

Office Market Commentary in RBKC from Frost Meadowcroft Property Surveyors – February 2013

Residual Values – the value disparity

- RBKC residential property values are some of the highest in UK.
- The financial incentive to convert office space to residential across RBKC will be substantial.
- Office values will see an increase of over 100% in residual values if residential is permitted.

With the exception of the Golborne office hub, the remaining office hubs in RBKC are within or adjacent to prime residential areas. The borough has one of the highest residential values in London, ranging from £750 - £2,500 per sq ft. Existing office values range between £350 - £750 per sq ft.

Building in for the usual development costs associated with residential developments, we have calculated that residential values would only need to be 40-55% greater than existing office values to make a compelling case for residential conversion.

We have identified only a small percentage of existing office stock that would be unviable for conversion to residential based upon cost such as floor plate sizes or other practical restrictions. [TBR figures]

In most cases, even assuming for higher costs for difficult conversions, there is still a compelling financial incentive to convert to residential. A 30 % uplift in value may be all that is required to make a compelling financial case for conversion.

Residential Property values				
				Source: Zoopla
Area	Postcode	Flats	All properties	Average - All properties
RBKC	W8	£1,415,987	£2,202,433	£1,456,449
	W10	£445,018	£589,195	
	W11	£811,990	£1,434,154	
	SW3	£1,058,222	£1,774,059	
	SW5	£924,638	£1,042,364	
	SW7	£1,529,836	£1,872,917	
	SW10	£886,318	£1,280,020	
Westminster	W1	£1,106,099	£1,228,167	£1,213,618
	SW1	£967,069	£1,199,069	
Ealing	W5	£346,087	£547,763	£547,763
Wandsworth	SW18	£411,545	£590,799	£590,799
Camden	NW1	£551,534	£679,250	£679,250

The table above illustrates the very high residential values in RBKC compared to other London boroughs. The potential profits to be gained (see the summary of residual valuation examples below) will put extreme financial pressure on investors and property owners to obtain vacant possession of the buildings in order to convert within the initial 3 year period.

With the substantial level of profits available, landlords will be in a position to offer significant payments to induce

tenants to break longer term leases earlier. With the already limited office stock in the borough, it is inevitable that these companies will be forced to move further afield to other areas in order to find suitable relocation.

Summary of case study residuals

	Existing Value (£)	Residual Value for Residential Conversion (£)	Percentage increase	Office value (£ psf)	Breakeven point (£ psf)	% difference
Phoenix Brewery, W10	£12,010,000	£25,250,000	110%	£396	£565	56.65%
364 Kensington High Street, W14	£36,290,000	£76,070,000	110%	£542	£688	55.00%
Lancer Square, W8	£49,000,000	£94,360,000	93%	£864	£989	56.70%
Sydney Street, SW3	£11,320,000	£32,260,000	185%	£584	£963	41.50%

The borough's main office clusters as identified, with the exception of the Golborne Hub (W10 area in the residential values table above), are situated in the UK's highest residential value areas. This creates greater financial incentive for conversion to residential. As a result of these very high residential values, developers are creating what has become known as the Super Prime Residential Market. This has been dominated by overseas purchasers and investors taking advantage of the weak GB Pound and speculating on further inflation in this sector of the market.

An example of this is Charles House, 375 Kensington High Street formerly a large 1970s office development which is currently being developed by Berkeley Group. 60-70% of the sales have been to overseas investors off plan. This is in line with research from the largest central London residential agencies on the level of overseas purchasers.

It is clear that the type of stock that would be developed in RBKC as a result of the proposed changes would fall in to the "prime" category. These new dwellings will not provide the type of housing required by the borough or in the desired locations.