UK Cities DNA

Five Great Barriers to Repurposing

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The eleventh of twelve insight papers in our UK Cities DNA initiative — putting real estate supply and demand in the context of the economic direction of travel.

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UK Cities DNA – Five Great Barriers to Repurposing

WORDS: STEPHEN SPRINGHAM – HEAD OF UK MARKETS RESEARCH

- Converting surplus and/or redundant floorspace to other undersupplied property uses may seem a no-brainer on paper, but the reality is often very different.
- There are at least five key divides that any repurposing journey must traverse: Geography, Configuration/Ownerships, Asset Compromises, Planning and Value Alignment.
- Acknowledged as an over-supplied market with significant obsolete stock levels, retail should provide a repurposing blueprint – but actually reveals more of the pitfalls.
- Planning has historically been perceived to be the biggest obstacle, but reform to PD rights has been significant. Value underpins everything – and is the most important factor in any repurposing journey.

Repurposing: the biggest buzzword the property market has trumpeted in years, the supposed silver bullet to all real estate's manifold challenges. If an asset is obsolete, at risk of becoming obsolete or not delivering adequate returns, simply turn it into something else. Job done.

If only it were anything approaching that simple. The logic may be sound – repositioning an asset that is no longer fit-for-purpose in its current guise into another use which meets strong market demand – but the actual realities and practicalities are fraught with complexity.

But if refitting, refurbishing and effective asset management are not the solution to a problem asset, repositioning and repurposing options will need to be explored. The repurposing journey is a long, potentially treacherous one, beset with barriers and requiring meticulous navigation.

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FIVE GREAT REPURPOSING DIVIDES

There are at least five divides that must be crossed before any potential repurposing journey becomes in any way viable. In broad terms, these are:

1. Geography
2. Configuration/Ownerships
3. Asset Compromises/ Fabric Issues
4. Planning
5. Value Alignment

This list is by no means exhaustive – there are plenty of other barriers that may need to be overcome as the journey unfolds. Nor is this necessarily a prioritised list in order of magnitude – ultimately all these stars need to align, but the degree that they are out of kilter initially will vary by asset and project.

Geography may seem a curious divide to identify, but can often render a repurposing project a non-starter from the outset. In very general terms, failing assets are often located in less-than-thriving places and these are often towns where over-supply is at its most acute. For example, if a place is failing as a retail centre, it may well be failing as a wider town centre. The fact remains that the town centres that are most challenged and have the highest vacancy rates are not necessarily those with high occupational demand from other uses.

To be slightly more specific, assets in former large industrial powerhouse towns can prove particularly problematic. Less so in the very largest UK cities (e.g. Birmingham, Manchester, Glasgow) which have been able to pivot away from their former lifeblood in favour of a more diversified economic and real estate base, much more so in 'second tier' towns that have struggled to move on from past industrial glories and may lack the backfill opportunities that, for example, a university may provide.

Whisper it, but there are major regional divides across the country.

These are not wholly restricted to London and the South East versus the rest of the country, but this is nevertheless a strong starting point. Values will ultimately dictate whether a repurposing project is viable or not. And values are generally much higher in London and the South East than elsewhere in the country.

Ownership/configuration may or may not be an obstacle, depending on the nature of the asset. As a rule, large footprint, free-standing, single-ownership, single-occupancy assets are far more compliant to repurposing than those that do not tick these boxes. Within the mainstream real estate use classes, offices are far more likely to do so than retail.

Retail warehousing lends itself more readily to repurposing than in-town retail floorspace, but the irony is that there is far less distress in out-of-town retailing generally, so the repurposing need is far less pressing. If the in-town retail asset is a free-standing block or part of a shopping centre that easily detaches from the rest of the scheme, then fine. But a lot of vacant retail floorspace takes the form of scattered, high street units, under disparate ownership. Rarely does it conveniently carve out exactly as a would-be developer would require. It is no coincidence that the most successful retail repurposing projects to date have been department stores, rather than shopping centres or high street units.

Fragmented ownership remains a massive barrier to many would-be in-town retail repurposing projects.

