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New build or conversion?: Stakeholder preferences in inner city residential property development

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Abstract:

Purpose
– This research aims to analyse the preferences within key groups for the conversion of existing buildings or the construction of new buildings for private residential purposes in Sheffield city centre.

Design/methodology/approach
– A literature review analysed the factors which have increased in importance and influenced the choice between city centre private residential conversion and new build. Interviews with professionals including developers, planners and property agents, the key stakeholders and in this case, practitioner within Sheffield, examined the sustainability, technical and financial issues in the residential property development.

Findings
– The results revealed that developers preferred new build for city centre private residential development. Though the urban planners of Sheffield had no preferences, they encouraged the reuse of buildings, but due to a scarcity of suitable redundant buildings for conversion it is inevitable that the city will see new build on the cityscape in future.

Practical implications
– As the housing market loses the impetus of recent years the predictions made in this paper will provide useful advice to property developers in avoiding costly investment mistakes.

Originality/value
– This study provides a case study upon which to base similar studies of residential urban regeneration projects in other locations.
Introduction

Industrial decline in Britain and a changing office market, have led to large numbers of buildings becoming outdated, redundant or obsolete thus providing raw materials suitable for re-use (Highfield, 1987). This situation fits with the UK Government's planning and urban renaissance strategy; encouraging the conversion of existing buildings and the reuse of Brownfield sites for residential accommodation, bringing vitality to city centres (Urban Task Force, 1999). Property developers are exploiting the Government’s stance with numerous developments of converted buildings and new-builds completed or proposed. The main factors related to the increase in conversions and the construction of new residential buildings within city centres are UK demographics and housing requirements, planning policies, availability of appropriate vacant buildings and sites and finally, economic incentives for developers.

The research questions were: What is the preferred option for Sheffield's city centre private residential market “conversion or new build” and, is the increased level of residential activity sustainable within Sheffield city centre? The research aims were to gain a deeper understanding of the influencing factors between conversion and new build; to measure the capital costs of conversions compared to new-builds and; to evaluate if the increase in city centre residential buildings in Sheffield is sustainable, in the context of supply and demand.

Housing need and government policy

The Government Urban White Paper (DETR, 2000a) projected UK household growth to 24 million by 2021, an increase of 3.8 million or 19 per cent. This continues a trend whereby the size of households and families has reduced, while the number of households has grown faster than the population. The biggest increase, some 70 per cent or 2.7 million, is the single-person households, a combination of young people living alone, more divorcees and a growing proportion of older people. By 2021 it is estimated 35 per cent of all households will be one person living alone (compared with 29 per cent in 1996) with about 50 per cent projected to be married or co-habiting couples (compared with 57 per cent in 1996).

There are 20,000 hectares of derelict land and buildings of which 5,000 hectares are buildings vacant for a year or more that have the potential for a change of use (DETR, 2003). The UK Government (DETR, 1998) stated by 2008 60 per cent of additional housing should be provided on previously-developed land and through the conversion of existing buildings. Government Planning Policy Guidance (PPGs) notes set out policies on different aspects of planning, which local authorities have to consider when preparing their unitary development plan. PPG 1 (DTLR, 2001) states that sustainable development; urban regeneration and re-use of previously developed land are important supporting objectives in creating a more sustainable pattern of development, preferring the development of land within urban areas, particularly on previously developed sites. PPG 3 (DETR, 2000b) and PPG 6 state that Local Government should promote good design in new housing developments to create attractive, high-quality living environments in which people will choose to live, giving priority to re-using previously-developed land and the converting of existing buildings, in preference to the development of Greenfield sites. The Government’s PPG is endorsed by the strategy and policy adopted in the Sheffield Unitary Development Plan (1998) which states that there is a need to provide new housing and this can be achieved by the refurbishment and conversion of existing buildings, and is often a better use of resources than demolition and rebuilding.
Technical factors

The concept of creating homes in converted offices took off in London in the early 1990s. After succeeding beyond all expectations the concept of undertaking similar projects in other major cities developed (RICS, 1999). Though many existing buildings may be obsolete, neglected or unfit for modern usage, the tried and tested methods of construction used to build them has left a legacy of sound and durable structures providing the ideal basis for improvement and re-use (Highfield, 1987). Gann and Barlow (1997) stressed that to determine the technical feasibility of converting a building to an alternative use the following criteria are considered; size and height of building, depth of land / building, building structure, building envelope and cladding, internal space, layout and access, building services, acoustic separation, fire safety and means of escape. Problems with any of the above may impact on the practicality of conversion and changing building use makes the designer’s job more difficult. An important aspect of conversion was ensuring the building was code compliant, and invariably involved upgrading elements, as opposed to new builds designed with regulations in mind (Highfield, 1987).

Economic incentives and legislation

The increase in conversion activity has been rapid as more companies have seen opportunities for creating housing and, as increasing prices raised values, residential conversion offered a better return on tertiary and secondary buildings than alternative use (DETR, 1998). This is supported by Goodchild (1999):

The conversion of buildings to housing is only likely if the owners believe that the long term site value for offices or for other commercial uses is uncertain or less than that for housing.

