PROPERTY PORTFOLIO INVESTOR

DEEP DIVE GUIDES · WHERE THE SEASONED MONEY GOES

THE SMALL SHED

Your first commercial property: the case for the modest industrial unit.

Britain cannot get enough small warehousing, and the buy-to-let playbook does not apply: no tenancy reform, no stamp duty surcharge, no EPC C deadline, and a tenant who repairs the roof. This guide walks the residential landlord into their first industrial unit: the lease, the numbers, the tax, the finance, and the pension wrapper most investors overlook.

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START WHERE THE DEMAND IS

The shed the economy runs on

E-commerce, last-mile delivery and the eternal small trades have made the modest industrial unit one of Britain's most reliably demanded buildings, and one of its least glamorous investments.

The small shed, in this guide, means the workaday end of industrial property: units of roughly 1,000 to 5,000 square feet on trading estates and in urban infill, let to couriers, kitchen fitters, gyms, vehicle repairers, online retailers and the thousand small businesses that need a roller door, three-phase power and somewhere to park a van. Demand for such space has been structurally transformed by online retail, whose share of spending reset permanently upwards after the pandemic, and supply has not kept pace: land values push developers towards housing and big-box logistics, and industry analysis expects just 8 million square feet of speculative industrial starts in 2026, the lowest since 2017. The result shows up in the letting data, with prime rents for mid-box and multi-let units around £15.55 per square foot by mid-2025, up roughly 4 per cent on the year, continued growth of around 3 per cent forecast for 2026, and agents reporting the strongest demand precisely at the smaller-unit end of well-connected multi-let estates.

Why should a residential portfolio investor care? Because almost every burden chronicled in this series stops at the shed's door. Commercial tenancies sit outside the Renters' Rights Act entirely. The 5 per cent stamp duty surcharge does not apply, nor do the April 2027 property income rates change the logic of a well-structured commercial holding. On a standard commercial lease the tenant, not the landlord, repairs the building, insures it and pays the rates. And in June 2026 the government confirmed that the tighter commercial energy standard being planned, EPC B, will apply from 2031 only to buildings over 1,000 square metres: the small shed keeps today's EPC E floor, with no announced deadline beyond it. The trade-offs are real, and this guide is honest about them, but the starting point is striking: the state is regulating your residential portfolio hard, and leaving your prospective shed conspicuously alone.

BY NUMBERS

- around £15.55 per sq ft - prime multi-let industrial rent by mid-2025, up ~4% in a year (Eddisons)
- 3.1% - forecast prime industrial rental growth across key UK markets in 2026 (LSH)
- 8m sq ft - expected 2026 speculative starts, the lowest since 2017; supply stays tight (LSH)
- 0% then 2% - commercial SDLT below £150,000 and to £250,000; no surcharge at any price
- EPC E - the energy floor for units under 1,000 sq m, confirmed unchanged in June 2026

THE NEW MACHINERY

The lease is the asset

In commercial property you are buying an income stream wearing a building; the covenant, the term and the repairing clause matter more than the brickwork.

The instrument at the centre of everything is the commercial lease, and its standard form is the residential landlord's dream: full repairing and insuring, under which the tenant keeps the property in repair, reimburses the insurance and pays the business rates, leaving the landlord to bank rent and little else. Terms run in years rather than months, three, five and ten being common at this end of the market, often with an upward-only rent review or a fixed uplift midway, and sometimes a tenant break. Two legal features need understanding before your first viewing. First, security of tenure: under the Landlord and Tenant Act 1954, a business tenant generally has the right to renew at market terms unless the lease was contracted out by the statutory procedure, so every purchase requires knowing which kind of lease you are inheriting. Second, dilapidations: the tenant's repairing obligation is enforced at lease end through a schedule of dilapidations, and a well-run exit can fund the refurbishment for the next letting.

