Hello and welcome to this MFS training certification on warehouse property. In this session we’ll cover all of the basics you need to know to inform your clients wanting to invest in a warehouse property. So let’s get started.

What is a warehouse?

A warehouse, in simple terms, is a type of commercial property that is used to store products for the purposes of stocking, shipping, and packing. They are largely used by businesses of all sizes because of the significant benefits they offer, examples of this include the production and development of goods, research spaces for new technologies, wholesale warehouses, and distribution centres. There are 5 broad categories for warehouses, and they are

* Private warehouses
* Public warehouses
* Bonded storage
* Cooperative warehouses, and
* Distribution centres.

Private warehouses, owned by suppliers and resellers, are primarily used to handle distribution tasks. For instance, retailers may rent space to store items, producers may have warehouses near their work sites, and wholesalers may own or lease facilities for inventory storage and distribution. Public warehouses, owned by the government, can be rented by private companies that need storage but can't afford their own space. Bonded storage involves warehouses managed by both the government and private firms and are used for storing imported goods before duty payment. Co-operative warehouses, owned by co-operative societies, offer affordable storage options to help members who can't afford regular rates, and finally, distribution centres are temporary storage places that quickly move goods from suppliers to customers in an efficient distribution system. Although each of these categories are different from each other, they all have the same purpose which is storing goods.

Why invest in warehouses?

There are several reasons why your clients may consider investing in this type of property. The first of these being that the rental income for a warehouse is likely to be more steady than other property types. This is because businesses renting warehouses tend to do this long term. There is also the added benefit of the fact that commercial tenants tend to be more reliable than those in the residential market.

Warehouses are also likely to appreciate in value when well-maintained, and clients introduce cost-effective improvements to enhance the property's usability and appeal. This can increase the likelihood of clients seeing a favourable return on their investment in the future.

Warehouses are also usually very versatile because they don’t always have to be used for storage. The space can usually be modified and used for an array of different purposes. For example, a manufacturers storage space could be converted into a production site for their goods. Essentially, your client could convert their warehouse into whatever they think will be the most profitable for them. It is worth noting however that converting into another type of property could come with new rules and regulations, so it is worth ensuring your clients do thorough research and seek professional advice before making any concrete decisions.

The demand for warehouse space has surged in recent years, primarily due to the growth of e-commerce, so the need for these businesses to have distribution centres close to their consumer is likely to increase in turn. This, combined with the scarcity of available properties, particularly in strategic areas, could lead to higher rental rates and potentially greater ROI for your clients.

Finally, warehouses tend to have lower maintenance costs, as they are generally low maintenance properties. This can reduce the amount of time and money that your clients would have to spend on repairs and upkeep.

Other factors to consider

As there is already high demand for this type of property, the prices in the sector will likely be higher. This could potentially be unaffordable for clients with a limited budget, so talking to a professional to go through all their options would be a good idea.

Although warehouses in general are considered to have lower maintenance costs in comparison to other commercial property, if your client is looking to invest in a larger warehouse, they could find that the costs that don’t fall under their tenant’s responsibility could be high. Examples of this could include leaks and air-conditioning.

Warehouses, being commercial properties, tend to be more crowded compared to residential ones. This increased occupancy raises the risk of potential damage to the property, which could result in higher costs for your client.

Now it’s time for a quickfire question and test what you’ve learned so far by answering the below question:

Why is rental income for warehouses considered to be more steady than other property types? Is it

a) Because businesses prefer short-term leases for warehouses.

b) Because commercial tenants are less reliable than residential tenants, or

c) Because warehouses are usually used for long-term storage by businesses.

The answer is C, because warehouses are usually used for long term storage by other businesses.

How to select the perfect warehouse property

As warehouses can present an attractive investment opportunity for your clients, it’s important that they understand all of factors they should consider when looking for the perfect property. Here are some of the things they may want to factor into their choice.

The first thing clients may want to consider is location. A warehouse would likely need to be positioned in a strategic location to be attractive to potential tenants. As warehouses are primarily used by businesses to store goods, having good transportation links could significantly enhance the property’s value. Clients should also take into consideration the local area, as identifying regions that are experiencing growth, and understanding market trends and conditions will likely aid in the success of their decision making.

Size and layout are another thing clients could consider when selecting a warehouse property to invest in. They may want to keep in mind their investment goals, and their target market, before making choices about the size and layout of the property. For example, do they want a large distribution centre designed to house an employee workforce? Or are do they have something smaller like storage for a local shop in mind?

Infrastructure is another thing clients could add to their list of considerations for their property investment. They may want to ask themselves questions like: how is the structural integrity of the property? Are there any signs of wear and tear? And is the property generally in good condition? Ensuring that these questions are considered before purchase could lead to fewer unexpected expenses for your clients. Getting a professional to assess the property could also be a wise choice.

Making a good investment decision on this type of property could involve ensuring that your clients understand the vacancy rates and market demand in the area. This knowledge could help clients to know how likely they are to appeal to potential tenants, and whether their property is needed.

It is essential that your client complies with zoning laws and regulations when purchasing their property. Understanding the regulatory environment will likely help them to avoid potential legal issues that could negatively impact their investment. Consulting with a legal professional may be a great option here.

Warehouse regulations

Owning and operating a warehouse in the UK comes with rules and regulations, especially as they are high risk environments. Some of these responsibilities may fall on your client, and some may fall on their potential tenants. However, having a good knowledge of these requirements could be beneficial to your clients, regardless of whether the responsibility falls on them or not.