The time to convert a building as opposed to new build will have an impact and the work to convert a building will take less time than demolition, site clearance and new build, unless extensive structural alterations or repairs are required (Gause, 1996). “The cost of converting is generally much less than the cost of new construction, since many of the building elements are already constructed” though development costs vary depending on proposed new use, the standard of rehabilitation, age of the building, cost of acquiring the site, and cost of finance (Highfield, 1987). Catt and Catt (1981) found the return obtained on the capital outlay for development as opposed to conversion influences the choice between conversion and new build. The prevailing VAT regime has discriminated against housing refurbishment, under taxation rules, refurbishments are VAT rated at 17.5 per cent, while new build houses have a zero VAT rating and this tax inequality can be a disincentive to the redevelopment of empty and derelict buildings (DETR, 1998). The Government is reviewing the planning system as it is too legalistic, narrowly confined to land use, slow and out of touch with the needs of people, businesses and developers. The Green paper indicates the planning process will be more developer friendly resulting in less unnecessary delays which add to costs and can threaten the viability of developments (DETR, 2000a).

The Sheffield market

Sheffield followed other northern cities such as Leeds and Manchester with urban regeneration, however Sheffield was afflicted by a deeper economic malaise than Manchester and Leeds that could mean development proposals may fail to deliver prosperity (Spring, 2002). Manchester has seen prosperity in the city centre residential market however it is predicted this will end and over supply is emerging (Millard, 2003). City living has occurred recently within Sheffield (Knight Frank, 2004) and the abundance of suitable sites in the city centre, offering relatively affordable development opportunities, has led to a healthy development pipeline. According to GVA Grimley
(2003) there is in excess of 1,100 units under construction and proposed compared with 350 in Leeds and that only the most prestigious developments in Sheffield will succeed in the future. In June 2004 of 11 city centre residential schemes with 1,170 units, three were completed and eight were under construction. Of 13 planned city centre residential schemes with 1,119 units, seven had planning permission; two had submitted planning applications and four were at proposal stage.

The Government is keen to encourage the reuse of redundant buildings and Brownfield sites for the purpose of residential accommodation. Although the Government's planning legislation favours the use of redundant buildings it is invariably economic and technical factors which drive the decision between the conversion of an existing building and the construction of a new building. The review found that other city centres notably Manchester, has had considerable prosperity with city centre residential conversion and new build in the past, but this is showing signs of decline due to over supply of the market.

Research methodology and data collection

Quantitative research is described by Creswell (2003) as “objective” in nature, defined as an inquiry into social or human problems based on testing a hypothesis or a theory composed of variables, measured with numbers, and analysed with statistical procedures to determine whether the hypothesis or theory holds true (Naoum, 2003). The purpose of the research was to discover evidence and measure the relationship between residential building conversions and new build within Sheffield city centre. However quantitative methods are more suited to large populations, and therefore some qualitative techniques were used (Naoum, 2003). Qualitative research is “subjective” in nature and emphasises meanings, experience, often verbally described (Naoum, 2003) and can be exploratory or attitudinal. Exploratory approaches are used when the researcher has limited knowledge about the subject and the raw data is what people have said or a description of what they have seen (Naoum, 2003). An attitudinal approach is used to subjectively evaluate the opinion, view or perception of a person towards a particular object (Naoum, 2003) and was the most appropriate method for this study.

“The approach to be adopted for conducting research depends on the nature of the investigation and the type of data and information that are required and available” (Naoum, 2003, p. 44). This study adopted two approaches to data collection, fieldwork (primary data collection) and desk study (secondary data collection). The use of secondary data sources in statistical and descriptive format was important because of the limited time available for the topic and “the most significant advantage of secondary data is related to time and cost” (Stewart and Kamins, 1993). With regard to the research population and sampling, Naoum (2003) notes two types of sampling; random and selected. Random sampling is used when specifics about the characteristics of the sample are not essential, as opposed to selected sampling which is used when specifics about characteristics of the sample are essential. This study adopted selected sampling because of its specific targeting of the research participants.

Semi-structured interviews were the most appropriate as it was more formal than the unstructured interview and uses open-ended and closed ended questions to extract the data required (Naoum, 2003). The semi-structured interview allowed the interviewer to probe other lines of inquiry during the interview, but had a set format to follow. The research population sample group comprised three local property developers (Interviewees A, B and C), two local property agents (Interviewees D and E) and a Sheffield Planner (Interviewee F). The research sample were highly experienced and informed practitioners who were currently operating in the market. Interviewees were asked a series of questions over a one hour period which were coded for analysis. The interview format
comprised three sections; on technical issues, economic issues and sustainability issues regarding the choice of residential conversion or new build property development schemes in Sheffield. The objective was to ascertain views about stakeholder preferences and influencing factors regarding new build or conversion for city centre residential developments.

