DEALS

ASK's Austin: Financing repurposing minimises lenders' construction risk

Following its financing of a regional UK office-to-residential conversion, the lender's chief executive says repurposing projects are creating opportunities for debt providers.

By **Eugenia Jimenez** - 27th April, 2021

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UK specialist property lender ASK Partners and challenger bank OakNorth this month provided a £22 million (€25 million) development and investment loan to fund the conversion of an 84,000 square feet office building in Solihull, West Midlands, into a residential scheme.

According to Daniel Austin, ASK's chief executive, the scheme is a prime example of a dated property being repurposed towards a more suitable future use.

The 12-months term loan, provided at 54 percent loan-to-gross development value to locally based developer Investin and construction firm Bespoke Construction, will fund the conversion of the building into 91 flats, plus townhouses on its car park. It will also provide 'bridge-to-sell' finance for the remaining unsold flats in the scheme's first phase, which was also financed by the same lenders.

Austin spoke to *Real Estate Capital* about the opportunities, and challenges, such property conversions offer to real estate debt providers.

What led ASK to underwrite this transaction?

Austin: 'Construction risk is lower on a conversion project'

We were encouraged by phase one's success, with sales agreed on 51 of the 83 units. The scheme also has a great location, near a train station that provides an eight-minute service into Birmingham, which is a very popular city with an exceptionally high student retention rate, prompting corporates to follow the talent pool and open offices there. These flats are very suitable for these young professionals.

What financing opportunities is the current repurposing trend presenting to lenders?

Repurposing minimises the risk of planning to a lender while construction risk is also lower on a conversion project.

Changes to permitted development rights have made property conversions easier [from August 2020, rights to upwardly extend UK properties without planning consent were expanded], which is also encouraging a growing number of developers to seek finance for these projects.

The Solihull conversion, more specifically, presented minimal construction risk, as the nine townhouses from phase two had been partly completed and phase three involves the conversion of an existing building. In addition, the contractor in this scheme is also an equity holder.

And what are the challenges?

Repurposed buildings, particularly office-to-residential, have traditionally had a very bad reputation as they were often converted into poor-quality buildings without any planning consent.

Before financing the conversion of an asset, we need first to feel comfortable with the scheme's design, including aspects like adequate lighting, unit size and layouts, sound proofing, and overall communal and amenity space. All this is particularly relevant when the borrower's exit is the sale of the units.

What type of property conversions are borrowers demanding finance for?

Although we have recently lent against a diverse range of property conversions, including the repurposing of an office building in Chiswick, west London last year that was going to be converted into a mixed-use scheme, and the conversion of a former police station with planning for demolition and rebuild into high-end residential units, I think retail-to-residential conversion will become the biggest trend.

This is because, in the UK, our high streets will be repurposed, following the demise of many retail outlets to include more leisure, food and beverage, and housing space. This trend could lead in turn to homes located in city centres becoming more affordable and attractive to younger buyers, as well as to key workers.

Retail-to-logistics will also become a big trend but on out-of-town sites.

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