



ADAPTIVE RE-USE – SAVIOUR OF THE C&D CBD GRADE OFFICE MARKET?

Latest research from the Property Council of Australia shows that the national office market vacancy rate has risen to 10.4 per cent, with all state capitals posting an increase apart from Melbourne and Hobart. Darwin, Adelaide, Canberra and Brisbane all have double-digit vacancy rates, whilst Melbourne, Sydney and Perth are hovering around the 9.0% mark.

Analysts are predicting that these rates are likely to rise with weakening economic conditions, modern working trends, and the completion of major developments, such as Barangaroo in Sydney on the horizon.

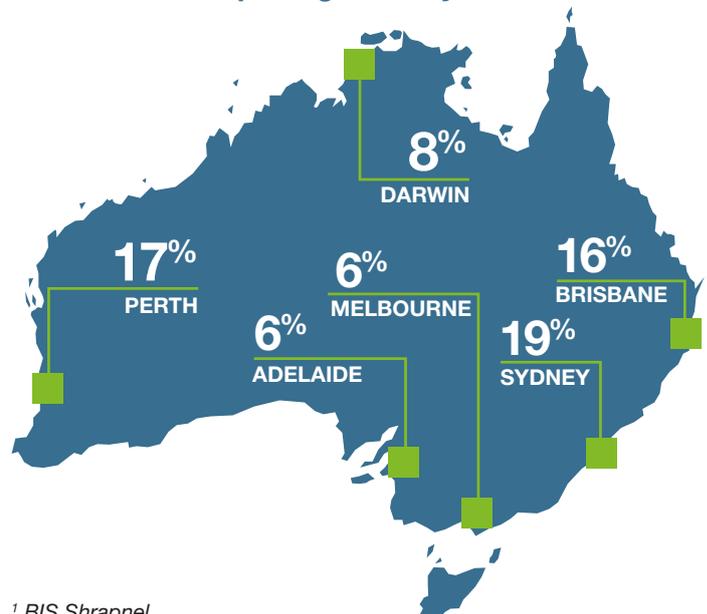
In stark contrast, the residential sector is showing positive signs, with recent figures showing national sales at their highest since 2009/2010 in Sydney and Melbourne respectively. The latest 'Housing Outlook' research from BIS Shrapnel also predicts house price growth across all state capitals by 2016, with high double digit growth predicted for Sydney (19%), Brisbane (16%) and Perth (17%).

Pent-up demand and low interest rates are the driving force behind the recent results and we are finding developers in many states moving quickly to get projects going to take advantage of the forecast growth and the strong demand for prime CBD apartments from Asian investors.

With the macro-economic stars aligning, we are increasingly finding that innovative owners and developers

are considering converting their C and D grade office space into residential units as the returns become more attractive.

Forecast house price growth by 2016 ¹



¹ BIS Shrapnel

To Convert or Redevelop?

When considering the adaptive re-use of C&D grade stock (subject to planning or zoning constraints), building owners and prospective owners have two main options:

- Demolition and redevelopment of the site
- Conversion – retaining as much of the existing structure and external fabric as possible.

There are cost, program and cash-flow advantages and disadvantages associated with both options. Whilst financial comparisons will differ on a project by project basis there are six key questions that should always be considered:

- 1 Which option has the lower capital cost / m² net saleable area?
- 2 Which option has the lower development risk profile?
- 3 Which option creates the greater net saleable area?
- 4 Which program is quicker?
- 5 Which option will drive the highest average sales value / m²
- 6 Which option will lead to the lowest sales risk?

If conversion looks the most attractive option – post comparative analysis – there are a number of major risks and opportunities that building owners should be aware of.

The Conversion Risks and Opportunities

From our significant experience working on some of the biggest commercial to residential conversions in the country – including Highgate Apartments, the Observatory Tower (both in Kent St) and more recently 118 Alfred St at Milsons Point all in Sydney – we have identified the key conversion risks and opportunities around building shape, building height, building envelope and structural issues/

constraints. A summary of the risks and opportunities are below:

Building Shape – the main conversion risks are around deep floor plates, which are not suitable for residential space planning and spatial issues with fire engineering suitability, depending on the building shape and unit configuration.

Building Height – high rise buildings usually require more serious consideration of retention as the cost of demolition is significantly higher than mid to low rise structures. Conversely medium rise structures may present an opportunity to add additional floors within the same height/massing.

Building Envelope – outdoor space (or lack of it) is a conversion risk. Residential buildings often require outdoor space, such as balconies or terracing and the provision of either will usually involve significant façade or roof alterations.

Structural Issues/Constraints – the potential for additional floors to increase net saleable area is a major conversion opportunity as structural frames and foundations designed for commercial office loadings often have spare capacity. However, one of the major risks with residential conversion is whether there is a basement and what it can be used for. Where car parking is important, office basement space should be carefully evaluated for re-use. Options for car stackers are worthy of consideration. Alternatively, there may well be the ability to create leisure facilities.

A Major Opportunity

‘Adaptive re-use’ presents major opportunities for innovative owners and investors to maximise returns but the risks can be high. Robust and early commercial and technical advice should always be sought to enable the cost, time, value and risk analysis to be appropriately carried out.

With building lease profiles a potential stumbling block to redevelopment, owners and investors should seek advice early to enable strategic planning to occur over the short to medium term. ■

This is a summary of a longer article. To request the full version of this paper, or to organise a conversion analysis, contact:

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