



Images: Click Above



On 1st August 2020, the government introduced a new permitted development right (PDR) to enable more homes to be built on top of buildings without the need for the usual planning permission. The PDR allows the construction of up to two additional storeys to create new dwellinghouses above a purpose-built, detached block of flats. There are some exclusions, however. These include the existing building being less than three storeys in height; the building being constructed before July 1948 or after March 2018; and it being located within a conservation area (or similar).

In July last year, airspace developer Click Above saw a three-fold surge in enquiries from freeholders looking to realise the value of the space above their existing investments since the government confirmed the PDR would be coming into effect. It claimed this heralded an “exciting new dawn” for airspace development and its potential to contribute significantly to housing supply.

In a recent poll by our sister publication *Development Finance Today*, around two-thirds of developer respondents reported that they would be looking to use the new PDR rules, either somewhat or a lot, for future opportunities.

However, while this type of development may sound simple, there are many things

to take into account. “The existence of a new PDR doesn’t drive an increase in consequential development, and allowing two-storey upward extensions doesn’t mean they are by definition the right mode of development across the board,” points out Hinesh Chawda, director at development company Life Less Ordinary. “The key is that any PDR should only exist to deliver a positive outcome while meeting a genuine need and delivering a quality end product.”

This is why we have teamed up with multiple experts in the field (or air) to find out what needs to be considered for this type of project and uncover the main myths that circulate around them.

#1 Airspace developments can be constructed above any building

Unfortunately, the notion of convincing an owner to sell the space above their existing building to create immediate value is not true. There are factors to consider. Can the building actually support the proposed development? Is the roof strong enough for the new unit to sit on? Do you need to add stairs or lift cores? What is the impact of increased occupancy in a low or non-residential area? “The PDR is not as clean-cut as envisaged, and the number of qualifying blocks is considerably less than people think,” states Laith Mubarak, acquisitions director at Click Above.

The suitability of the existing building is the most important consideration. “We have seen various parties try to make the model work on social housing schemes but,

economically, these are only likely to stack up with support from councils motivated by a desire to meet housing demand and where the cost of the airspace is minimal,” explains David Kaye, CEO at development lender Puma Property Finance.

Developers also need to take into account plans for extending the provision of any existing services to the new development, as well as consider issues such as access, right to light, party wall agreements and legal ownership. “If you have a multi-owned building, the communal areas are owned [by] a different company with specific legal jurisdiction previously agreed before the occupants purchased their flat,” explains Andrew Hall, property director and co-founder of specialist lender CrowdProperty. Changes to this structure will need to be made; this requires all parties to agree to it, and necessitates legal advisers with expertise in this area. “Unless the rooftop has rights to access the communal areas, you can’t legally move forward,” he adds.

Furthermore, it also pays to engage insurance brokers familiar with the intricacies surrounding airspace development. “Special care is needed to make sure all aspects and parties involved are insured, particularly as it isn’t your standard building site and the freeholder owns the building below,” David points out.

