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Make a shed-load of money the REIT way: Warehouses could deliver the goods in your portfolio

- **Every £1bn spent online requires about 900,000 square feet of shed space**

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The re-ordering of the retail hierarchy continues. **Boohoo**, the online fast fashion business, is to acquire Debenhams, and perhaps also Burton, Dorothy Perkins and Wallis, while **Asos** – the other big name in sexy street style – is set to snap up Topshop. The stores bearing these traditional High Street names will close forever, although the Topshop Oxford Circus flagship may become a showroom for Asos.

It is yet another sign that attention is turning to a less glamorous type of retail premises – warehouses and sheds.

They may be utilitarian, but many investors now see this type of building as an ideal home for some of their money.

These popular pieces of real estate, central to the logistics of transporting and delivering goods, are springing up to cater for the ecommerce explosion sparked by lockdowns. Online purchases grew by 46 per cent in 2020.

'Over the course of a few months, internet shopping became normalised and that was across all age groups,' says Jonathan De Mello of CWM Retail Consulting.

This transformation in habits has created a need for sheds, near motorways, or on edge-of-town sites, crucial to the 'last-minute' stage in the journey of a parcel to the home of its recipient.

Every £1billion spent online requires about 900,000 square feet of shed space, which is the size of almost 12 professional football pitches.

Savills reports that a record 50.1 million square feet of warehouses were let in 2020, with Amazon alone accounting for 25 per cent of demand. The leap this month in warehouse searches on Rightmove's commercial section indicates the trend is set to continue.

The confident mood today in the shed sector is a marked contrast with overcapacity concerns in 2019. Now, in the world of REITs – or Real Estate Investment Trusts – the stock-market quoted companies that own sheds, there is talk of scarcity, especially of smaller units.

Andrew Bird, investment manager of the AIM-listed Warehouse REIT, comments: 'There is no new supply of units of 5,000 to 50,000 square feet because it's more profitable for a developer to put up one massive box on a site, rather than ten of 10,000 square feet.'

Bird says that such units are required by businesses like smaller clothing manufacturers who are now selling for the first time through their own websites, which is another indicator of the wider retail revolution.

Bird says that his REIT is focused on providing good quality but highly affordable accommodation to such tenants, although Amazon still occupies 11pc of its overall space.

Warehouse REIT shares stand at 124p and yield 5 per cent. This REIT is at an 8 per cent premium to its net asset value, which is modest compared with some of its larger peers who are at double-digit premiums. Does this mean that it's too late to put money into the sector? The answer is yes, if you are fixated on bargain buys.

But if you are looking for an income, REITS are worth a look. For one thing, they are reporting 95 per cent to 100 per cent rent collection rates at a time when other commercial landlords are struggling.

The biggest and best-known warehouse REIT is Segro. Its £11.7billion value is equivalent to that of British Land and Land Securities combined.

Both these groups focus more on stores and offices, assets hard-hit in the pandemic. British Land received just 46 per cent of shop rents in December.

Segro may be most associated with the Slough Trading Estate, the setting for The Office TV comedy series, but its latest venture is a net zero carbon scheme in Tottenham.

The sector's increasing emphasis on sustainability indicates a readiness to adapt to change. For me, anything that smacks of inflexible attitudes in a company's stance is a reason not to invest. Segro shares stand at 954p and yield 2.6 per cent.

The Tritax Big Box REIT, which is building Europe's largest distribution centre in Dartford, Kent is at a premium of 20 per cent, and offers a dividend yield of 3.7 per cent.

Aberdeen Standard European Logistics Income, which is at a premium of 11 per cent, has a yield of 4.3p. The QuotedData consultancy notes that, when online shopping reaches 10.7 per cent of all sales, this is the tipping point that creates rapid growth in the creation of warehouses.

Online sales are already at this level in France, Germany and the Netherlands and are expected to keep going upwards.

The Tritax EuroBox trust also provides exposure to these territories but has a discount of 6 per cent.

The likelihood that the move to online will prove permanent is boosting share prices of REITS. Bird of Warehouse REIT cites the switch at John Lewis, where online now makes up 60 per cent of sales, against 40 per cent pre-pandemic.

But he adds that 'no market is insulated from a material recession, with high levels of unemployment'. This risk suggests that, although warehouses deserve a place in your portfolio, it would be risky to be overexposed to the sector. Just like any other type of property, in fact.