

Thinking inside the blocks uses offices to add to housing stock

Some empty commercial buildings in cities and towns have already been transformed into living spaces and the trend is growing



Killian Woods

Cashel Business Centre is a nondescript office block in Crumlin, on the southern edges of Dublin city. As a microcosm of the country's office market, it is an instructive example.

Michael Heavey, the businessman, bought the block seven years ago. Parts of it had been vacant for years, and some had yet to be finished.

Buying the property was a straightforward investment play by Heavey: acquire it, renovate the office space and let it out. Since 2018, the offices have been on the market, and for the past five years, one three-storey section of the block has remained vacant.

In May, Heavey and his business partner, Claran Fitzpatrick, managing director of Fitzpatrick and Heavey Homes, decided there was no point in waiting any more. No tenants were interested.

"We looked into what we could do with it and found a planning exemption, which meant we can build nine apartments in the building because it has been vacant for more than two years," Fitzpatrick said.

Eight weeks ago, works began on a project to convert part of Cashel Business Centre into apartments. Fitzpatrick said the project will be finished in a few months.

"It just shows you can get on site very quickly and get quite a bit of work done. We will be finished by Christmas, or January at the latest."

The project is being tailored for corporate clients, from small firms to multinationals, with each apartment having its own 250 or 300 square foot office located in the same building. Enough space for three or four people.

"We were thinking about doing all residential, but then we thought whoever moves in here will need somewhere to work. Otherwise they will need to hop on the bus into town to go to an office. So why not build apartments that have proper office space for them to work close to home."

Stranded assets

Across Ireland, there are many so-called stranded assets like Cashel Business Centre. Some landlords face the issue of companies downsizing their space due to hybrid working, while many other offices are unlet because they're too small or unsustainable.

The age profile of many office buildings is another downside. Big corporates don't want a lot of the empty space because of the age of the buildings which

are sometimes between 20 and 40 years old. Many of those buildings don't meet the energy-efficiency criteria that are now essential for their environmental reporting requirements.

All of this is doing little to bring down the number of vacant buildings across the country at a time of weakened demand after the pandemic and as the tech sector wanes.

Dublin office market vacancy rates have increased from 6.9 per cent in March 2020 to 15.7 per cent at the end of June.

Last week, research published by GeoDirectory, the data intelligence unit of An Post, showed that commercial vacancy nationwide was 14.1 per cent in the same period.

Annette Hughes, director at EY Economic Advisory and author of the GeoDirectory report, said it is the highest level on record since 2013.

"The risk with these vacant commercial units is that they become stranded, they run the risk of becoming obsolete. That's not ideal for any town or city."

She added there is a need to maximise the utilisation of those vacant buildings before developing something new.

"They're often in the right location in town and city centres. The win-win of repurposing this vacant commercial property for housing is you have the services in place around them: the schools, the hospitals, the post offices."

"It's not going to happen overnight, it's going to take time, but it has to happen. The important questions are: do we require changes to planning laws or a change of use if buildings were designated for commercial business?"

In July, Simon Coveney, the minister for enterprise, said "the timing is right" to retrofit unused office blocks into apartments.

His comments came following a letter from Darragh O'Brien, the housing minister, in late May. In it O'Brien told Coveney that office construction had surpassed Celtic Tiger levels of output and, combined with post-pandemic working practices, "may result in an oversupply of office space".

Last week, Michael Stanley, the head of Cairn Homes, said development in cen-



Annette Hughes, director at EY Economic Advisory, says commercial vacancies are at their highest since 2013



An impression of the John Lewis Waitrose apartments in London

tral Dublin has been overly focused on offices and has not been conducive to creating a sustainable city.

Between the canals we built office to residential at a ratio of 10:1 in the last eight years. It's extraordinary. We just continued to build a city that nobody lives in," Stanley said.

