

A GUIDE TO CONVERSION, REFURBISHMENT AND RENOVATION

A REPORT BY MFS



OVERVIEW OF 2020

Whilst 2020 might not have been the best year, it has brought about some of the highest spikes in property value that the UK has seen within the past 4 years.

With the announcement of the stamp duty holiday and pent-up demand from buyers unable to purchase throughout March, sales have been at a constant high since the end of first quarter.

Areas with the strongest regional growth appear to be both the North and South West, which have seen a rapid rise in house prices. The South West has risen by **6.4%** whilst the North West follows closely with **6%**, as shown by the Office for National Statistics. The money saved on the SDLT holiday seems to show that buyers are willing to spend more on the property, rather than save the money.

The demand from tenants is also on a steady climb, introducing a new era of tenants – the middle-aged renters. With the inflation of house prices, renters aged between 35 and 44 are looking to become one of the largest groups in the private landlord sector. This could be the perfect time for property investors to get ahead of the curve by converting or refurbishing their buy-to-let (BTL) properties, to suit the needs of this new age group.

Comparing renters Specifications:

Middle-aged Renters

- Additional rooms for family
- Garden space
- Local schools
- A home office

Young Professionals

- HMOs
- Cheaper rent
- Direct inner city transportation links

The latest Mintel report forecasts that by the end of 2020, **22% of all bridging loans will be used to finance refurbishment projects**, becoming the largest sector within the bridging industry. With all of us having spent additional time indoors this year, this really comes as no surprise.

COVID-19 has changed what potential buyers look for in a home. Pre-pandemic, a central location and being close to work played a big part, particularly in urban areas. But over the course of the year, there has been a specific class of property that has taken the lead in sales.

Since the end of the initial lockdown back in April, buyers are looking outside of major cities and towns. Decreased time in the office means that homeowners are willing to increase their travelling time, in order to purchase a larger home in a suburb setting. Property conversions, particularly in the country, are therefore becoming more common.

WHY REFURBISH?

Property alterations are commonly completed due to two reasons.

The need of additional space and to increase property value. The latter is what makes refurbishment finance so popular amongst property investors. Buying older properties to renovate, or converting a large asset into flats or a House of Multiple Occupants (HMO) can be a great way to increase profits when it comes to sell.

When taking on such projects, it is important to understand your financial options. Bridging loans can be an ideal funding choice. The challenge is finding a lender with a proven track record of financing renovations, refurbishments, and conversions. But what is the difference between these three forms of property renovation?



Converting

A conversion is a project that changes the use or function of a particular building or room. Popular spaces to convert within the home include:

- Bedrooms
- Basement
- [Loft](#)
- Garage

Since the pandemic, many employees have been working from home. In June, the percentage of employees working at home had risen to 49%. With this in mind, additional space for a home office has become a top priority for potential homebuyers. Therefore, converting a room into a suitable office space should also be top priority for property developers.

WHY REFURBISH? (CONTINUED)



Refurbishing

Refurbishment can enrich the overall value and quality of the property. It usually relates to actions such as installing new bathrooms, kitchens, or general redecorating. Refurbishing properties – particularly those bought at auction for a reduced market price – is a great way to increase property yield by meeting the ever-changing needs of the market.

Larger, older properties are often transformed into flats or are fully refurbished to a higher standard and sold for an increased profit. But with the increase of lifetime renters,

the demand for higher spec rental properties is growing. Property investors may want to carefully consider whether they're looking to sell or rent their assets.

Energy efficiency is becoming a growing concern for homeowners, and refurbishment projects focusing on reducing emissions is a great way to increase interest. Sustainable refurbishments can include the installation of energy-efficient light fittings and/or thermal insulation.



