# Ageing building revival hinges on financial viability

## Adaptive reuse makes sense when it can unlock value

PROPERTY

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**PETALING JAYA:** The idea of repurposing ageing and potentially obsolete commercial buildings has gained traction in Malaysia's property market in recent years.

While experts viewed the move as a step in the right direction, they stressed that a careful balance must be struck, particularly over whether such projects make financial sense.

JLL Malaysia managing director Jamie Tan said adaptive reuse makes sense when it can unlock more value from the existing asset than the alternatives available to the owner.

"It is not simply a question of whether conversion is cheaper than demolishing and rebuilding. First, we need to assess whether the physical elements of the building can be retained, such as its existing structure, façade, services and floor plate.

"The more we have to physically alter, the more the cost advantage of adaptive reuse starts to disappear," he told *StarBiz*.

Second is the development potential of the site, Tan added.

"If adaptive reuse can unlock additional plot ratio, additional floor area or a more productive use within the existing planning framework, that can materially change the economics.

"Another factor to consider is the demand profile of the location and the market at large," explained Tan.

"We need to ask what the market actually needs there.

"If demand for conventional offices is structurally weaker for the location, continuing to upgrade an ageing office building may not create the best return.

"An alternative use that better matches the demand profile of that particular location can potentially unlock the true value of the site."

Opportunity cost is another issue for consideration, said Tan. "We should also include the option of doing nothing. If an ageing building continues to lose occupancy and rental income, there is a real financial cost to holding this underperforming asset.

"Sometimes, adaptive reuse becomes attractive because the alternative is simply a declining asset with increasingly limited rental prospects and escalating maintenance costs."

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>
> Previn Singhe

Financing and holding costs also matter, said Tan. "A conversion that takes too long, requires substantial loss of rental income or involves significant uncertainty around approvals and construction costs can erode the apparent financial advantage very quickly.

"Essentially, we should look at the financial feasibility under each scenario, such as retain and refurbish, reposition, adaptively reuse, or demolish and redevelop."

The right answer, said Tan, would be one that produces the "best risk-adjusted value" for the site.

"The test should be whether the existing building can be repositioned into a use that the market values, while making better use of the underlying site and capital than the alternative approaches."

Zerin Properties chief executive officer Previn Singhe meanwhile believes that repurposing ageing and potentially obsolete commercial buildings is fundamentally an investment decision, rather than an "age" decision.

"The question is not simply how old the building is, but whether retaining the existing structure creates more value than starting again.

"Owners should compare three scenarios in parallel: Retain and refurbish, reposition or convert to an alternative use, and demolish and redevelop.

"The comparison needs to look beyond construction cost and consider the total capital required, potential income, downtime, financing costs, approval risk, future operating costs and the value of the completed asset."

He said conversion becomes more compelling when the existing office use is no longer able to generate sufficient returns to justify the investment required to remain competitive.

"But what if the building and location have a stronger alternative use?

"For example, an ageing office in a well-located area may have greater potential as a hotel, serviced apartment, residential or mixed use asset than as an office.

"In that situation, the relevant comparison is not simply the cost of conversion against the cost of refurbishment, but the income and value that each option can realistically generate."

Conversely, the cost of "doing nothing" also needs to be considered, added Previn.

"An ageing building that continues to lose tenants can face declining rental income, higher maintenance expenditure and increasing obsolescence. This is becoming more important as we see a continued flight to quality among occupiers."

In some cases, Previn believes that a deeper repositioning or conversion may be required to close the gap with newer buildings. "On the other hand, demolition and redevelopment may make more sense where the existing structure imposes significant limitations.

"If the building requires extensive structural intervention, major replacement of mechanical and electrical systems, substantial changes to its configuration or costly upgrades to meet the requirements of a new use, the economic advantage of retaining the structure can disappear quite quickly."

He added that the key consideration is whether the investment can restore the asset to a level where it is genuinely competitive and capable of generating sustainable returns.

"If refurbishment can achieve that, retaining the existing structure may offer a better outcome.

"If the cost of bringing the building up to market expectations approaches the economics of starting again, redevelopment may be the more rational choice."