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HD **Sydney's downtown transformed, as office district turns des res**

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A few years ago the Eliza building, overlooking Hyde **Park** in Sydney's central business district (CBD), was just another drab office block. Today it is an upmarket 17-storey **apartment** building with a swimming pool, lavish interiors and stunning views over Australia's financial capital.

The block, incorporating 19 apartments, a A$15m ($13.6m) penthouse and a retail unit, is part of a growing trend in the city for redeveloping and converting tired **commercial** buildings into high-end **residential** properties.

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"People want to live in the heart of the city while companies are looking to move out of their older, second-grade **commercial** buildings and into premium-grade offices," says Daniel McNamara, development manager at Ceerose, a **property** developer.

In 1991 less than 5,000 people lived in the CBD, an area that enjoys views of Sydney Opera House and the harbour and no lengthy commute. Since then, Sydney has followed the trend in New York and London for inner-city living. The number of people living in the CBD is forecast to increase by almost a third to 29,000 in the next five years, up from its current level of 22,000, according to Deep End Services, a **property** consultancy.

Property owners and developers are chasing higher returns from a **residential property** sector, which is enjoying 15 per cent annual price rises amid a surge of Asian investment. The rapid increases are even prompting concern among some analysts about the emergence of a **residential property** bubble.

In contrast, the 9 per cent vacancy rate for **commercial property** in the CBD is rising due to a softening economy, which is depressing **commercial** prices, particularly for the growing stock of older, inefficient properties. A 300,000 sq metre office development at Barangaroo, situated on the fringe of the CBD, is also attracting companies away from older **commercial** blocks.

According to Savills **estate** agents, more than A$1bn of **commercial property** in Sydney has been bought over the past year by developers with plans to redevelop or convert the **site** for **residential** use. A further 130,000 sq metres of **commercial property** in the CBD is earmarked for conversion over the next three years. "The conversion of an office block into **residential**, dependent on location, will more often than not provide a greater return," says Stuart Cox, of Savills. "Developers are typically looking to make a 20 per cent return on a conversion."

Ceerose's redevelopment of Eliza, due to be completed shortly, is an example of an office building being demolished and rebuilt on the same **site**. In this case the developer was allowed to double the height of the building while remaining within planning rules, providing a significant uplift in potential returns. However, a shortage of available sites, strict planning regulations in certain areas and **commercial** considerations are factors driving a trend towards adaptive reuse or conversion, whereby at least part of the existing structure is retained. "Surging demand for **residential property**, investor interest, low interest rates and a lot of owners of depressed, low-grade **commercial** buildings are making conversions flavour of the month in Sydney," says Tim Turpin of Thinc consultancy.

Adapting **commercial** buildings for reuse as **residential** properties can cost more than knocking down and redeveloping a **site**. However, there can be benefits in retaining an existing structure when it comes to complying with strict planning rules. "Planners often incentivise adaptive reuse by allowing a greater saleable area and floorspace ratio to developers which agree to retain heritage features," says Turpin.

Am ambitious conversion project, which recently won approval, is Fife Capital **Group**'s A$300m, 32-storey **residential** tower and retail development on George Street in the heart of the CBD. Fife Capital is demolishing two buildings and retaining the structure of another two buildings with heritage value for the project, which includes 199 apartments with views over Darling Harbour.

"The benefits of adapting buildings for reuse are planners often allow you to make them bigger than would normally be allowed. Depending on the structure, conversions can provide a faster turnround," says Allan Fife, Fife Capital's chief executive.

Until recently Sydney had been relatively slow to pursue adaptive reuse of **commercial** buildings. The first major project was delivered in the early 1990s by developer Robert Magid. His scheme added an extra nine floors and balconies on to the former Esso building. "Often it takes a fresh pair of eyes to see the opportunity," says Michael Gaston, an architect with Kann Finch, who worked on the conversion. "One of the benefits of working with older buildings is that they are often over-engineered. In other words, they can support additional weight and extra storeys."

Fresh eyes, in particular those of **Chinese** and Asian investors, are part of the recent drive for conversions. Almost one in five buyers of new homes in Sydney is either an ethnic **Chinese** resident in Australia or a **Chinese**-based investor, according to research by Credit Suisse.

Greenland **Group**, a state-owned **Chinese** developer, recently bought the Sydney water **board site** in the CBD for A$100m from Canada's Brookfield Asset Management. It plans to build Sydney's tallest **residential** building: a 66-storey tower with more than 470 apartments. Studios will cost from $500,000, three-bedroom properties from $2m, and penthouses between $5m and $10m. It plans to convert the heritage-listed former water **board** building into a **hotel**.

Jamie Smyth is the FT's Australia correspondent

Buying guide

- Non-residents need approval to **buy** properties in Australia. This is usually granted for newbuilds and flats

- The level of stamp duty depends on the value of a **property**. For a A$1m house, it is about 4 per cent

- There were 52 murders in the greater Sydney area in the 12 months to September 2013

What can you **buy** for . . .

A$1m A one-bedroom **apartment** in Sydney's CBD with a parking space

A$5m A three-bedroom **apartment** with views of Sydney Harbour

A$10m A large waterfront house or a penthouse in a tower in the CBD

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