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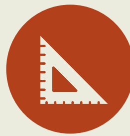
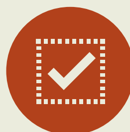


Asset compromises/fabric issues may pose physical constraints on repurposing ambitions. A great deal will hinge on the scope of any re-modelling that is required. For example, total demolition and rebuilding from scratch may circumvent many of these challenges (but is that, by definition, even a repurposing project?) Most will require some retention of the existing stock, even if only for cosmetic purposes.

Different real estate uses have different requirements, even in terms of utility provision, such as power, water etc. Many of the proposed repurposing projects are for conversions from commercial (where there may be oversupply) to living sectors (where there may be undersupply). But offices have far less intricate water supply network needs than a hotel or residential block. Likewise, a reconfigured and re-compartmentalised office space will have substantial 'dark spots' in the middle without the natural light required for living space.

Surmountable issues maybe, but ones that will nevertheless impact values, capex requirements and development costs, again ultimately putting pressure on viability.



Historically, **planning** may have been the main stumbling block, but recent sweeping reform to Permitted Development (PD) Rights and Use Classes Order has rendered it less an obstacle than it may have been previously. From 1 September 2020, there has been a new Use Class (E) to include all current A1 (retail & shops), A2 (financial & professional services) and A3 (food & drink) Classes, alongside B1 (offices, R&D, light industrial), D1 (clinics, health centres, creches, day nurseries) and D2 (gyms & indoor activities). Potentially

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meaning far greater fluidity between existing commercial classes.

There has since been significant further reform. Updated PD rights from March 2024 saw the removal of the 1,500 sq m floorspace threshold for Class MA, thus opening up conversions to a much wider range of properties. This has fostered more flexibility to convert existing office, retail and other commercial buildings into residential via the Prior Approval process - a streamlined process that does not require the usual stack of information of a typical planning application and which can be 'approved' within just eight weeks. Furthermore, based on evidence to date, the Labour Government is intent on speeding up Planning and, in particular, boosting the supply of housing.

As planning reform goes, these moves are very far reaching and could potentially have a profound impact on real estate markets. In very general terms, this represents significant relaxation of a system that was previously very rigid and a major barrier to asset repurposing. Planning remains a minefield, but one that can be successfully navigated with the requisite know-how.

Finally – and most critically – **values** must stack up to make repurposing financially viable. This is a non-negotiable, but is also often an insurmountable issue. In essence, why would anyone embark on a repurposing journey that ultimately loses them money?

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Taking retail again by way of example. Despite all its structural challenges and significant re-basing, the value of retail real estate is still much higher than other property classes in many (most?) locations. As a very general rule, there is usually only any semblance of value alignment within Greater London and select towns in the Home Counties. In most regional locations, development does not stack from a cleared site, let alone factoring in securing vacant possession of semi-occupied retail and then demolition / conversion. Even in locations where values do align, decommissioning, demolition and construction costs need to be factored in – a whole host of moving parts to weigh up.

The reality is that many repurposing projects, however sound they may appear on paper, will need considerable government or Local Authority subsidy. They just won't work purely under private sector funding.

Value underpins everything – and is the most important factor in any repurposing journey.

LESSONS LEARNT FROM RETAIL TO DATE

The high street is dead, long live alternative use. That seems to be the mantra in the media at least. There is a groundswell in thinking that virtually all retail floorspace is redundant and that the incumbent real estate would be better served by any alternative use, be that mainstream commercial (e.g. offices, industrial) or residential (e.g. houses, apartments, build-to-rent) or any host of specialist / niche classes (e.g. hotels, healthcare, senior living, student accommodation, data centres, life sciences etc etc).

In theory, retail should therefore be the poster child for repurposing, given that market over-supply is acknowledged in a way that it is not for other use classes. But evidence of retail repurposing is still relatively thin on the ground, for a very simple reason – we are only at the beginning of this journey and the process is far more complex than most give it credit for.

Some retail repurposings will be far more straightforward than others and only a handful of positive case studies are emerging. Altrincham in the North West is a good example of a town that has completely re-invented itself, with the local authority being the catalyst for intervention. The advent of the Trafford Centre back in 1998 undermined Altrincham's credentials as a major retail destination and a reappraisal of the town's role has seen it de-emphasise its retail offer in favour of other leisure and community-led uses. Rather than a retail-led 'ghost town', it is now a broader-based centre in which retail has a more supporting role to other uses.

