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The Future of the Office

Refurb, Retrofit, Rebuild: The Way Forward



In recent years, many commercial property owners and developers have innovated and pushed the boundaries, surpassing expectations with their retrofit projects.

Grosvenor' Holbein Place, The Crown Estate's New Zealand House and Topland's 150 Aldersgate Street, are just a few leading examples, ensuring buildings are being bought back to life with the future in mind and with sustainability at the forefront. The trend has been spurred by increasing market demand for best-in-class office space with strong ESG credentials.

In some cases, though, instead of celebrating the success and innovation, it has resulted in a move towards a retrofit only (sometimes badged as retrofit first) approach to buildings that are not fit for purpose. As we stand at the crossroads of refurbishing, retrofitting, and rebuilding, it becomes essential to explore the challenges and opportunities that a retrofit-focussed approach presents.

First, we take a step back and consider the principles of building obsolescence and depreciation:

Obsolescence and depreciation impact rents and values, driven by functional, locational, and physical factors. Studies have shown offices suffer higher rates of depreciation than other property types, urging the need for continuous investment in maintenance and upgrades. Owners and investors of buildings where vacancy rates are increasing may have no option but to limit financial exposure, this doesn't have to be a negative. Reframing the asset strategy can be an opportunity to drive value and enhance environmental performance.

Gerald Eve advise on future proofing assets, driving long term performance, alternative uses, feasibility (economic assessments), optioneering (refurbish, retrofit or rebuild) and financial viability in planning.

Where buildings have appropriate grid layouts, floor to ceilings heights, solutions for plant and end of journey facilities, retrofits can offer a more sustainable and cost-effective option to full redevelopment. We strongly promote an approach which stringently explores and positively seeks to encourage a retrofit solution where practical, while working closely with clients and local authorities to bring forward exemplar redevelopment.

The Surge in Retrofit Demand: Causes and Consequences

Many office buildings have reached their end of life, prompting a surge in retrofit demand. This surge is fuelled by multiple factors:

- **Cost Inflation and Economic Uncertainty:** Recent cost inflation, fluctuating interest rates, and economic/political uncertainties make international investment tricky, driving a shift towards maximising existing assets as seen by many of the shortlisted finalists for the Architects Journal Retrofit Awards.
- **Post-COVID Office Use Uncertainty:** The pandemic changed how office spaces are used, with discussions still ongoing about post-COVID working models.
- **Appealing to occupier demand for higher sustainability credentials alongside reduced running and energy costs.**
- **Incorporating spaces for enhancing employee wellbeing and end of journey facilities.**

Does Retrofitting Always Work?

- While the retrofit-only approach holds promise, it is not universally applicable. Challenges abound in ensuring the viability of specialist or listed buildings. The existing floorplates and building grids of older structures may not align with modern needs, necessitating new buildings that are sustainable and flexible.
- There are significant costs associated with retrofitting to a standard which would be desired by the market, this is not always achievable by all developments.
- Where there is not a feasible refurbishment or retrofit option, attention would have usually turned to a full redevelopment or perhaps in the case of heritage assets redevelopment behind a retained façade. If this option is resisted, and a change of use is unfeasible, the risk is that the only remaining option may be to mothball the building. This is a negative not only for the building but also neighbouring properties and the locality and represents inefficient use of brownfield land.
- The recent M&S Oxford Street decision supports this, with Secretary of State Angela Raynor concluding that the NPPF “encourages” the repurposing and reuse of buildings, rather than containing a strong presumption in favour. Demolition may therefore still be justified provided that all options for retaining the building have been adequately explored to demonstrate there is **no viable and deliverable alternative** that produces similar benefits or contribution to meeting plan objectives.

- Less dramatic is the “make do, patch and mend” approach – such assets typically have poor environmental performance, provide employees with a poor-quality work environment and represent an inefficient use of brownfield land. They certainly do not meet the needs of a modern economy.
- In a planning environment where new emphasis is being placed on meeting targets - including for commercial space - under optimising city-centre and brownfield sites could also place additional pressure on green belt release.
- At this stage many of the low carbon technologies are still emerging and expensive, and this may make it challenging to deliver highly sustainable buildings in lower value locations, in such cases refurbishments may be the best option with deeper retrofits programmed in for the future.

Exploring New Opportunities

- A tailored, case-by-case approach from policymakers can balance demand for high standards with commercial realities. Stranded assets threaten the landscape, but change-of-use opportunities offer reprieve. Furthermore, a burgeoning market in recycling building materials and new technologies encourages a rethink of asset utilisation.
- Developers and tenants alike are embracing decarbonisation. Policies are evolving to capture this momentum, driving a shift towards green construction. London's Greater London Authority (GLA) has been a leading public sector example in promoting embodied carbon methodologies. However, national policy and guidance alongside many local policy frameworks have lagged, although the Government has signalled that the Planning Practice Guidance is likely to receive an update in this area.
- Amidst these uncertainties, Gerald Eve advises on navigating the planning system, including the detailed exploration and testing of alternative options now likely to be required.

Summary

Tailored policies, net zero goals, and evolving market demands will shape the future. We need to ensure innovative and pragmatic responses to keep pace with the times. While retrofitting is not a one-size-fits-all solution, its thoughtful application can significantly impact the commercial real estate sector's sustainability and functionality.

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