Pricing follows the income. Commercial property is quoted on net initial yield, the rent as a percentage of price plus purchaser's costs, and the yield the market applies reflects the quality of the income: a strong tenant on a ten-year lease prices at a keener yield than the same shed with two years left to a marginal occupier, and a vacant unit prices off its lettable value minus the cost and risk of finding the tenant yourself. This is the deepest difference from residential, where the covenant barely moves the price: here, a lease regear or a better tenant can add value without touching a brick, and a departing tenant can subtract it overnight. Read the lease before the building, verify the rent actually paid against the rent reserved, and treat the tenant's accounts, which for companies are publicly filed, as part of the survey.

RULE OF THUMB

Underwrite the unit vacant. If the price only works while the current tenant stays, you are buying their business, not the property; if it still works at the realistic re-letting rent after a six-month void, you are buying real estate.

THE MARGIN LIVES HERE

What the shed pays

Smaller secondary industrial trades at yields residential investors associate with the far North, on running costs they will not recognise at all.

Work a representative example, illustrative throughout. A 2,500 square foot unit on an established regional estate, let at £8 per square foot, produces £20,000 a year; at a net initial yield of 8 per cent, in the range where smaller secondary industrial stock commonly trades, that prices around £250,000. Purchase costs are gentler than residential: commercial SDLT charges nothing below £150,000 and 2 per cent on the slice to £250,000, £2,000 here, against £12,500 on a residential purchase at the same price with the surcharge. Running the investment costs remarkably little while the FRI lease endures: no repairs, no insurance premium, no rates, typically just modest management or none, so gross and net yield sit unusually close together. Gear it at the commercial norm, 65 per cent loan-to-value at mid-2026 pricing in the high fives to low sevens, and the rent covers interest around twice over, comfortably clearing the 1.25 times debt service cover lenders require.

Now the honest other column. When the tenant leaves, the polarity reverses: a vacant shed pays nothing, and after the initial empty-rates relief, six months for industrial property, the rates bill lands on you, alongside insurance, security and re-letting costs including agent and legal fees and any incentive, such as a rent-free period, needed to secure the next occupier. Voids are the risk being priced by that 8 per cent yield, and they run longer than residential voids: months, not weeks, is the planning assumption, which is why the sector's cardinal metrics are tenant quality and estate location rather than finish. Rent deposits of three to six months and, on smaller covenants, personal guarantees are standard mitigation, and the structural backdrop, tight supply and growing small-unit demand, is the investor's real insurance. Buy the estate the vans queue for, and the void problem largely takes care of itself.

Line (illustrative)	Small shed at £250,000	Terrace BTL at £250,000
Annual income	£20,000 (FRI lease)	around £13,000 to £15,000
SDLT at purchase	£2,000	£12,500 with surcharge
Repairs, insurance, rates	Tenant pays while let	Landlord pays throughout
Void behaviour	Longer, with rates after 6 months	Shorter, no rates gap
Regulatory load	Lease law; EPC E floor	RRA, EPC C, licensing

Illustrative comparison at mid-2026 conventions; yields, rents and lending terms vary by estate, covenant and lease. Commercial values move with the letting market, not the housing market.

THE TAXMAN'S SHARE

A kinder regime, with one trapdoor

Commercial property enjoys the gentler tax treatment throughout, provided you do not fall through the VAT floor on the way in.

The comparisons run one way. Stamp duty: non-residential rates of nil to £150,000, 2 per cent to £250,000 and 5 per cent above, with no additional-property surcharge and no company flat rate; on the price points of this guide the saving against residential runs to five figures. Income: rent is taxable as property income, but interest on borrowings against commercial property held in a company is fully deductible in the ordinary way, and the separate residential property income rates arriving in April 2027 sharpen the contrast for personal holders. Gains: commercial disposals attract the standard capital gains rates rather than the residential ones, and the 60-day residential reporting deadline does not apply. Energy: the letting floor is EPC E under the commercial MEES regime, with penalties for breach of up to £150,000, and the June 2026 interim response confirmed the planned move to EPC B in 2031 applies only above 1,000 square metres, leaving the small shed's obligations unchanged and undated beyond E.