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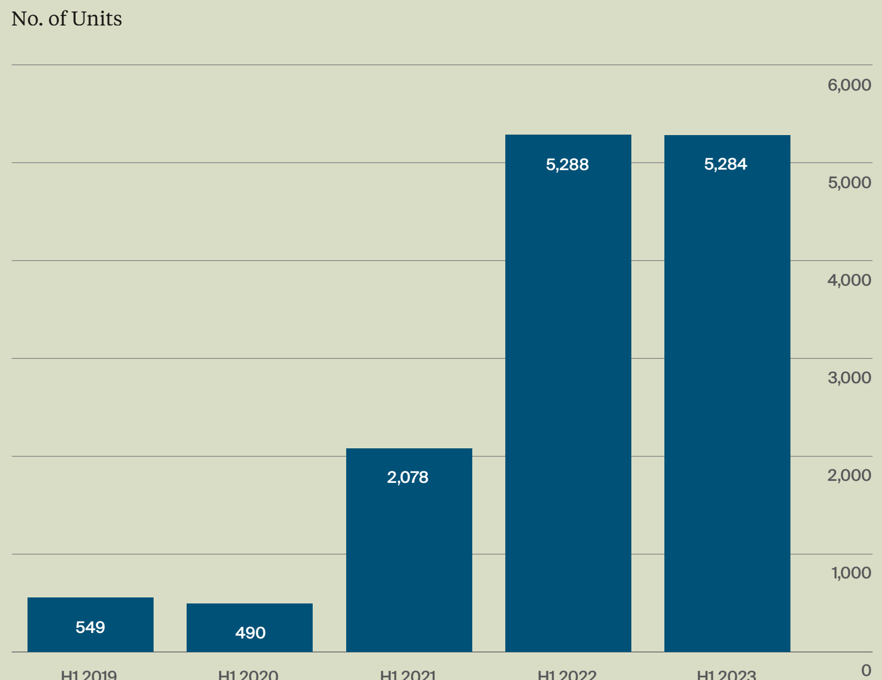
Fig 1: Retail Redevelopment Activity 2019 – 2023

No. of Units



Source: LDC, Knight Frank Research

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Other shopping centre repurposings remain works-in-progress. The Nicholsons Centre in Maidenhead was seen as a blueprint for town centre regeneration, with owners Areli Real Estate seeking to replace the shopping centre with a functioning new town centre. The property, which had fallen into administration, was acquired well below its historic value and was failing with vacancy increasing and tenants seeking to leave the town. Higher value residential, office and retirement uses, along with the arrival of the Elizabeth Line, will ultimately combine to create a fully mixed use redevelopment on the site.

Tellingly, most other proposed repurposing schemes are in Greater London. Knight Frank has advised on both the Broadwalk Centre in Edgware, North London and The Walnuts in Orpington, South London. Both form part of wider urban regeneration projects. Two further key points to note: both involve significant collaboration with the local authority and rather than outright use substitution, retail will still form a significant part of the finished product. Repurposing projects need not be binary replacements.

Probably the best examples of successful retail repurposing projects come from former department stores, opportunities brought about by the demise of Debenhams and retrenching of both House of Fraser and, to a lesser degree, John Lewis. Most of the 'repurposing quick wins' in this space have been free-standing stores in major city centres, such as London, Manchester and Edinburgh, with a mix of alternative uses emerging, most notably offices- or hotels-led, but actually fairly mixed use.

