

■ PROPERTIES

Office-to-residential conversion spreads its wings

BONNY FOURIE
 property 360

PRIVATE companies and investors meet demand for housing by turning from commercial to residential.

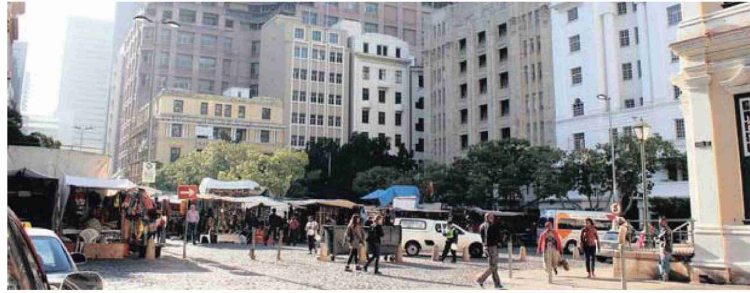
Widespread office-to-residential property conversion is taking place in Durban as the demand for housing in the city grows. In particular, student accommodation and entry-level to middle-income homes were needed, said Gianni Pavlou, company principal at Portfolio Property Investments.

Prominent private companies and investors were driving the trend, he said. The reasons behind these conversions include:

- ◆ Shortage of housing supply.
- ◆ Better rental yields in the residential space compared to office.
- ◆ Increased migration.

Furthermore, the regeneration of areas drives up the residential interest in them and the global trend of densification has "finally started to take hold in Durban".

"The volume of such conversions is definitely increasing and expected to continue on this upward trajectory," Pavlou said. Although office and other commercial properties are being con-



PERSISTENTLY high office vacancies, particularly in city CBDs, continue to spur conversions to residential units. | IOL/African News Agency (ANA) Archives

verted to residential property, major projects of this nature are particularly being seen in the Durban CBD. This is where student accommodation conversions have taken place as well as conversion into "lifestyle living", or "live, work and play".

However, Pavlou said the key to

making such conversions viable was the price paid for the building to be converted. "As a rule of thumb anything above R4 500/m² makes it difficult to convert. "Other key points such as parking, rezoning and the condition of existing infrastructure must also be taken into account," he advised.

Converting commercial properties into residential offerings was a good way for property investors to beat the low growth in South Africa, said Joel Rosen, managing director at Prime Residential. With large numbers of office vacancies, especially in some areas of Joburg, and fewer new com-

mercial tenants entering the market, there is often no other option but to look at alternative ways to make these investments work.

He also said residential property had become a more attractive asset class as it was delivering better returns. The growing numbers of young professionals looking to live closer to where they work in conjunction with the drop in the supply of affordable units in some of the CBDs around the country had created a healthy market for property conversions, Rosen said. However, not all CBDs offered the same opportunity for this, said Gary Palmer, chief executive of Paragon Lending Solutions.

"For instance, Cape Town has seen new higher-end office-to-residential conversions come on stream in recent months, resulting in an oversupply.

However, there has been a lack of new affordable rental supply as developers struggle to see solid financial returns in the lower-end rental market. What's more, the cost of inner-city properties in Cape Town is far higher than in other metropolises like Durban and Joburg which, together with the costs of conversions, makes the returns less attractive," said Palmer.