Renovating

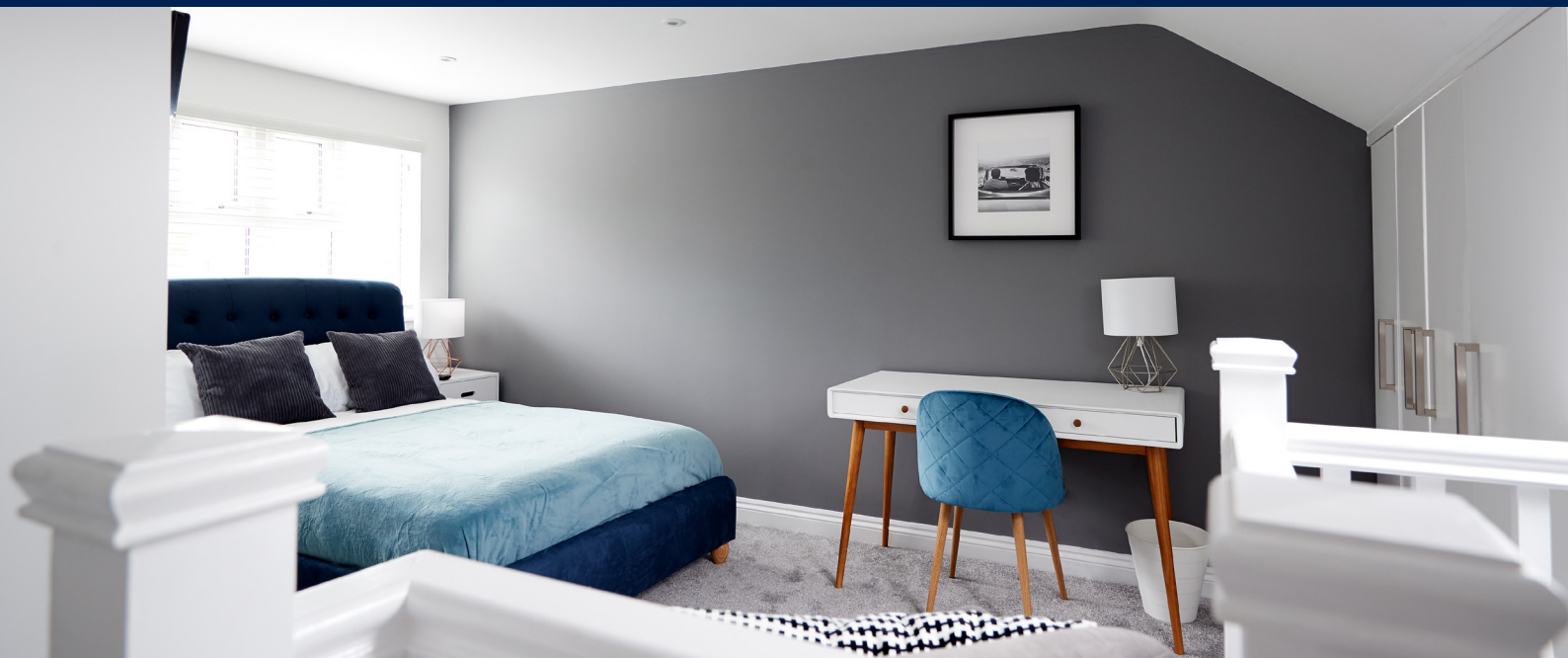
Renovation is the process of improving or modernising an old or damaged building. These types of projects are becoming popular due to COVID-19. The 2020 Renovation Nation Report shows that two-thirds (65%) of homeowners have been inspired to invest in renovations.

Redecorating properties is a regular task performed by landlords, particularly those with HMOs. This style of property usually requires constant maintenance, as they suffer high volumes of wear and tear from a constant

stream of tenants. It falls to the landlord to uphold and maintain the correct conditions for these properties.

For property investors, it is common to buy and renovate derelict properties to increase their value. Online property auctions can be a great way to find old property projects. MFS regularly assists with such cases by providing auction finance, ensuring your renovations can be completed quickly.

IS IT RIGHT FOR YOU?



When converting a property, there are a couple of key factors that you should consider:

1. Plan

This should include a clear understanding of what changes are possible, how best to utilise the time needed for each individual section of work, and what works can be completed simultaneously. An initial budget is always advised, to help plan for any contingencies.

2. Time

Works can take anywhere from a couple of weeks, to months, to years! It all depends on whether it's refurbishment, conversion or renovation works and the size of the project. If you're looking to complete within a specific timeline, then arranging a time schedule with your builder to keep things on track is a must.

3. Money

Whilst budgets create a solid outline, construction works are notorious for running over schedule for a variety of reasons, including our temperamental British weather, usually resulting in additional labour costs. Arranging refurbishment finance can be a great option for property investments in need of additional capital to finish refurbishment works.

Funds can be released in as little as three days.

POPULAR STYLES ACROSS THE UK

Any building can be transformed, and there are many ways to reach your property end goal. Below are some of the most popular refurbishments across the UK.

Barn conversion

Agricultural buildings are popularly converted into habitable properties for both residential and commercial use – from houses and hotels to intimate wedding venues. They commonly feature design aspects such as:

- Exposed beams
- Double height rooms
- Open plan living

These renovation opportunities are also obviously more likely to be based in rural locations. There has been a steady rise in country-based property sales over recent months, initiated by the rise in Coronavirus cases. Due to their size and landscaping, these rural properties can hold high net worth value when renovated. Since the pandemic, large country homes over £1million have caught the attention of many Londoners. They realised that for half the price of their home in central London, they could own a spacious country manor with tennis courts, pool, fresh air, and a vegetable patch.

Loft conversion

This is an economical way to increase the amount of useable floor space. Converting a loft into an additional bedroom is a highly fashionable choice due to the additional value it provides, particularly one including an en-suite, which can be as much as 21%.

Since the initial lockdown back in March 2020, potential homebuyers have been looking for larger properties. Therefore, converting the space into a study or large office is a great way to attract potential buyers in the current market.

From BTL to HMO

HMOs have specific property [regulations](#) in which landlords must adhere to, which may require alterations to be made to your BTL.

This can change depending on whether your HMO will require a license (mandatory for HMOs housing 5+ tenants) and the property's location. You should always check with your local council before converting or requesting a license.

Commercial to residential usage

An upcoming trend increasing in popularity since the UK lockdowns, has been that of commercial properties being transformed into much needed residential assets. Particularly in London, it's common for warehouses and old industrial estates to be converted into luxury flats – an attractive option for landlords and property investors alike.