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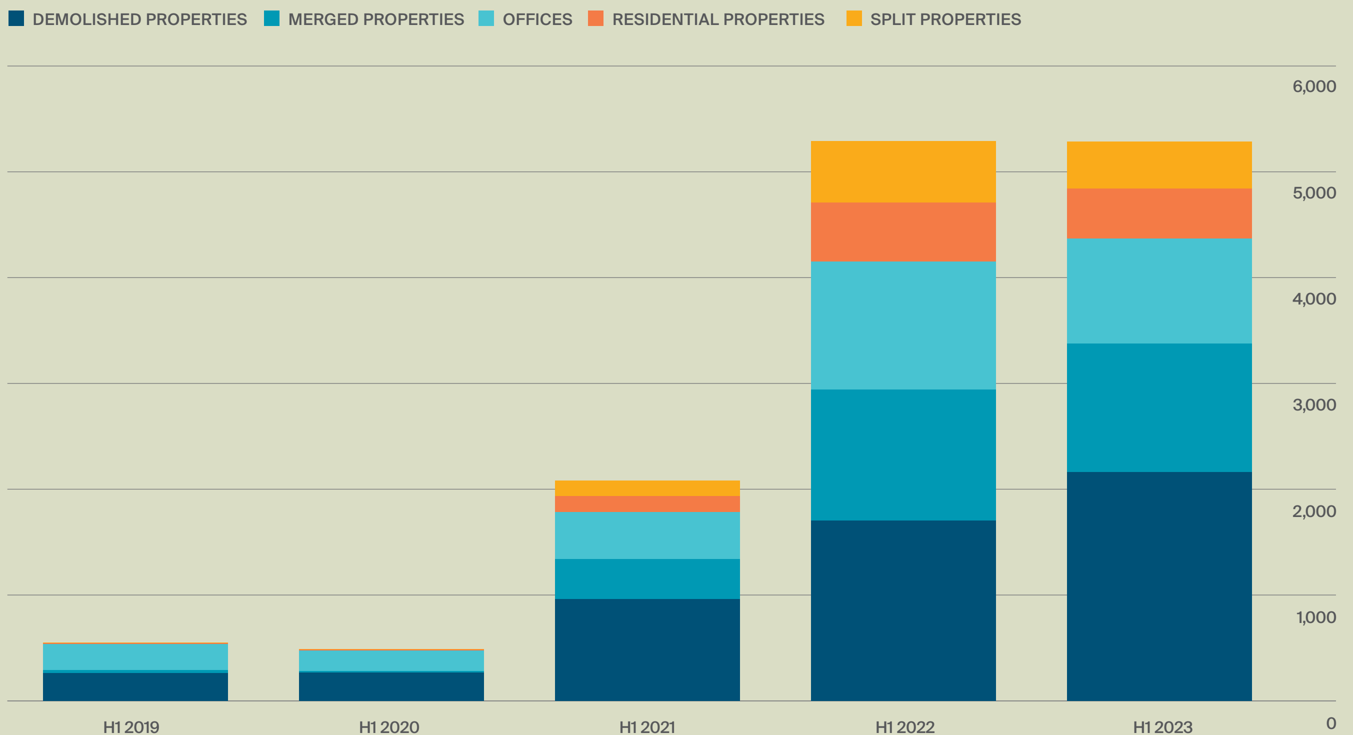
Fig 2: Retail Redevelopment Activity 2019 – 2023

No. of Units



Source: LDC, Knight Frank Research

KEY RETAIL REPURPOSING PLAYS

ALTRINCHAM TOWN CENTRE

- Owner – Trafford Council / Bruntwood
- Acquisition Date – Q4 2019
- Acquisition Price – £33m
- Proposals – retail, residential, community uses

- Owner – Areli Real Estate / Tikehau
- Acquisition Date – Q1 2019
- Acquisition Price – £25m
- Proposals – mixed use, residential, office, community uses

NICHOLSONS CENTRE, MAIDENHEAD

BROADWALK CENTRE, EDGWARE

- Owner – Ballymore
- Acquisition Date – Q3 2020
- Acquisition Price – £71m
- Proposals – residential

- Owner – Areli Real Estate / Tikehau
- Acquisition Date – Q4 2019
- Acquisition Price – £31m
- Proposals – mixed use, residential, office, retirement, community uses

THE WALNUTS, ORPINGTON

RAVENSIDE RETAIL PARK, EDMONTON

- Owner – Prologis
- Acquisition Date – Q4 2019
- Acquisition Price – £52m
- Proposals – last mile logistics

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

Stephen Springham
Partner, Head of UK Markets Research
stephen.springham@knightfrank.com

Darren Mansfield
Partner, Head of UK Offices Research
darren.mansfield@knightfrank.com

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