Both Coveney and O'Brien's departments have committed to setting up an inter-departmental group "with a view to developing a set of appropriate exemptions if needed" to allow for commercial property to be redeveloped into homes.

Repurposing

Patricia Staunton, regional director with Cushman and Wakefield, said the owners of old office stock in Ireland, where leases are coming to an end, are already actively looking at how they can repurpose their assets within the current rules.

"Where the office location has become redundant or challenged due to high vacancy, owners are looking at repurposing to student accommodation, apartments and potentially hotels."

"They're scoping it out and they're not concerned about the challenge of getting planning permission. It's the cost of a retrofit at the moment. Getting the maths to stack on larger scale projects is a must."

Building owners and the government are scoping out how best to encourage the conversion of offices to residential units. Already, some such projects are underway. Last year, Tuath Housing, the approved housing body, finished the largest conversion of offices to apartments in Ireland to date.

Alongside Harcourt Developments, its building partner, the charity retrofitted an office block in Park West business park in Dublin into 86 new apartments. Martin Loughran, director of development at Tuath Housing, said it cost an average of €309,000 to construct each apartment in the old office building.

"If we were to build from scratch, the cost would have been significantly higher," he said.

Retrofitting the existing building into



Ciaran Fitzpatrick, of Fitzpatrick & Heavey Homes at one of his development projects
Fergal Phillips

apartments was also much better for the environment, he said.

"We conducted a study to compare converting that specific development from an office that lay vacant for 20 years into 86 residential units against starting from scratch. It showed 85 per cent less embodied carbon was created as a result of the retrofit," Loughran said.

Loughran said that aside from some pandemic-related restrictions slowing down the project at times, the development stayed on schedule and took two years to complete.

In recent weeks, Tuath Housing finished another office-to-residential project in Cork. The development, which was overseen by MMD Construction, added another 35 apartments to the charity's portfolio of more than 10,000 homes.

Loughran said the charity is keen to do more of these types of projects, but they need to be cost effective.

Iain Sayer, managing director at HWBC, the property consultancy, said cost was the main hurdle devel-

opers come up against when trying to convert offices into housing.

"In a lot of cases, the next best use value is residential, but making sure you are compliant with fire regulations and minimum apartment standards is very costly. That means that the price at which a developer can afford to buy the old office building to retrofit has to be pretty low. The issue at the moment is people who own these older buildings aren't quite ready to accept pricing at that sort of level," Sayer said.

He added that many owners of old office blocks are in a "grieving period, where people realise the value of their offices has fallen and they just need a bit of time to get used to what [the] prices are these days".

Last week, a report by HWBC found that despite the headwinds faced by the Dublin office market, it was in "correction mode", and letting activity is likely to rebound next year.

Sayer said there will be demand for the large new-build offices developed to high sustainability standards.

"The highest-value use for those buildings is still as an office, but there is a whole segment of the market that is essentially no longer viable as offices. We expect all of that older office stock to be refurbished to other uses."

A lot of conversions

Staunton, the Cushman & Wakefield director, said she expects to see a lot of offices in large regional towns to be converted into housing, based on feedback she has heard in the market.

"A lot of the overhead accommodation on the secondary retail streets, which were offices for five to ten people that tenants have handed back, will be the first to start feeding through," she said.

Fitzpatrick said he thinks he can grow the office-to-housing wing of his business by partnering with owners of these office buildings, particularly in the west of Ireland.

He said the latest GeoDirectory report showed the highest rates of vacancy were recorded in Sligo at 19.9 per cent and Galway at 18 per cent.

"A lot of people are paying commercial rates for these vacant buildings. They're a no-income liability. We think we can turn these into earners and we see potential in Galway and Sligo where vacancy rates are high."

Fitzpatrick added that his firm already has a new project to move onto once its renovation in Crumlin is finished.

"It's another office building in Navan where we can probably get eight or nine apartments built. We have a good team together doing these projects now. The idea is to make it very easy to move onto the next. It will be like repetition."