Fire safety

As warehouses are usually large in size and can contain a lot of hazards, keeping up with fire safety is extremely important. The Regulatory Reform (Fire Safety) Order 2005, or the ‘Fire Safety Order’ for short, lays out all of the measures that should be followed in order to comply with the law. They are as follows:

Ensuring that the premises reaches the required standards

Ensuring employees are provided with adequate fire safety training, including an induction training to cover general fire awareness, periodic refresher training, extra training for ‘responsible people’ such as fire wardens, and training to build appropriate skills such as risk assessment, fire warden, and using fire extinguishers.

It is also mandatory to carry out detailed fire risk assessments that identify the risks and hazards on the premises. This must be completed by a competent person, who will be required to

Consider who may be especially at risk

Eliminate or reduce the risk of fire as far as is reasonably practical

Provide general fire precautions to deal with any risk

Take additional measures to ensure fire safety where flammable or explosive materials are used or stored

Create a plan to deal with any emergency and where necessary record any findings

Maintain general fire precautions, and facilities provided for use by firefighters, and

Keep any findings of the risk assessment under review.

Personal Protective equipment

Commonly known as PPE, it is a legal requirement for warehouse employees to be kitted out with the appropriate attire so they can do their job safely. Examples of PPE can include hi vis jackets, hard hats, eye protection, safety shoes, and much more. As new potential risks can develop, it’s a good idea to keep on top of this.

Vehicle safety

Warehouses are usually home to vehicles that move stock from one place to another. Those that operate or even just encounter these vehicles, should be given appropriate training to ensure safety across the board. They should also have a speed limit no higher than 5mph, as well as regular servicing to reduce any risks.

Slips and trips

There are a few precautions that can be taken to keep slips and trips to a minimum. This includes gathering and taping or covering any cords, as well as ensuring that shelves are stacked properly so that nothing can fall and cause a tripping hazard.

Welfare facilities

Warehouses should provide somewhere safe and comfortable for potential employees to spend their breaks, such as a kitchen with food making facilities. It Is also a legal requirement to provide toilets, regardless of whether there are any employees or not.

Lighting and temperature

To make sure the warehouse is adequately illuminated, it needs at least 100 Lux of light when it's open. If the area is consistently staffed, the minimum requirement goes up to 200 Lux. As for the minimum temperature, the rules are a bit unclear. The law specifies a minimum of 16°C unless the work is physically strenuous, in which case the minimum drops to 13°C.

Handling goods

Handling and relocating stock can become problematic without adequate training. It's crucial to implement safety measures to prevent employee injuries, such as muscle strains or back problems. Providing forklifts and trolleys can help reduce the need for manual lifting and carrying, promoting a safer working environment.

Tax

As warehouses fall into the category of commercial property, they will likely be taxed accordingly. Commercial buyers typically enjoy more favourable Capital Gains Tax (or CGT) terms compared to residential counterparts. If you personally own a commercial property, you'll be subject to CGT on its increased value upon sale. However, if the property is held and sold through a limited company, it incurs corporation tax instead.

The CGT rate depends on your personal income tax bracket, with basic rate taxpayers facing 10% for commercial property, while higher rate taxpayers are charged 20%. In contrast, CGT rates for residential property are 18% and 28% for basic and higher rate taxpayers, respectively. CGT is applied only to gains exceeding the tax-free allowance of £12,300, and it must be reported and paid within 60 days of a sale. For those involved in property trading, income tax applies, and deductions can be made for property improvements. The Office of Tax Simplification has proposed aligning CGT with Income Tax rates, but no action has been taken yet.

Additionally, Stamp duty Land Tax is payable on commercial property purchases, and the rates vary based on the property value. VAT is generally not paid on commercial property sales or leases, except for new builds, where a 20% VAT can be charged at the seller's discretion to recover associated costs. The complexity of commercial property taxes underscores the importance of seeking expert tax guidance for investors.

We’re back with another quickfire question, so test your knowledge again!

Why has the demand for warehouse space surged in recent years, according to the training? Is the answer:

a) Increased demand for distribution centres due to e-commerce growth

b) Decreased growth of e-commerce, or

c) Lower rental rates in strategic areas

The answer is A. An increase in ecommerce growth has lead to higher demand for distribution centres.

Financing a warehouse purchase

Before buying a warehouse property, your clients should at least be thinking about their financing options. While the option they go for will depend on the eventual property they buy, and their circumstances, it may help giving them an idea of what’s out there ahead of time.

For instance, clients may want to think about what the rates are like in the current market for commercial mortgages vs bridging loans. Or, they could ask themselves if they’ll need funding for an auction purchase, rather than buying via an agent.

Beyond this, clients should research what market options are available, and which ones seem worthwhile in pursuing. This could start with the geographic location.

Clients may also want to think about timeframes. Do they want to secure long-term income from a business, or renovate an empty space for a fix-and-flip strategy?

Commercial mortgages may be the logical first step for many looking to purchase a warehouse. Generally, these mortgages come in two main formats:

Capital repayment: With capital repayment mortgages, a portion of the capital borrowed along with added interest is repaid monthly. By the end of the loan’s term, the commercial property will be paid off in full.

Interest only: With interest only mortgages, the interest is repaid monthly, but not the capital. By the end of the term, a lump sum will be needed to cover the capital in full.

Aside from mortgages, some lenders may also offer secured loans. These can be used for a commercial property, or for a deposit.

As the name implies, investors will need to utilise an asset already owned as a security. Some lenders may also consider a third-party security instead of, or alongside other securities. A guarantee is a common example of this.

In the bespoke lending world, bridging loans can be used for investment in warehouse property. These loans can come in many forms and be used for a range of circumstances. For example, bridging can be used to purchase, refurbish, or bid on a warehouse property.

Remortgages are also available for this type of purchase. This involves taking out a new mortgage on an owned warehouse to find better terms, or release equity. This can be done with mainstream lenders and/or bridging providers.

Congratulations, you’ve made it to the end of the training! Don’t forget to answer the exam questions at the end.