With regard to access, developers must



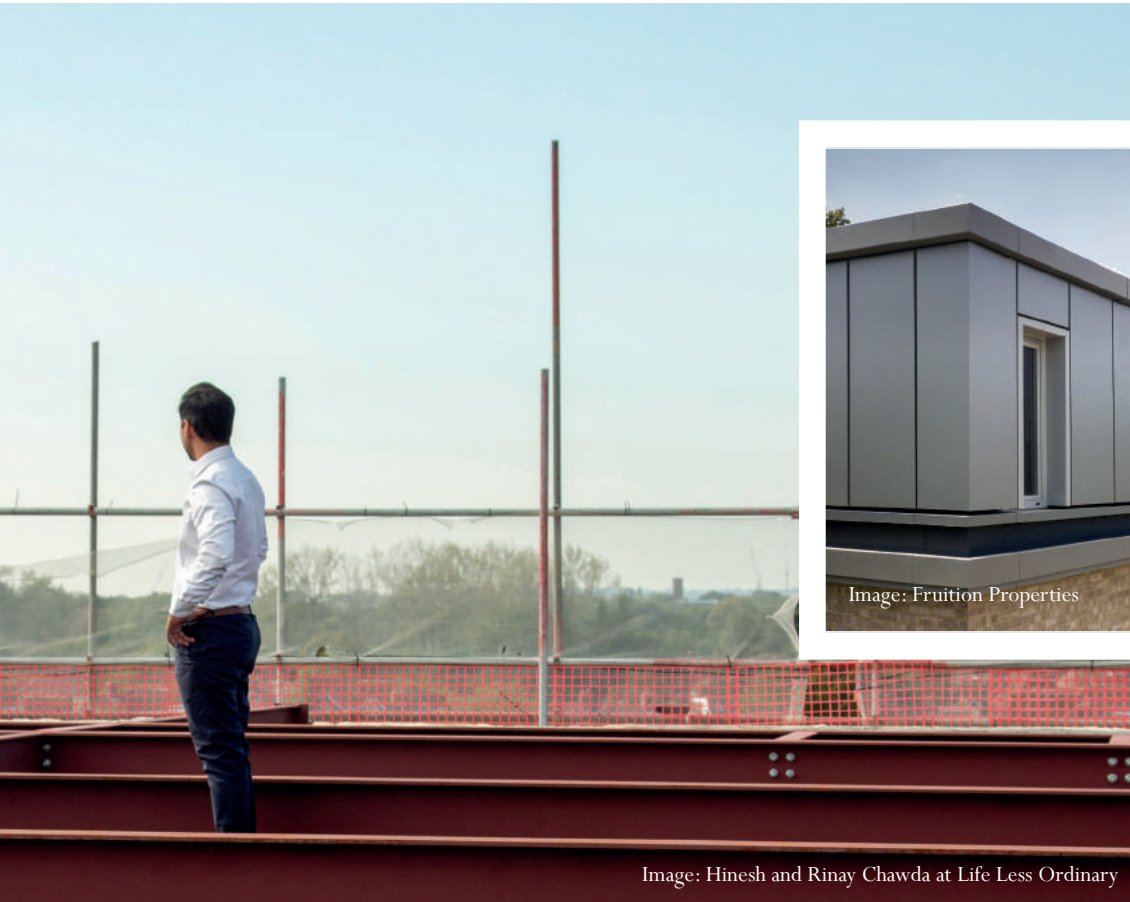


Image: Hinesh and Rinay Chawda at Life Less Ordinary

ensure they have the ability to get materials to the roof and have enough space around the building for the use of cranes.

It is also crucial that the current building infrastructure meets fire regulations and any changes that may come into effect. In July 2020, the government published its draft Building Safety Bill. This set out the biggest reforms to building safety regulation for a generation, and intends to improve building and fire safety following the Grenfell Tower disaster in 2017. “The proposed fire and means of escape strategy for the extended building is paramount, with a need to examine the provision of smoke lobbies, smoke venting and fire-fighting lifts,” says Mani Khiroya, managing director at boutique developer Fruition Properties. “These are not things that a generalist developer is likely to be aware of.” As this is such a new area of regulation, it could wipe out profit margins for airspace developers if they do not adhere strictly to the rules.

Many of the considerations to building upwards create unique cashflow challenges. For example, the city centre location of many suitable sites results in limited and potentially expensive access to the property. Superstructure and foundations may also need to be reviewed, which can be costly and time consuming. This is why high-value buildings in high-density areas are expected to offer the most profitable opportunities,

given the complexities and costs involved.

Developers will need to invest in an experienced team and relevant experts, such as structural engineers who play a crucial role in analysing the viability of potential schemes and whether the existing building foundation can take the proposed additional units. Specialist technology is also needed to calculate the extra weight a building can bear and whether an exoskeleton is required—factors that could impact the financial feasibility of a project and the facades of the building. “An expert in airspace development is essential, especially since most existing buildings will not have the necessary loading capacity to support the addition,” notes Steve Wilkie, director at Built & Spaces.

Due to the awkward nature of this type of development, many use modular construction, which is generally more expensive than traditional builds. It also requires manufacturing costs to be paid upfront. “Lenders tend to submit funds for things that have been physically built as this mitigates their risk,” says Andrew. “Paying for stuff which is offsite puts lenders off—they cannot get their heads around making payments for [that] which is not visible.”

However, this does result in time savings, which will be reflected in reduced interest rates. “Essentially, we build 50% quicker, which means we borrow money for 50% less,” states Laith.



Image: Fruition Properties

#2 Existing residents will be disturbed

“Most of the myths and misconceptions around airspace developments—the mythconceptions, if you will—relate to the fear of inconveniencing the residents of the existing housing,” claims Steve. “Worries about noise, upheaval and disruption during the building process are common, as are concerns that the addition of a new development will reduce the value of their property.”

However, the use of modern construction methods means that almost 65% of the project can be completed offsite, which lessens the installation process (a large contributor to on-site noise and traffic) and reduces the inconvenience on the residents who live below.

Specialists in the airspace arena will also take the requirements of the existing occupiers on board. “Their needs sit at the heart of every airspace project that we deliver,” confirms Laith. “While the PDR means we’re not obliged to, we will continue to consult with [them], providing [the] chance to raise concerns and the opportunity to actively participate in the process to extend and improve the place they call home.”

