

exigere

INSIGHT




Building more homes through office to residential conversion

Following our 'Tackling London's Housing Crisis' publication in 2021, London's need for housing three years later is as acute as ever.

Despite these challenges and negative press, exigere's residential team has been actively contributing to the delivery of new homes across London. Our growing sector has been making a positive impact, supporting our clients in delivering new homes to meet housing targets.

Image left: 10-16 Bevis Marks
Sterling Real Estate ©AHMM

 The Standard

'London's social housing crisis is about to enter a death spiral'

 London Councils

'London's housing crisis 'threatens to break borough budgets' amid £700m funding shortfall'

 Inside Housing

'Government has failed to face up to the real cost of fixing London's housing crisis'

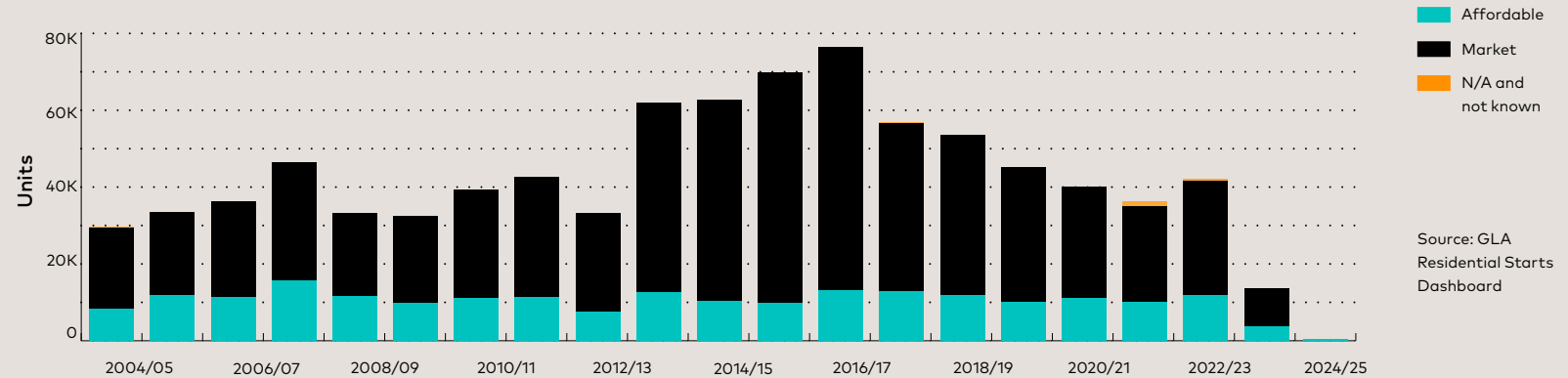
The residential market

New housing starts in Central London during 2023/24 were down 61% compared to 2022/23. Only 13,470 units commenced in 2023/24, a significant drop from over 41,000 the previous year.

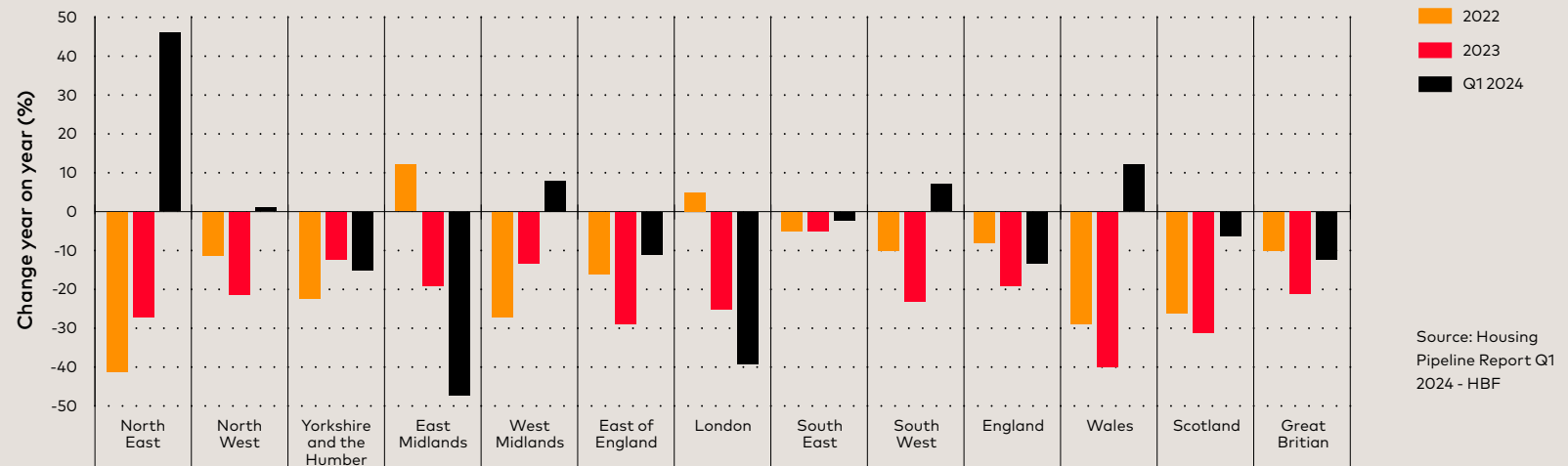
The new Labour government has set ambitious targets to more than double the number of new homes being built in the capital each year. The target aims to deliver 80,000 homes annually, with plans to restore the mandatory house-building targets and an overhaul of the planning system.

