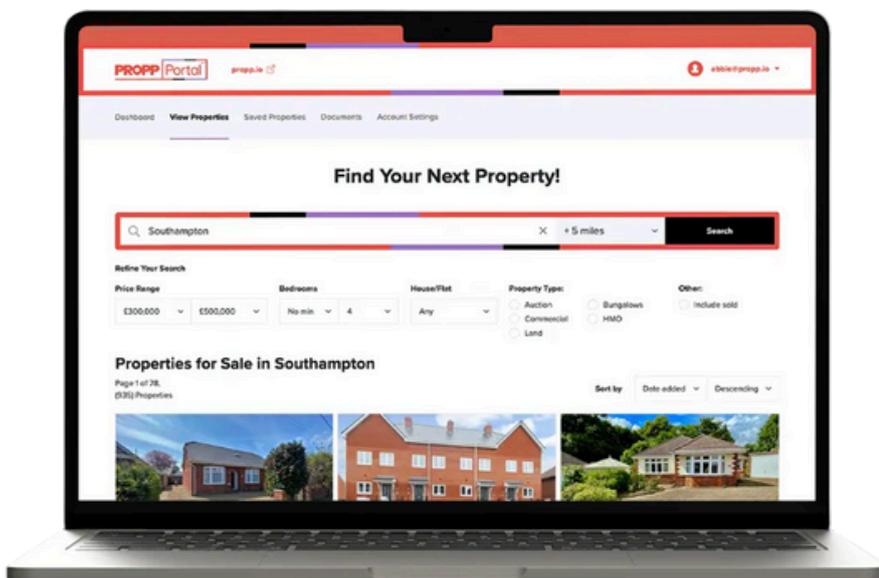
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