Research findings

Property developer views

All the developers agreed their preference for city centre residential development was new build. Developer “A” stated “without a shadow of doubt my company’s preferred choice is new build”. All developers noted the primary factor in the preference for new build is that conversion developments hold many unknowns which can drastically affect the overall programme of works and the profitability. Developer A noted that the VAT status impacted on preference. Furthermore all noted the additional time spent on design and planning was a major drawback for conversions. All developers agreed that the standard of workmanship of conversion and new build should be the same, but A stated that because conversions are often undertaken on redundant listed buildings higher standards of workmanship and specification may be required for listed building planning consent. Developer A stated the critical factor in any city centre development is obtaining control of the land/building with an option to develop. Developer B reiterated this point adding that potential yields play a major factor in the choice of any development with B stated that they carry out a residual valuation of any potential development.

With regard to financial aspects all agreed that the cost of conversions were considerably higher than new build (which is in conflict with the views of Highfield (1987) discussed previously). A primary factor for this was the “unknowns” in conversion projects which added to overall costs. However increasing house prices had seen conversion projects offering good returns. Significantly all the developers mentioned that the skills shortage within the construction industry was affecting profits due to labour rates being at a premium and this skills shortage is an acute long-term problem that needs addressing. When asked if new build is more profitable all stated that profitability/yield should be the same for conversion and new build. Developer A stated that the return on either type of development should be between 15-20 per cent with B and C stating returns should be around 15 per cent.

Sustainability questions were devised to give an overview of interviewees’ views of Sheffield’s current and future city centre residential status. A majority of responses indicated that this market is nearing over supply. C stated that if all the proposed residential developments materialised there may be a dramatic over supply. Developer A stated that developments on the fringe of the city may struggle in the future, although B felt there was still potential future development opportunities. Knight Frank and GVA Grimley confirmed there were over 1,100 units under construction in the Sheffield city centre in 2004 compared to 350 in Leeds and that only prestigious developments within Sheffield may succeed in future.

Planner views

The interview analysis revealed a slight preference for conversions, though the planner stated “Sheffield planning department has no preference between new build and conversion and each proposed development is judged on its own merits”. The planner noted that the planning department encouraged the development of redundant buildings in non-residential areas for the purpose of residential accommodation rather than see buildings stand redundant. The planner noted the lack of suitable conversion buildings means that new build will be considered to
accommodate demand. Planner F agreed that higher standards of workmanship is achieved for conversion as opposed to new build, though the planning department demanded a high quality of architectural design for new build.

The planner stated that there was an in-balance of residential and office accommodation in the Sheffield city centre that was due to developers’ reluctance to speculate in office accommodation and that this may lead to over supply of the residential market. Although the planner noted that the abundance of private residential accommodation may be the catalyst in the decline of capital values, which in the planner’s opinion were not sustainable and may lead to future increases in consumer choice and greater value for money. The planner's answers to the sustainability questions indicated that the planner viewed the Sheffield residential market was very close to over supply.

Property agents' views

Agent E stated that the preferred choice for purchase in Sheffield city centre was new build, though D noted that purchasers buy what they can afford. Both agents stated that there had been a drastic increase over the last three years in “buy to let” with preferred choice being new build. D stated that almost 50 per cent of all new city centre purchases were “buy to let” investors. Both agents stressed that they expected converted buildings to have a higher capital value than new build within the city centre. Agent D stated that capital values had increased between 2002 and 2004 by 20 per cent in some cases, E reiterated this though stressing that if the proposed developments within the city centre materialised over supply of the market might occur with values stabilising or in some cases falling, which corresponded with developer A’s views. Almost 83 per cent of responses to the financial questions put to agents D and E favoured new build and indicated the view that agents perceived a purchaser preference within Sheffield city centre for new build.

Not surprisingly three quarters of the agents responses to the sustainability questions indicated the Sheffield city centre residential market was sustainable in 2004 though both stressed that if all proposed developments materialised capital values might stabilize or fall, which corresponded with the developers’ and planner's views. The agents agreed that future developments on the fringe of the city may struggle.

Conclusions

There are four key findings from the study. First, the desk top study identified that VAT was a factor in developers’ reluctance to convert buildings though the UK Government is keen to encourage the reuse of redundant buildings and brown field sites. Second, the interviews showed that developers unequivocally preferred new build developments and this is due to various factors including speed of construction, fewer unknowns than conversion, less time spent at design and planning stages, fewer legislative requirements than conversion, financial guarantees, lower external specification required and lack of suitable building stock to convert to residential.

Third, the semi structured interviews revealed the planner’s slight preference for conversion though this was related to the supply of suitable buildings, promoting the reuse of redundant buildings, current and proposed levels of supply and demand, and market trends. Sheffield planners were encouraging the reuse of buildings, but due to a scarcity of suitable redundant buildings for conversion, it is inevitable that the city will see more new build in the future.

Finally, the semi structured interviews and the desk top study highlight issues regarding the sustainability of Sheffield city centres’ private residential market, that is; a high level of current and proposed properties, a high increase in capital values, large numbers of city centre residential
accommodation sold off plan, large numbers of “buy to let” investors and finally investment from the private sector. With regards to future sustainability of city living in Sheffield, it was concluded through that as developments within the city were completed and with a large number in the pipeline (GVA Grimley, 2003) only prestigious development in Sheffield city centre will succeed in the future; a view that was confirmed by the developers, agents and planners in this study.

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Further Reading


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