Individual leaseholders can actually *benefit*, for example from the general building improvements and enhanced health and safety measures. Mani outlines how his company created additional value when it developed four new apartments above a 1970s residential block in Putney. “As part of the work, we refurbished the existing internal communal areas, facade and windows, along with re-landscaping the gardens and driveway. New cycle and

bin stores, postboxes and an audiovisual entry system were also provided.”

Residents can also save money. As the service charge provisions will need to be tweaked in line with the new development, an additional floor can reduce the overall fees. Mani divulges that the Putney scheme’s residents now share running costs with the owners of the new apartments, which has reduced their annual service rate by 25%. “In addition, airspace development unlocks a windfall value for the existing leaseholders and freeholder, which can often be spent on upgrading the energy performance of the building through refitting tired M&E systems or installing photovoltaic panels and electric vehicle charging points.”

#3 Building upwards = quality downwards

A common concern around airspace development is that the finished product will look unsightly. Other mistaken beliefs are that they have a temporary ‘portacabin’ feel or are perceived to cause a ‘blot on the landscape’. The source of criticism is sometimes down to the construction methods used, which lead to “visions of prefabrication as per the post-war era”, as Hinesh puts it. Yet, this isn’t true. “Not all airspace development is constructed in this fashion. However, for those that are, the level of quality control that factory-based manufacturing delivers nowadays is second to none and exceeds a lot of domestic compliance measures,” he imparts. The existing building can dictate what approach is taken, with some being better suited to modular installations, panelised construction, traditional build or even a hybrid.

So, could this particular PDR result in poor quality housing? A government-commissioned report into the quality standard of homes delivered through change-of-use PDR in July 2020 revealed that just 22.1% of units created under the rules met national space standards, compared with 73.4% of those that went through planning permission, based on analysis of PD schemes across 11 LPAs in England. Later in September, housing secretary Robert Jenrick announced that all new homes delivered through PDR in England must meet space standards. The change also builds on reforms to ensure that these homes provide adequate natural light.

“Contrary to popular belief, the new PDR does not mean that planning requirements are bypassed,” says Laith. “Our process has not, and will not, change. We will continue to meet and exceed all quality and safety standards—the PDR essentially provides us with an ‘in principle’ agreement to proceed with these projects.”

It is important to note that while airspace projects are permitted, the developer must still apply to the local planning authority for prior approval. This considers transport, highway and air traffic impacts of the scheme; contamination and flooding risks in relation to the building; the external appearance of the property; the impact on the amenity of the existing building and neighbouring premises, including overlooking, privacy and loss of light; and whether the development will affect a protected view.

Consequently, a planning specialist can be extremely helpful for this type of project. “The planning committee members may lack experience in assessing the viability of an air rights scheme,” claims Vishal Dixit, head of business development at specialist lender Pivot. “Therefore, it is important to have experienced consultants that can present the case in a clear and concise manner to add credence to a particular application.”

In an ever-growing population with a shortage of housing, developing upwards is becoming an increasingly viable solution, especially in more crowded towns and cities where land is scarce. A recent study by Fruition Properties and Knight Frank found that Southwark in London has the potential to deliver over 2,000 new rooftop homes—and that’s just one borough. “Imagine the possibilities across the UK,” Mani says.

“The need for more homes is acute and where an opportunity to increase the size or change the purpose of an existing building occurs, it would appear prudent to do so if it creates no adverse effect,” states Laith.

Bearing in mind that there is also a dearth of skilled labour, using offsite construction for airspace development means we can speed up housebuilding in a different way. “The sheer nature of this process lends itself perfectly to rooftop development, where new homes can be delivered to site and craned on to the existing building in a matter of days,” says Laith. There is also less chance of the seasonal delays that traditional builds run into. “You wouldn’t build a car outside in the elements, so why not build our homes indoors, too?” questions Mani.

However, as Vishal highlights, “building higher and suitable housing do not always go hand in hand.” This is especially the case as populations get older and outdated building stock may not have the relevant infrastructure, such as lifts, in place.

“Where the development falls outside PDR, there should be a responsibility on planning committees to make sure any schemes they approve are deemed suitable for the needs in their area,” he remarks. “They should be pushing for sustainable, quality housing which

developers should be delivering. Building control regulations should be tighter to take quality requirements into account.”

This also plays into affordability. “Building homes to increase supply is one thing, however, ensuring those homes are aspirational, affordable and located in the areas where they’re most needed is vital too,” says Hinesh. “Life Less Ordinary’s strategy is based on exactly this: the delivery of genuinely affordable, high quality housing for first-time buyers across London and the South East where they’ve so often been unable to get on the first step of the housing ladder.”

