

Putting offices to bed

Fuelled by the lure of big profits, the trend for converting West End and City offices into luxury apartments and hotels is gathering pace, says *Graham Norwood*



The tower crane and the jack-hammer are the sight and sound of the West End and City of London these days, but often because of a glut of conversions – not new-builds – as offices begin new lives as apartments or hotels.

In the West End, the flow is from office to residential. Figures from CBRE Research show that, in 2010 and 2011, more than 750,000 sq ft of office space was lost, but 147 homes were created – all apartments aimed at top-end buyers able to pay £2,000-£4,000 per sq ft for luxury accommodation.

This is a long-term trend backed by local politicians, at least until now. “Westminster has a very positive policy. There has been 4m sq ft of conversion in the past nine years,” says Nick de Lotbiniere of Savills.

Westminster is now beginning a review of its policy, but so far there is no indication as to whether it will end its pro-conversion stance, which to date has been fuelled by two factors.

First, most West End offices have planning constraints against expansion and many are in listed buildings, making upgrades to 21st century business and

health and safety expectations unfeasibly expensive.

Second, the profit from luxury apartments is much bigger. “Residential conversion in the West End, particularly Mayfair, St James and Belgravia, is worth on average £3,000 per sq ft. The value of prime offices is just shy of £2,000 per sq ft. No wonder the conversion trend goes from strength to strength,” says Cluttons commercial analyst Andrew Heard.

But many analysts reject charges that the trend risks turning the West End into a ghetto for mostly overseas millionaires, drawn to high-end residential units designed to appeal more to the oligarch than the local buyer.

Peter Scanlon of Knight Frank’s research team says conversions in Mayfair, for example, are “actually quite low” and represent just 2% of the area’s office stock.

Jon Neale, head of research at Jones Lang LaSalle, says the conversion phenomenon is “just another historical cycle” for offices that in some cases started life as private residences anyway.

He echoes many others by saying that the retail and leisure offer in the West End has not been significantly affected – at least, not yet – by the emergence of apartments owned by high-net-worth individuals who may use the homes for only a few weeks per year.



This Premier Inn, in Blackfriars, is an office conversion

“Expensive properties and many new-build homes are disproportionately purchased by overseas purchasers, but in the bulk of the secondhand market around half the buyers are British – a statistic relatively unchanged for 20 years,” says Neale.

There is a little office-to-residential conversion in the City of London, but far more prevalent here is the conversion of offices to hotels. This is backed by City planners, except where it would prejudice the financial sector or

Starboard Hotels, a hostel and limited-service hotel operator.

These secondary premises, typically built between 1960 and 1990, are hard to convert to residential – many have low ceilings packed with air-conditioning or have floorplates allowing little natural light – so transforming them into mid- to low-range hotel accommodation is seen as a lucrative alternative when office occupiers shy away.

The City of London 2009 Hotel Study supports offices-to-hotels, and the London Plan wants 40,000 new hotel rooms capital-wide by 2026. The City is a prime target for growth.

“The City is becoming a more seven-days-a-week location and its appeal has increased to hotel operators,” says Owen Pritchard of CBRE Hotels. “Hotels there are performing well and, due to the lack of new sites, conversions are often the only way developers and operators can secure new product.”

A case in point is Travelodge’s St Swithin’s Lane hotel, the 486th in its nationwide chain and located near the Bank of England. Opened in November 2011 by London mayor Boris Johnson, its purchase and conversion cost was a

“Conversions are often the only solution for hotel developers”

adversely affect amenity for the modest amount of residential development in existence.

Analysts expect this trend to gather pace. A participant at a New London Architecture blue-sky conference half-jokingly forecast that the Bank of England will relocate and its building will become a hotel.

“The City has seen considerable investment in class A office stock and this has made it harder to attract [office] tenants to secondary blocks,” says Paul Callingham, managing director of

hefty £7.5m, but the firm says its first month’s returns outperformed any other hotel in its history.

In autumn 2013, another conversion – a 183-bedroom Premier Inn at St Mary’s At Hill near Monument – will open. The firm is taking a 35-year lease and investing £25m in the former 1970s office scheme. Around the same time, a £35m 258-bedroom Premier Inn will open in a former office at Dorset Rise near Blackfriars.

But it is not all plain sailing for such conversions. “Hotels must overcome a challenge on employment loss compared with offices, and may need to compromise on specification [to secure planning consent],” explains Jon Hubbard of Jones Lang LaSalle’s Northern European hotels division. “Hotels also now face the Community Infrastructure Levy, which applies to conversions.”

As with West End residential conversions, which cause some planners to worry about potential job losses, so the City offices-to-hotels trend is creating some unease.

Supporters of the conversion movement say that keeping secondary office stock empty in either location in case of a sudden uptick in demand is pie-in-the-sky in current economic conditions – but they are, after all, preaching to the converted.

WEST END OFFICE-TO-RESIDENTIAL

TOTAL OFFICE LOSS

2010
368,800 sq ft
(residential gain: 100 units)

2011
384,700 sq ft
(residential gain: 47 units)

Source: CBRE