Investing in Commercial Property – How to Start

July 2018 · David Ereira

It has changed dramatically, but the commercial property market in the UK still offers opportunity for investors, says David Ereira.

The commercial property market in the UK has changed beyond recognition, with the high street under attack and companies preferring light-footed agility to long-lease office blocks. But, says David Ereira, co-founder of property practice Ereira Mendoza, there are sound investments to be made if you know where to look. Here are his six most important factors aspiring investors need to know.

For many investors, residential property has been something of a gold-standard investment over the years. But its near-permanent upward trajectory has been somewhat curtailed by recent changes to tax rules on buy-to-lets. This, in turn, has made commercial property much more attractive for investors. So where to begin if you're new to the market?

David Ereira, co-founder of property practice Ereira Mendoza.

1. Know your potential return
Commercial property is one of the key pillars of any investment portfolio. It will typically provide a regular return in the form of rent. It spreads the portfolio's risk – and is likely to be much less risky than investing in any single company or sector. It usually means capital growth, as property values usually increase over time, whether for residential or commercial property.

2. Know your tenant
Commercial leases are normally longer term than a residential one – sometimes they can be measured in decades rather than years. So, provided the client is a good one, it's much easier to manage the relationship. Unlike with residential property, the tenant bears the cost of repairs, service charges, buildings insurance, etc. Renting a property for, say, £30,000 a year really means £30,000 a year, not £30,000 minus £5,000 in running costs.

3. Know the market
Investing in commercial property has changed beyond all recognition in recent years. Location, location, location used to be the mantra – and there were certain locations you could be all but certain would yield very steady returns for years to come. Thirty years ago, decisions around high-street investment were fairly straightforward: Marks and Spencer was the anchor, the centre of the retailing universe. Wherever you found an M&S store, property would be 100 per cent prime value; the next shop over from M&S would be 90 per cent; next to that 80 per cent and so on. Then big shopping centres came along and began to supplant the high street as the most desirable commercial properties. The centre of gravity shifted.

Some of the best property investments are for businesses or services whose USP can't be replicated online

4. Know where to look
Given the change, what will be at the centre of commercial activity? In all likelihood, it will be defined by community rather than retail activities: places to meet, consume and experience rather than a place to buy something to take home.

And where does that leave commercial property? Still in rude health, just in slightly different places. "Sheds" – effectively warehouses, whether small artisanal units, huge distribution bases or even giant retail stores such as B&Q – are in high demand.

These sheds have been the beneficiaries of the fall in demand for the high street – those online vendors who have been putting many high-street retailers out of business need to store their goods somewhere. While some – Amazon being an obvious example – use giant warehouses that you could probably see from space, a surprising number operate from very small distribution centres.

5. Know the connectivity
The old mantra of 'location, location, location" still applies. But rather than looking for proximity to a much-loved national retailer, your 'must-have neighbour' is a good road system. Nobody wants a warehouse or distribution centre which their vans and lorries can't access easily.

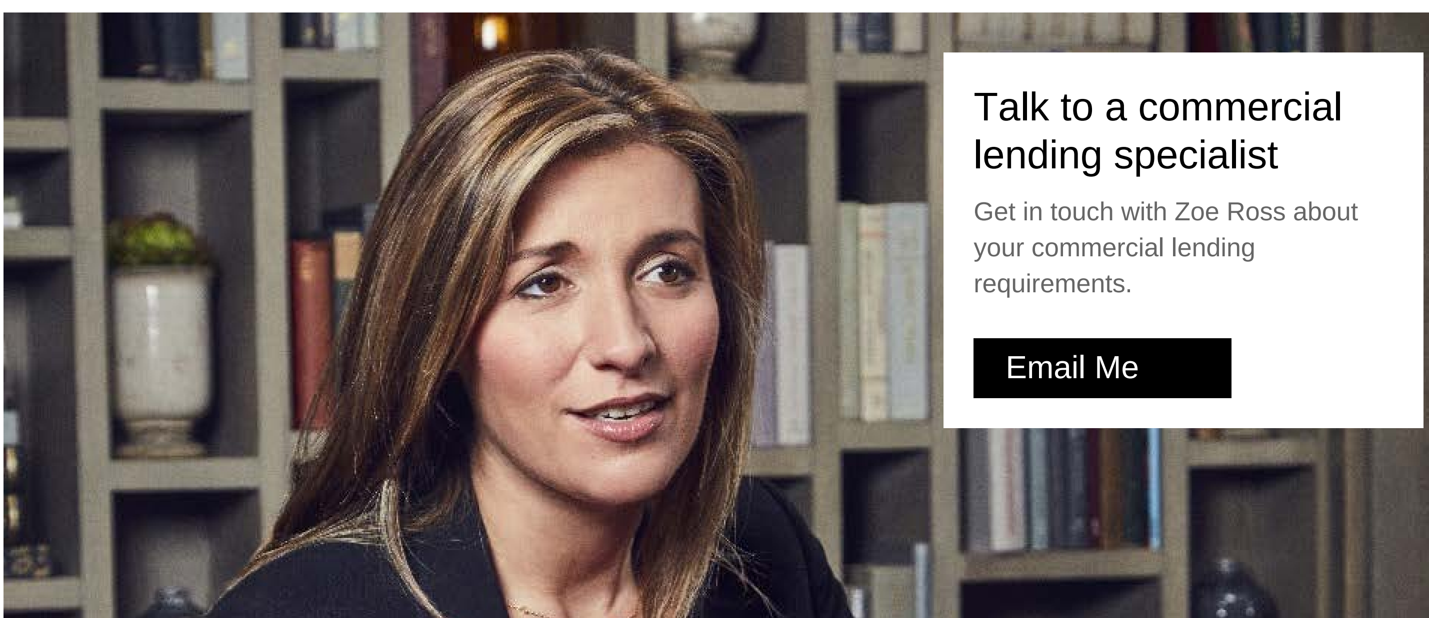
And if your entry price is around £500,000, you'll need to look outside London. In parts of London, warehouse units are reportedly commanding higher prices per square metre than office space, which may be unprecedented. But the office is in a state of flux at the moment, just as much as the high street. Businesses are looking to maintain their agility, so are less willing to be tied into a long-term lease.

6. Know the USP
In the London suburbs, what were long-standing office spaces are gradually being turned into residential buildings. It's still possible to invest in premises with some sense of security, however. Some of the best property investments are for businesses or services who's USP can't be replicated online. NHS and medical centres are unlikely to change their purpose any time soon. The same goes with petrol stations. So these premises often come with long leases.

A decade or so ago, this was not unusual for the high street. Retailers liked the security of the long lease – often 20 or even 25 years – as it provided them with a sense of stability. And, in the event that they needed to move on, it could also be a valuable asset to be sold to their replacement. Now the decline of the high street means they're looking for much shorter leases. Investors will find greater value in those places which offer some immunity from the changes in high-street retailing.

David Ereira founded Ereira Mendoza with Daniel Mendoza in 1990, and the business has grown into one of the most respected full-service property practices in the market.

Disclaimer
The opinions and views expressed in the above article are for general information purposes, they should not be construed as recommendations or advice for any individual nor should any action be taken on account of the information presented.



Your property may be repossessed if you do not keep up repayments on your mortgage.