

# Commercial Property

## THE PROS & CONS

By **Arsh Ellahi**

Hi Arsh

*I am looking at some office / commercial buildings and not sure if I am taking on more than I can handle. What should I be aware of?*

Mr L, Oxfordshire

**What a timely question Mr L, as I am currently looking at some commercial buildings myself. In response, I will aim to share my current projects and look at the pros and cons for you to consider.**

Let's face it, there is going to be an abundance of commercial properties available over coming months – and I probably don't need to state the obvious reasons why.

The commercial property sector has been somewhat depressed in recent years, with many businesses changing their business models and vacating their traditional premises and environments. Consequently, there is a great quantity of empty commercial properties with owners willing to sell. What's more, the government introduced a little something called Permitted Development (often referred to as PD) Rights, meaning that certain commercial properties can be converted to residential use without the need for full planning.

All together, this makes a great and attractive opportunity for landlords and investors willing to look at things a little differently.

It just goes to show that although the property square footage remains the same, what may not work for one investor may certainly work for another.

### Why would an investor purchase a commercial property?

In short, you are getting much more, and a bigger, property for your money. There are some other benefits too, such as:

- **Office buildings tend to be pretty centrally located and therefore can make attractive residential lets.**
- **You won't have to pay higher stamp duty for your 'second' home, since non-residential and mixed-use properties are exempt from this.**
- **There's no property chain to delay your purchase so it should all be much smoother sailing.**
- **You won't have to pay VAT (currently 20%) on the purchase if you issue the seller with a 1614D form.**
- **You can also save on VAT (reducing the rate from 20% to just 5%) if you need to spend money on construction works in order change your commercial property into residential accommodation.**

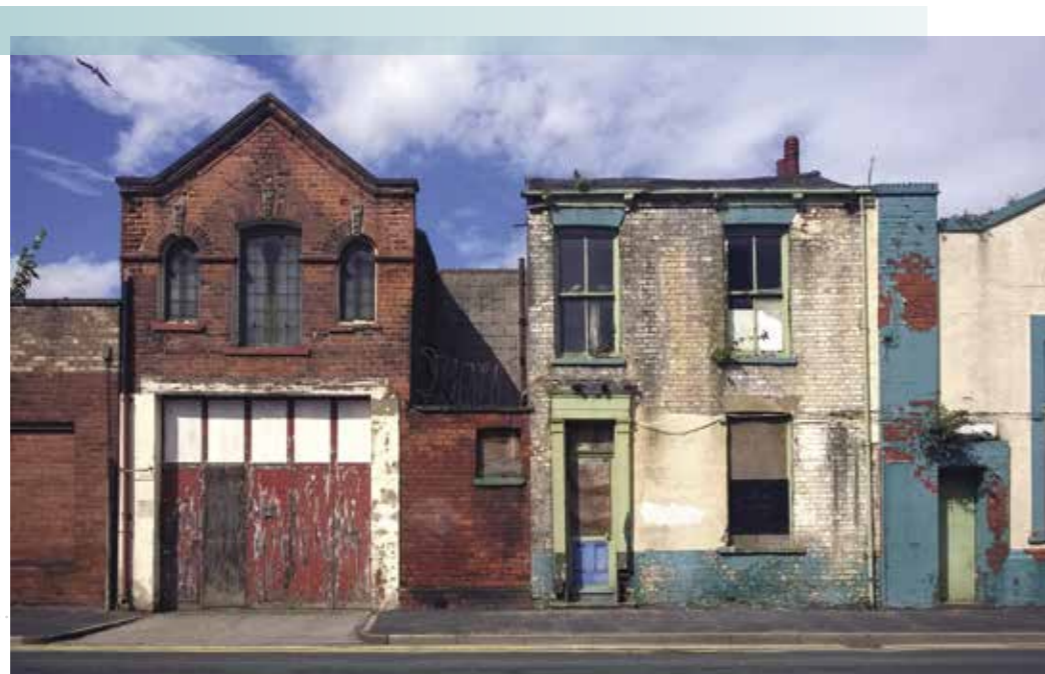
It is fair to say that a commercial property has many more avenues for redevelopment than a standard residential dwelling. For example, to convert a residential dwelling (C3) into a multi-dwelling block (ie, HMO, studio apartments etc), you will be limited