CHANGING THE FUTURE THROUGH PROPERTY

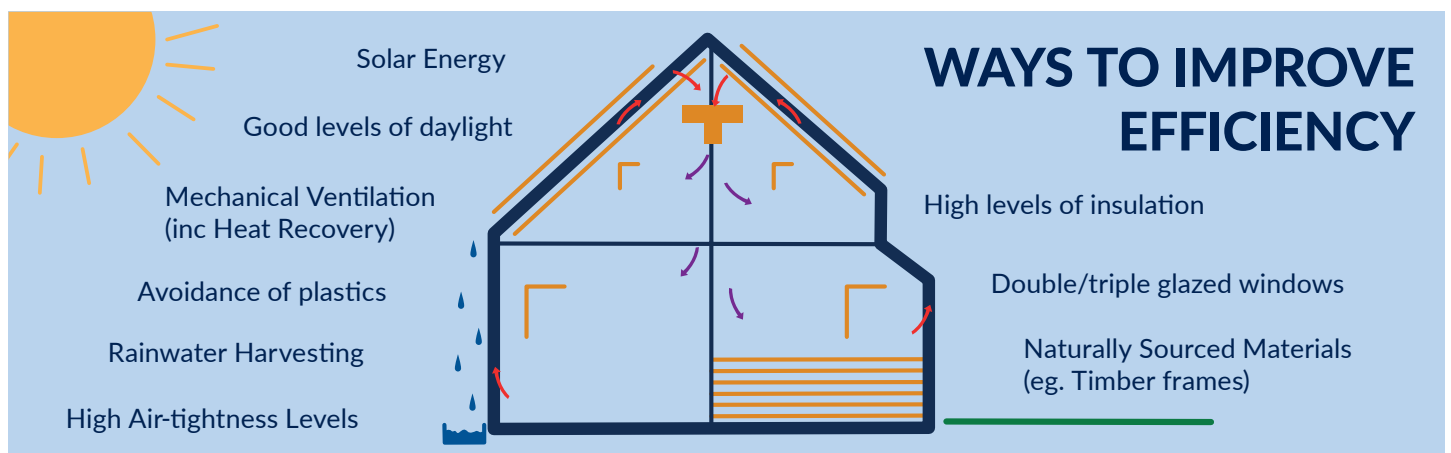
There are many names for these future facing properties – ‘eco homes’ or ‘sustainable housing’ – but what they have in common is that they’re all designed and constructed in a way that minimises their impact on the environment.

New development projects such as the Kingsbrook development in Aylesbury, are taking an environmental approach to constructing new homes. These are being constructed in coalition with the animal charity RSPB and are ensuring that the area’s wildlife is considered during the design process. The site is to leave large amounts of land as green space and wetland, to preserve natural habitats. The homes are then fitted with features that help encourage wildlife to live as part of the site. This includes hedgehog highways; bug hotels; bird and bat boxes and hibernation centres.

Characteristics of sustainable housing

Reducing emissions from building a property can be done in a variety of ways. Even the smallest actions can hold significant changes:

- By utilising locally sourced materials, housebuilders can reduce the amount of transportation and fuel used.
- Installing new technologies can lessen the building’s carbon emissions.
- Overall, an eco-home should improve the asset’s energy efficiency.



Make the unoccupied, occupiable

Despite new build developments such as Kingsbrook carving the way for more co-habitable housing, building thousands of new properties annually still takes away acres of natural habitat. Yet the housing crisis remains an ongoing issue. **According to our latest MFS survey, 51% consider it to be the biggest issue facing the UK.** Is there an alternative solution that minimises environmental loss whilst still providing residential assets?

In October 2019, the government stated that 648,114 houses in the UK were empty, with 225,845 classed as [long-term empty](#) properties (defined as a property

which has been unoccupied for more than six months). Renovating these properties would provide thousands of homes, whilst potentially minimising the property industry’s environmental impact. With the gap in the housing market (between supply and demand) now estimated to be more than one million properties, people are in desperate need of affordable housing.



Throughout the pandemic, bridging finance has been a much-needed crutch for the property market and property investors.

It has played its part in ensuring that the industry has been able to continue moving, despite the difficulties and delays buyers have faced with the Highstreet banks. Buyers are still looking to take advantage of the stamp duty holiday and as a result, brokers and buyers are after finance that can be deployed quickly.

For property investors, it is common to buy and renovate derelict properties to increase their value. Our bespoke bridging finance allows investors to complete renovations in a timely manner, to ensure the property is back on the market quickly, at a higher price that reflects the work completed.

If you're considering refurbishing your property and need work to start imminently, then a **fast bridging loan** may be a good solution. With people looking to spend considerably more time indoors over the next couple of months, the desire to refurbish is spiking.

We are highly experienced in refurbishment finance. Working with the property owner, we can help to ensure deadlines are met and the project is completed on time.

Our team of expert underwriters are highly experienced when it comes to bridging finance for conversions, so if you have a light development or refurbishment requirement, contact us today.



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