The trapdoor is VAT. Commercial property sales are exempt by default, but an owner can opt to tax the building, converting sales and rents into standard-rated supplies in order to recover VAT on their own costs; the option, once made, follows the property. Buy an opted building and 20 per cent VAT lands on the price, and SDLT is then calculated on the VAT-inclusive figure; a VAT-registered buyer generally recovers the VAT in due course, but must fund it at completion, and an unregistered buyer simply bears it. Where an opted, tenanted building is sold with its lease, the transaction can qualify as a transfer of a going concern and escape VAT altogether, subject to strict conditions including the buyer registering and opting before completion. None of this is exotic, every commercial solicitor and accountant handles it weekly, but it must be established before exchange, not discovered at completion, and it is the single most common expensive surprise for first-time commercial buyers. Business rates, meanwhile, are the tenant's bill while let and yours when vacant, with reliefs for empty and small properties worth checking with the council.

COMPLIANCE CHECKLIST

Before you buy: confirm the VAT position, opted or not, and TOGC eligibility in writing; verify the lease type, term, reviews and 1954 Act status; check the EPC is E or better; review the tenant's filed accounts and payment history; establish the rateable value for the void scenario.

While you hold: diarise rent reviews, breaks and expiry years ahead; keep the insurance reimbursement and any service charge reconciled; monitor the tenant's covenant annually; commission the dilapidations schedule before lease end, not after.

Commercial money, and the pension route

The lending is more conservative and more bespoke than buy-to-let, and for many readers the most tax-efficient buyer of a small shed is their own pension.

Commercial investment mortgages are underwritten case by case rather than priced off a product menu. Loan-to-value typically tops out around 65 per cent for investment property, with some specialist appetite beyond at a price; mid-2026 fixed rates have generally sat between roughly 5.5 and 7.5 per cent depending on loan size, covenant and lease profile, over terms from five to twenty-five years; and affordability is tested as debt service cover, usually a minimum of 1.25 times the mortgage payment out of the rent, with the lease length and tenant strength weighed alongside. Loans start from around £50,000 with the specialist banks, which brings the small shed within reach of the same capital that buys a northern terrace. Vacant or short-let units lean on bridging first, at the auction-style pricing covered in Guide No. 7, refinancing to term once a lease is signed; a tenanted purchase with five-plus years of term is the clean, financeable first deal.

The route residential investors habitually miss is the pension. A SIPP or SSAS can own commercial property directly, industrial units expressly included, and the arithmetic inside the wrapper is unmatched: rent rolls up free of income tax, disposals are free of capital gains tax, and contributions that fund the purchase may attract relief on the way in. Schemes can borrow up to 50 per cent of their net asset value to complete a purchase, secured on the property, and a business owner can even have the scheme buy premises and lease them back to the trading company at an independently evidenced market rent, on strictly arm's-length terms. The constraints are equally firm: residential property in a pension triggers punitive charges, so the shed qualifies where the flat never will; liquidity must be planned, since a pension nearing drawdown cannot easily hold one illiquid building; and the whole structure requires a regulated pension adviser alongside the usual professionals. For the reader with a dormant pension pot and a yield eye, this page is arguably the most valuable in the series; take the advice.

Route	How it works	Watch for
Commercial investment mortgage	Term loan to ~65% LTV on the lease income	DSCR 1.25x+; bespoke pricing and fees
Limited company purchase	SPV holds; interest fully deductible	Personal guarantees standard
Bridge then term	Buy vacant, let, refinance	Void costs; exit lease must be credible
SIPP / SSAS purchase	Pension owns the shed; tax-free rent and gains	50% borrowing cap; regulated advice essential

EARNED THE HARD WAY

The investor's playbook

The disciplines transfer from residential; only the objects change: read leases instead of tenancy agreements, covenants instead of references, estates instead of streets.