However, across the UK, housing approvals in 2023 were down 21% from 2022, with Central London schemes particularly affected by rising interest rates, design implications of the Building Safety Act, planning delays, and escalating construction costs. Q1 of 2024 saw just 7,613 units consented – the lowest number since 2012 – marking a 39% year-on-year decline and a 51% drop compared to Q4 2023.

Net self-contained residential starts by affordability



Housing pipeline Q1 2024
Residential planning approvals by region (no. of units)



BUILD MORE THROUGH CONVERSION

Permitted development relaxation

In February of this year, Parliament extended the permitted development rights, removing the 1,000 sq m GIA cap. This change now allows commercial buildings of any size to be converted into residential units, creating a wealth of opportunities for clients with existing office stock, as well as residential developers seeking new opportunities. We have seen particular opportunities emerge around existing office properties in the outer zones of London (Zones 5 and 6), where office lettings are more challenging.



Key design considerations

When converting existing office stock into residential units, a number of design considerations should be reviewed and understood to accurately identify costs. Many of these considerations stem from recent regulatory changes, such as thermal performance and fire safety.

KEY CONSIDERATIONS INCLUDE:

- Means of escape
- New risers
- Sprinklers
- Fire rating of structure
- Thermal performance
- Higher Risk Building (HRB)
- External amenity

Key design considerations continued

Means of escape

Buildings with residential use above 18m must have a secondary means of escape. Even for buildings under 18m, a secondary escape may be required depending on the layout and the minimum escape distance of 7m.

New risers

Residential uses, especially studio or serviced apartment schemes, require many more slab penetrations for services routes. This is mainly due to the requirements for soil stacks, often resulting in structural strengthening works.

Sprinklers

In accordance with British Standards, residential buildings with a top storey more than 11 metres above ground level must be fitted with sprinklers. Typically, this applies to office conversions above ground level plus two storeys (G+2).

Fire rating of structure

Approved Document B outlines minimum fire resistance periods. Residential use tends to have stricter requirements compared to commercial use and therefore potential upgrades need to be considered.



Thermal performance

Thermal upgrades are generally required to achieve the necessary EPC rating when converting from office to residential use. This can be achieved by thermally insulating external walls from the inside face (which may reduce Net Internal Area), replacing windows or adding secondary glazing, or even replacing the full façade.

Higher Risk Building (HRB)

Buildings with at least two residential units that are 18 metres tall or have at least seven

storeys are classified as higher-risk buildings. These buildings are subject to a rigorous approval process, passing through three gateway points: planning, Building Control, and completion stages.

