



Converting Commercial to Residential – Is it for you?

Alan Pemberton, TFT managing partner

apemberton@tftconsultants.com



Large commercial property landlords tend to shy away from getting involved in the residential market, but recently more and more institutional investors are setting up residential specific funds. Why the sudden attraction?

A key reason is the increasing portfolio of commercial ‘dead stock’ throughout the UK. Converting this space in to residential units provides Landlords with a means of reducing the loss created by diminishing office rents while at the same time addressing a recognised market demand for low cost housing.

A lack of affordable housing on the market is fuelling demand for low end residential property and the financial incentives for converting buildings from commercial to residential can be extremely enticing to a property owner that has ‘dead stock’ in its portfolio. Not only does it provide landlords with the opportunity to reduce the market rent void, but beyond this it also opens the opportunity to release capital by selling units to private buyers, whilst still retaining the freehold for the building.

The Homes and Communities Agency (HCA) is currently looking at a potential funding model to encourage the commercial sector to provide much needed housing. Therefore, unlike in previous property slumps, there is the prospect of funding for commercial bodies from government sources to develop affordable housing.

With vulture funds poised to enter the market the appeal is not just about finding a solution for the stock already on their books. There is also the opportunity to maximise return on investment by acquiring disused property at the bottom end of its value, take advantage of competitive tendering for repair and conversion work and introduce a performing asset into their portfolio. Guaranteed rent, the maintenance of freehold and the option to sell the asset at a good return makes the proposal enticing.

Conversion to a mixed occupancy property can allow for the investor to recoup some of the costs of conversion by being able to sell off higher spec units to private buyers at a premium.

As not every property will lend itself to conversion in a cost effective manner, carrying out an initial feasibility study is essential before wading in to the deep end.

With sustainability and CRC a key consideration for everyone in the commercial property sector, it is also worth noting that reusing existing stock is arguably the most sustainable form of property development.

Utilising building stock to ride out market changes and creating new income streams along the way could become an increasingly attractive proposition to established commercial property players. It may even be yet another indicator of the future shape of property investment and how it can move with the times.