Over the past 18 months, I have been keeping a keen eye on which buildings have become available and looking at what I could possibly do with these buildings. The commercial stock I have been investigating has included:

- **Office buildings (preferably the whole building and freehold)**
- **Former bank buildings**
- **Retail space with residential above – I tend prefer to avoid the high street due to restricted access, etc**

It has been interesting to view the different types of properties, and the majority of viewings have been open viewings. What I have found even more interesting were the different approaches that people were taking. For example, at a former bank building in Wolverhampton, some were considering:

- **Converting the whole building into residential units**
- **Part commercial, part residential schemes**
- **All commercial – this varied from storage blocks to part retail, and also co-working space, restaurants and so on**



to the number of units as under planning regulations the property would require provisions for:

- **Communal space**
- **Parking for residents**
- **External space**
- **Contribution towards open amenity space (dependant on the development)**

The majority of the commercial buildings I have looked at are large buildings (like the bank), where the internal walls are constructed from stud partitions. This allows me to become creative with the internal layout to put together a scheme that will be financially feasible.

Buildings such as banks etc also tend to have sufficient parking spaces, though that may not be true if they are on a high street location. However, even there the parking issue can be counteracted by the argument that people living within a city could make use of the variety of transport links. Planning departments generally like the use of public transport being pushed in the bid, especially with environmental awareness becoming more of an issue.

The same argument can be used for office blocks, where again many of the internal layouts are constructed from stud work.

The main obstacle I have found when looking at commercial buildings is a lack of natural light. Also, in some cases, the stairwell may sit in an awkward position, and this might jeopardise your plan for the number of units in the development.

## Planning

I have found that dealing with planning on a commercial building is far less hassle than trying to convert a residential dwelling. The headache tends to come from objections from neighbouring properties who may not want to live next to an HMO ... how dare they!

Depending on the planning class of the commercial building you are looking at, you may find that you might not need to apply for full planning permission, as many of the shops and offices would fall under PD. Even if you do need planning permission, you're likely to get it since the government's National Planning Policy Framework makes the re-use of empty buildings a priority.

In addition, with buildings that have the planning class B1, you could take advantage of the Prior Notification Approval system, which offers a significant reduction in planning application costs and is also committed to providing feedback and a decision within 56 days.



Photo by Monika Simoes on Scopia

## What to look out for – the pitfalls

I have spoken a lot about the benefits of opting for a commercial property as your next investment. However, there are certain things to take into consideration. As they say, the larger the project, the larger the risk.

Although I have mentioned planning above, there may be some cases where you will have to apply for full planning permission, and this may involve architects and therefore fees!

- **You'll need to take out a specialist buildings survey on the structure of the commercial property prior to any conversion, again increasing costs.**
- **Conversions can become money pits if not managed carefully.**

- **You'll need to get a specialist commercial property solicitor for the purchase.**
- **Often you will need development finance to carry out the project, and this can prove more costly than a typical buy-to-let mortgage.**

So there we have it. The potential attractions of identifying a commercial property and converting it into one with residential status are obvious.

However, it is crucial to find a suitable property that will constitute a feasible project. Getting advice and assistance on change of use and planning permission issues might also be highly advisable if you wish to avoid initially wasting a lot of time, or potentially encountering difficulties and cost escalation in your eventual conversion work.

If you still have a question which you would like answered in next month's article, please feel free to email me: [arsh@arshellahi.com](mailto:arsh@arshellahi.com) and I'll aim to answer as many as I can over the following months.

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