The small shed rewards the same temperament this series has preached throughout, applied to a kinder rulebook. The income is the asset, so the lease file is read before the building is visited; the void is the risk, so the unit is underwritten vacant and the estate chosen for its queue of would-be occupiers; the VAT position is established before exchange because it cannot be fixed after; and the structure, personal, company or pension, is chosen on advice before the offer, because it changes the buyer's name on the contract. Do these things and the first commercial purchase is not a leap but a lateral move, into the one corner of UK property where the regulatory tide is currently going out rather than coming in.

TEN HABITS OF THE SEASONED SHED INVESTOR

- Reads the lease, the title and the tenant's filed accounts before viewing the unit.
- Underwrites every purchase vacant, with six months of void, rates and re-letting costs priced.
- Buys estates with visible occupier demand: full car parks, waiting lists, vans at eight in the morning.
- Establishes the VAT and TOGC position in writing before exchange, every time.
- Checks the 1954 Act status of every lease and knows what renewal rights it is buying.
- Prices covenant strength into the yield, and re-checks the tenant's accounts annually.
- Diarises reviews, breaks and expiries years ahead, and starts renewal conversations early.
- Takes rent deposits and guarantees on small covenants as standard, not as insult.
- Commissions the dilapidations schedule before expiry and uses it to fund the refresh.
- Asks the pension question before every commercial purchase, with regulated advice.

KNOW YOUR EXIT

The bigger picture

Structural demand, rationed supply and a regulator looking the other way: the small shed's decade looks better than the small house's.

The demand story is not cyclical. Online retail's logistics chain terminates in exactly the buildings this guide describes, and the occupier base beneath it, trades, servicing, light manufacture, leisure, is the part of the economy that cannot work from home. Supply, meanwhile, is structurally rationed: urban industrial land keeps losing to residential values, speculative development has fallen to its lowest level since 2017, and what is built skews large, because developers' economics favour the big box over the terrace of small units. Industry forecasts accordingly expect continued rental growth around 3 per cent in 2026 with the smaller-unit segment outperforming, and the June 2026 energy announcement quietly improved the small shed's relative position further: while residential landlords fund EPC C by 2030 and large commercial owners plan for B by 2031, the sub-1,000 square metre unit faces no announced tightening at all.

The risks are the sector's own. Commercial values move with occupier markets and yields, not house prices, and can fall faster in a downturn; small businesses fail, and covenant risk is concentrated when one tenant is the whole income; illiquidity is real, with sales measured in months; and policy can always turn, whether through business rates reform, which is under perpetual review, or a future extension of energy standards downwards in scale. The seasoned response is diversification in miniature: one shed beside a residential portfolio changes its character, two or three across different estates and tenant trades begin to look like resilience. For the reader who has followed this series from the £25,000 terrace through the refinance, the small shed is the natural ninth chapter: the same yield discipline, a friendlier state, and a tenant who fixes the roof. Few corners of British property can currently say the same.

QUICK REFERENCE

Item	Position at the time of writing	Source and date
Prime multi-let rents	around £15.55 per sq ft mid-2025, up ~4% year on year	Eddisons outlook, 2026
Rental growth	3.4% in 2025; 3.1% forecast for 2026; +2.8% H1 2026	LSH Mar 2026; Colliers
Supply	~8m sq ft 2026 spec starts, lowest since 2017; vacancy ~5.7%	LSH; Aberdeen, Q1 2026
Commercial SDLT	0% to £150k; 2% to £250k; 5% above; no surcharge	HMRC
Lease SDLT	1% on rent NPV above £150,000	HMRC
Energy standard	EPC E floor; B by 2031 only above 1,000 sq m; sub-1,000 unchanged	DESNZ interim response, 18 June 2026
MEES penalties	Up to £150,000 per breach (non-domestic)	MEES regulations
VAT	Exempt unless opted; SDLT then on VAT-inclusive price; TOGC possible	HMRC guidance
Investment lending	to ~65% LTV; ~5.5-7.5% fixed mid-2026; DSCR 1.25x+	Market guides, mid-2026
Pension route	SIPP/SSAS may hold commercial; borrow to 50% of scheme assets	HMRC rules; advice required