Investors Eye New Uses for Secondary London Office Stock

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Approximately 2.2 million sq ft of secondary office space in Central London has traded or is under offer for alternative uses since January 2022, equating to £2bn in investment, according to the latest data from global real estate advisor, CBRE.

Proposed alternative uses range from Life Sciences, Residential, Student Accommodation and Hotel. The Ugly Brown Building, Kings Cross and 17 Columbus Courtyard, Docklands are two examples of office buildings which have traded with the intention of being used for life science labs whilst two secondary Government buildings, Nobel House, Millbank and 89 Eccleston Square, both in Victoria, have sold or are under offer for use as hotels and serviced apartments. 22 Kingsway was sold last year and will be repurposed for Student Accommodation given its proximity to LSE.

At the present rate of commercial property refurbishment, CBRE estimates that 60% of all commercial stock would have an Energy Performance Certificate (EPC) of C or lower in 2030, rendering that stock unlettable, unless upgraded, if the Government goes ahead with its proposals to require EPC B or better by 2030.

“We are seeing a very polarized market emerging in London,” commented Ed Bradley, Head of London Office Investment, CBRE. “Occupational and investor demand remains extremely high for best-in-class offices, in prime locations, with a diverse amenity offering and strong ESG credentials, which is driving rental growth and very low vacancy rates. Secondary office space and locations, on the other hand, are lagging. The capex requirements to upgrade these assets can be prohibitively high so increasingly this space is being repurposed. We have seen several examples of where alternative use investors/developers are out-bidding traditional office investors by 10-20%.”

This trend is reflected in the make-up of Central London investment volumes. In the five-year period prior to the Global Financial Crisis (GFC), 82% of total Central London investment volumes was office. In the past five years, this has fallen to 62%, with 38% of investment deployed into non-office uses.

"The diversity of buildings we have in London, coupled with the capital's global appeal as the centre of excellence for innovation, education and tourism, means that it is well-positioned to support the repurposing of assets in this way whilst maintaining the vibrancy and global appeal it has always had," added Bradley. "Offices will remain a dominant part of the real estate landscape and there will be greater demand for the very best, but investors are taking an opportunistic view on the value that can be achieved from alternative uses."