

Beyond the façade



Real Estate Debt
Q2 2024

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While some construction projects seek to preserve the façade and replace the interior, the opposite can also be possible: preserving a building while replacing the façade. And this approach can create compelling investment opportunities.



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Head of Asset-Based Lending

- **The streets of Europe are graced with many ugly buildings in central locations that struggle to meet current standards for energy efficiency or attract tenants willing to pay a decent rent.**
- **Ugly does not, however, mean structurally obsolete. The ugliest buildings can prove attractive to an investor because they can be cheap to buy, and, as a result, have significant potential for commercially viable refurbishment.**
- **An untapped opportunity exists to generate positive impact by transforming buildings that are structurally sound but visually unlovable and make them fit for the 21st century.**

Extensive renovation projects that seek to preserve and revamp commercial buildings can be approached in a number of ways. At one end of the spectrum are projects where entirely new buildings are constructed *behind* an existing façade.

If you walk down Sackville Street in central London towards Piccadilly at the present time, you come across an extraordinary sight: Nuffield House – originally commissioned in the 1920s by what was then Norwich Union – has been demolished, leaving only its Grade II-listed neo-classical façade.

While work crews are busy constructing an entirely new building, the old façade is held up by steel supports until the time comes to bolt it onto the new building.

I cannot help but be impressed by the ambition of such projects (where the façade is preserved but the entire interior is replaced). However, the opposite can also be possible: preserving a building while replacing the entire façade.

Figure 1: All that remains is the neo-classical façade



All it takes is a cursory glance up from our smartphones to see that our streets are littered with unlovable and ugly buildings. Whatever the reason for their prosaic and utilitarian appearance – unless they are improved, they will not last.

The streets of Europe are graced with many such underwhelming buildings (many of which do not meet current standards for energy efficiency). As a result, there is a real opportunity to generate a positive impact and transform buildings that are structurally sound – but visually ugly or unlovable – and make them fit for the 21st century and for a discerning public.

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Depreciating assets

Real estate investors understand that buildings should not be viewed as permanent fixtures – they are depreciating assets. With age comes the need for enhanced maintenance; but such maintenance can also prolong the life of the building significantly.

Buildings that might appear prime candidates for demolition can sometimes be just as good candidates for refurbishment. Such projects, however, do not always provide an opportunity to increase the massing – the general shape, form and size of a building – which is often where investors expect to make their profits. Such refurbishments can nonetheless significantly increase the potential utility, and corresponding value, of the building.

Figure 2: Preserving the existing structure while increasing the 'massing'



Source: Marrons

In Birmingham, UK, developers recently tried to get permission to erect a 42-storey steel and glass tower above a Grade-II listed Victorian building. This may have been the developer's effort to have their cake and eat it: preserving the existing structure but also finding a creative way to massively increase the size of lettable space on the plot. However, such an approach could prove problematic, when you consider that the original building, if well cared for, has the potential to significantly outlast the huge new structure that could potentially sit above it.

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Potential to last

Next time you walk to work, look around you and pick out the ugliest building you see. What would it take to make that building a positive contributor to the streetscape? A new façade, as part of its overall refurbishment, may be just the ticket. But the façade should be sustainable in its own right, with the potential to last.

A building that endures for generations is a fundamentally more sustainable proposition than one that requires replacement every 40 to 50 years. Of course, improvements will on occasion be necessary. Such refurbishments require significant amounts of both time and money. It is hard for investors to lavish such effort on a building that will always be ugly. So a visual improvement has to be as much part of the plan as other technical improvements.

The ugliest buildings, however, can prove appealing to investors. If they are attracting few tenants in their current state, they will likely be cheaper to buy, and, therefore, leave scope for commercially viable total refurbishment.

It's worth pointing out that a few hurdles may need to be navigated. The default approach of many developers is to prefer demolition of the current building and replacement with a much larger structure. A developer that can count on an approval for such a scheme can afford to pay more for the existing property, thereby leaving alternative plans unviable. But there are so many ugly buildings in our cities that present renovation opportunities, and not every building can or will be replaced with a tall tower.

Price vs. utility

Swiss mathematician Daniel Bernoulli famously argued that the value of an item must not be based on its price, but rather on the utility it yields¹. The price in the case of a property is the cost of construction, whereas the utility is the value that the tenants see in the property. If the price is higher than the utility it yields, the property ought not to be built.

If a building needs to be torn down after four decades because it is no longer fit for purpose (as has happened to many a brutalist concrete building), the price element of the equation is very high indeed. However, if the main structure of a building can last several hundred years, and is maintained to a high standard, there comes a point where the construction cost (i.e. the price in Bernoulli's statement) is amortised over so many years that the utility has a good chance of being consistently higher than the price.

This utility comes in many forms, including of course the traditional elements of the space on offer and the location of the property. But tenants also care about both the appearance of the property, as well as its environmental credentials. Both of these concerns can be boosted significantly with a sympathetic refurbishment.

¹ Quote from Daniel Bernoulli taken from Bernstein, P.L. 1996, *Against the Gods*, Chapter 6. Quote is a translation from Bernoulli, D. 1738, *Commentarii Academiae Scientiarum Imperialis Petropolitanae*, Tomus V

Redesigning the façade of a building during its refurbishment will create additional work, and will, therefore, possibly lead to higher embodied carbon than if the façade was simply cleaned. The choice under consideration in most instances, however, is not whether to clean the façade or replace it – it's typically whether to replace the façade or replace the entire building.

Figure 3: The same corner (before and after)



Source: Digitally edited image. Photos: googlemaps (G) and A.Mazyn/skyscrapercity.com (D).

One look at the property above (top image in Figure 3) in its original state and you could be forgiven for thinking it was unsalvageable. Almost no matter how nice the property was on the inside, with a façade like that, the landlord is likely to struggle to find any tenants willing to pay a decent rent. But the completion of the full refurbishment (bottom image in Figure 3) has breathed new life into the building. Combined with improvements of the public realm (planting of trees, and the narrowing of the road to slow down traffic) and this location has been entirely rejuvenated.

Modern buildings are designed with planned obsolescence. The expected economic life of a new commercial building is rarely more than 50 years. It means that right from the moment the building opens its doors, we concede that it will not last (and will inevitably deteriorate in value).

Although planned obsolescence can be done well (some modern buildings can be almost fully recycled), it would nonetheless be preferable if such recycling wasn't necessary in the first place. Brick buildings, for example, can last a long time, but brick is no longer used as a building material; today it is predominantly used as cladding material. As a thin cladding material it doesn't last as long as solid brick walls do. Modern concrete doesn't last as long as Roman concrete. Not all of the old ways are feasible in the modern world, but when it comes to making existing buildings better, a lot can be learned from the aesthetic and building methods of the past.

The exterior of a building is the first thing people see. It's typically one of the main features that distinguishes a building from its neighbours. Yet many structurally sound buildings cannot offer tenants the prospect of an appealing external aesthetic or an inviting character.

Many streetscapes have been badly impaired by developments that have failed to take into account the character and feel of the location. This can be changed. The streets of Europe boast many such underwhelming buildings, often in desirable central locations in its biggest and wealthiest cities. Real estate investors and lenders alike have an incredible opportunity to have a positive impact if more capital is made available for refurbishments that focus on preserving or enhancing the character of our towns and cities. Such projects have the potential to revitalise many areas, help tackle climate change through improved energy efficiency and, crucially, create compelling lending opportunities for institutional investors that back such projects.

We are told not to judge a book by its cover, but a building's appearance is much more than its cover. With the appropriate renovation, people will want to step through the door and see beyond the façade.

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