#4 Airspace doesn’t align with the government’s green revolution

Firstly, as this type of development is used in areas that are already developed, it reduces the need to build on greenbelt land—something many want to avoid, for the benefit of nature and beauty.

Secondly, the uptake of modern construction methods contributes towards creating environmentally friendly, sustainable housing. The quality control that you get from a factory-based manufacturing process can deliver better energy, sound and insulation standards. Cutting-edge construction using volumetric, structurally insulated panels, insulated concrete framework and timber frame all play their part. “The greater degree of precision which happens in a factory environment results in more airtight dwellings, leading to better environmental performance in the long run,” affirms Mani.

“Modular building technology now means we are able to deliver homes quickly and efficiently, minimising on-site disruption to the existing building and waste, as well as providing superior energy efficiency,” says Laith.

The component-led system is said to have huge environmental benefits, which can dramatically reduce the amount of waste created during manufacture and building. “While a one-bedroom new-build house can produce 6.5 tonnes of waste on average, our equivalent property creates just 65kg of waste,” claims Steve.

Despite this, the advantages of economies of scale, reduced carbon footprint and improved energy efficiency only become cost effective when building many units. “Realistically, airspace development is likely to be focused around smaller number of units, so the gains may not be as great. However, if everyone used modern methods of construction then, collectively, the impact could be significant,” states Vishal.

#5 It's easy for developers to raise finance for

Airspace developments have historically not always been seen as tangible assets due to the non-traditional security, and this provokes a level of uncertainty from lenders. The refinance market also lacks confidence, with high street lenders traditionally shying away from the asset class. This means that there is an increased need for specialist brokers to find lenders with the relevant appetite and expertise to bridge the gap this year and beyond.

“Many lenders, both short-term and mainstream, will not look at things they do not understand,” says Vishal. “Education is crucial in [comprehending] the mechanics of airspace development, as well as grasping the wants and needs of the market, in order to provide better lending solutions in the sector. Mainstream funders have traditionally been uncompromising in their appetite with regard to airspace lending. In order to evolve, they need to be looking at the subject matter more encouragingly and with greater expertise to move the industry forward and thus become more aligned with the government’s push for more housing.”

Hinesh agrees that there is still a long way to go in bringing the finance community up to speed. “Overly cautious

credit committees can remain reluctant to fund such projects, largely because of a continued lack of understanding; some high street lenders still view airspace homes as non-standard construction and consequently turn away mortgage applicants; while some lenders have percentage limits on how many units they will lend on in a block, including the existing properties.” However, Hinesh thinks that awareness of airspace development since the new PDR was introduced has grown—and this will only help drive greater understanding, demystify the process, and encourage funding to support this niche.

Although this is legally more complicated than a standard brownfield development, lenders should recognise the opportunity and work with those who understand the space. “For non-traditional builds, accreditation programmes such as the Buildoffsite Property Assurance Scheme (BOPAS), will help to encourage lender confidence over the potential risks and issues associated with this burgeoning sector,” Mani predicts.

He urges that the industry must come together to highlight and prove the merits of airspace to all stakeholders, whether that be local authorities, funders or end users. “As it becomes more widely understood

and less niche, we will see increased opportunities and availability of solutions, particularly on the lending side,” Mani continues. “However, it remains a technical landscape with many nuances, so should not be assumed to be an easy route.”

The experience and calibre of the developer is vital for this type of scheme, due to the complexities involved. “There is also a challenge of scale as, for small developments, the additional work required to meet the structural issues may not make sense for lenders,” highlights David.

Vishal adds that the real barrier to the uptake in the advantages offered by the PD changes will stem from the expertise and skill set of the intermediary and lending community. Brokers and funding providers will need to be up to date with current legislation and building regulations to ensure they can back upcoming opportunities. “Knowledge takes time to pervade, so we do not expect an immediate explosion in the space,” he says. “As short-term lenders, we need to ensure we are lending to borrowers who truly understand the process and the risks associated. But, for those that are active in the space and have a strong knowledge base, there will be opportunities in 2021 and beyond for borrowers, intermediaries and lenders alike.” ■



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POWER

This time last year, we showcased some of our market's biggest success stories under the age of 35. With most of our efforts focused on managing throughout the pandemic in 2020, we decided to open this year's Power List to anyone who you believe went above and beyond during one of the worst years of our time. We were overwhelmed with submissions, and it was heart-warming to read the glowing references in support of your peers. We are really pleased with our final selection—40 amazing individuals from a variety of roles and across multiple areas who really went that extra mile to keep the wheels of the market turning. We hope that this will inspire and motivate our sector for the year ahead, and recognise the achievements and innovations, however big or small, that our fantastic industry has made

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