External amenity

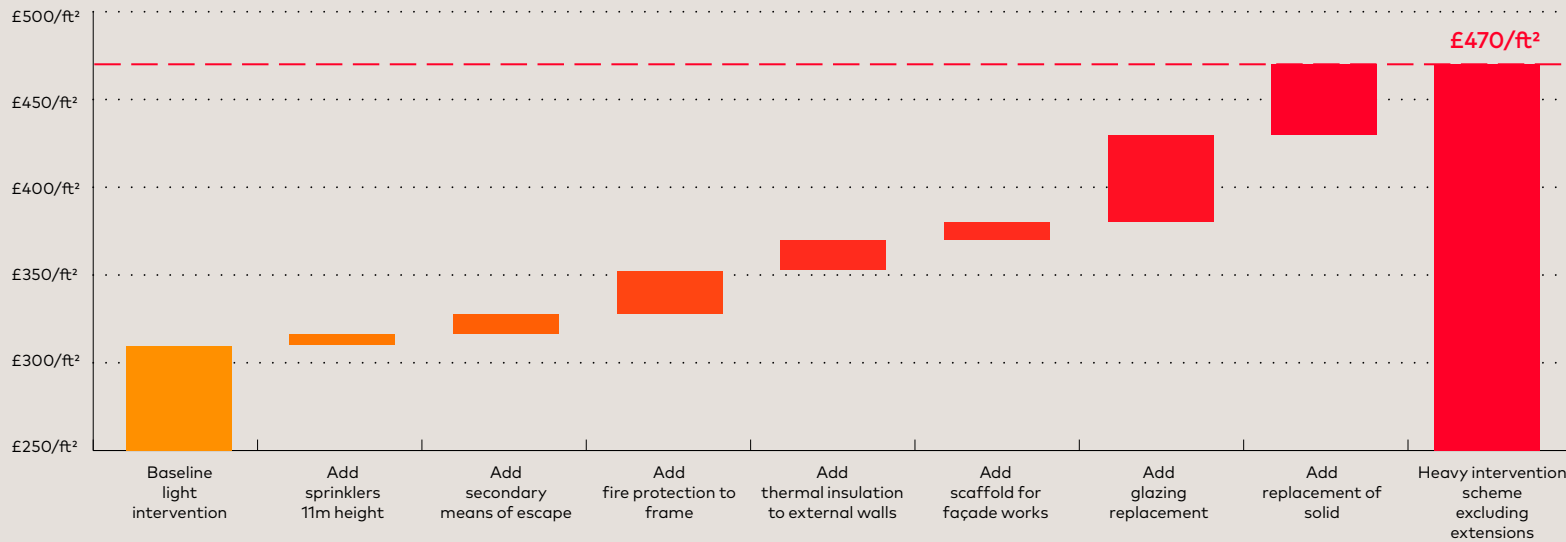
Providing external amenity space for converted residential units can be challenging. Balancing the impact on sales values against the cost and planning risks of providing this amenity is an important consideration.

WHY DO THEY WORK WELL?

- ✓ Generous structural slab to slab in comparison to residential
- ✓ Offices are designed to higher load tolerances
- ✓ Power in office use is typically sufficient to support residential

How much does it cost?

Office to residential conversion
Q3 2024 price date



When considering the benchmarked costs for conversion schemes, the level of intervention required for your existing building is key. At the outset of a viability assessment, careful consideration of the design implications mentioned earlier is essential. Applying a blanket £/sq ft rate for retrofit conversion can be challenging, as the scope of required interventions significantly influences costs.

Early-stage discussions should focus on understanding the cost additions linked to these interventions.

To achieve a 'light intervention' scheme, the building's nature and design needs to be that of a conversion which inherently meets current regulations, particularly in terms of building height, escape route, fire rating and

core positioning. For the purpose of the baseline cost, we have assumed an office building of three storeys with adequate thermal performance and a central core to meet minimum escape distances and no requirements for sprinklers. The building achieves an 80% net to gross ratio and eight units per core for maximum efficiency.



St. Andrew's House - Anglo American and De Beers
©Jack Hobhouse

As the industry moves towards a 'retrofit first' approach, all clients and key stakeholders will need an understanding of the implications of retrofit projects, whether they involve conversion or other forms of adaptation. Many of the challenges and considerations discussed above remain highly relevant in any retrofit scenario.

Engaging an architect and cost consultant early in the process is crucial to navigating the design and cost implications of an efficient retrofit conversion scheme. This expertise will ensure you have the necessary tools to deliver a successful, compliant and cost-effective scheme.



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Our positive impact



Delivered
300 units total



Planning Approvals
c.2,000 units



Delivery Pipeline
500 units (by 2027)