'Repurposing commercial property is becoming increasingly popular'

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Changes in working practices and lifestyles, and an evolving political, environmental and economic landscape, are impacting real estate in a material way.

Arguably nowhere is this better demonstrated than in the retail and office sectors – previously stalwarts of any commercial real estate portfolio – which have in recent years undergone a paradigm shift both in attractiveness to investors and in how the spaces are occupied and used.

Online shopping has reduced dramatically many retailers' need for physical space, and soaring vacancies in retail units have become more commonplace.

The impact this has had on high streets and shopping centres is self-evident to anybody who has walked around their town centre in recent years.

The office market has also been affected by two recent phenomena: working from home and hybrid working (both during and after the pandemic), as well as environmental and sustainability requirements, driven by environmentally conscious occupiers, institutional landlords and government.

The former has led to a contraction in office space requirements from occupiers, resulting in the loss of tenants from many lower grade office buildings.

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The latter will almost certainly render a substantial proportion of existing office stock unable to be let without material capital investment to bring it into line with landlord and occupiers' expectations and/or legal requirements.

In the short to medium term, there will be a large amount of vacant and/or redundant real estate that will need to be revived and used differently.

In past years, property owners would simply redevelop by demolishing their existing building and putting a shiny new one in its place. Nowadays, it is not so simple.

Demolitions leave a big carbon footprint. In the drive towards sustainable property investment and development, planning permission, which includes demolition, is becoming increasingly challenging to obtain.

Look no further than Michael Gove recently calling in, and then throwing out, the decision to award Marks & Spencer planning permission for the redevelopment of its landmark Oxford Street site, partially on the grounds of a commitment to a low carbon future.

This means that there is, and will continue to be, increasing pressure on investors to repurpose and reposition underperforming assets as far as possible within the existing physical envelope, meaning refurbishment and redevelopment without recourse to demolition.

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There are already numerous examples of this happening in the real estate market, and we are seeing specific trends of real estate repurposing emerging.

One such trend is the conversion of office buildings to life sciences and laboratory spaces, especially in and around the 'golden triangle' of Oxford, Cambridge and London, as well as in other areas where there is access to leading research and development talent.

This shift is driven by a demand for space from life sciences occupiers, the number of which has significantly increased since the government published its "life sciences vision", aimed at making the UK a global life sciences hub.

A comparative paucity of space has created a demand/supply imbalance – and planning consents for new developments have become harder to obtain in the timescales required – which has, in turn, sent values (both capital and rental) spiralling.

As a result, given the convertibility of offices to laboratory space (especially 'dry' laboratory space), many property investors with redundant office stock are repositioning these spaces into laboratories in a bid to take advantage of potential returns.

It is also possible to repurpose office space into 'wet' labs, if, among other criteria, the layout and floor heights can accommodate the necessary heating, ventilation and air conditioning requirements. Indeed, property developer Kadans has recently done so at 20 Water Street, Canary Wharf.

The increase in construction costs and rising development finance costs has impacted many real estate developers, but hotel operators and investors in particular are seeking opportunities to convert former retail and office sites into hotels, especially given the desirable city centre locations.

Whitbread has recently been buoyed by their acquisition of New London House, a City of London 1970s office, retail and restaurant building to develop into a new hotel-led mixed-use development.

> A move towards mixed-use schemes is becoming increasingly popular.

Other operators, such as budget boutique hotel operator Point A Hotels (joint venture ownership between Tristan Capital and Queensway) have followed suit, with an office building at St Andrew Square, Edinburgh being acquired for the development of Edinburgh's second Point A hotel.

A perceived lack of good-quality stock in the hotel investment market has partially driven some of the recent repurposing, but not all floor plates are made equal.

Challenges around the physical layout of existing buildings, coupled with navigating the planning system for change of use requirements, can scupper some hotel projects.

Numerous former department stores such as House of Fraser and Debenhams have also found a new lease of life as hospitality developments.

Similarly, shopping centres with substantial voids are being repurposed and repositioned to align with economic reality. There is no better example of this is than the former Whiteleys shopping centre in Bayswater, London, which will be reborn as a circa £1bn mixed-use scheme, home to London's first luxury branded Six Senses hotel and wellness spa.

A move towards mixed-use schemes – which incorporate residential, hotel, entertainment, leisure, food and beverage, retail and other complementary aspects – is becoming increasingly popular as investors seek to provide destination spaces to improve footfall while simultaneously diversifying their portfolios with different real estate asset classes.

Examples include CC Land and Meyer Bergman's new scheme at The Whiteley London, Peterson and Trilogy's Great Northern Warehouse in Manchester, and, of course, the new Battersea Power Station, all constructed (or to be constructed) either in part or wholly within the confines of the existing buildings.

Repurposing and repositioning are here to stay. Wise investors should continue to adapt their assets to reflect the ever-evolving economic, political and social landscape.

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