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## Unlocking the potential of office-to-residential conversions

Greg Blend and his Africrest team have been converting office buildings to apartments since 2016.

By [Simon Brown](#) 7 Nov 2023 09:42

**SIMON BROWN:** I'm chatting now with Greg Blend. He's a director at Africrest Properties. Greg, I appreciate the early morning time. We were just talking Reits, listed properties, particularly the office space. Vacancies are improving but are still at massive levels. You and your team are doing conversions – office to residential. If I understand correctly, this is not something you started in the pandemic; it actually goes back five or six years.

**GREG BLEND:** Yes, Simon. We started this in about 2016. We had an office building that a small school occupied. It outgrew the space. We own an office portfolio as well, and we couldn't find a tenant for the school. So we decided to try converting it to residential. The demand was completely overwhelming, nothing like we saw in the commercial space. So we knew we had struck a wicket.

From there we started buying up old office buildings in decent areas located quite close to or in secondary CBDs and converting them to apartments.

**SIMON BROWN:** I take your point that it can't just be any [old building]; it needs to be the right building in the right place. I imagine there's also perhaps some structural element to it because office is so different from residential. You've got to be clever with your buildings.

**GREG BLEND:** Exactly. Many people say the whole of Sandton will be converted into apartments, but that can't happen. The buildings need to have the right shape. They need to have narrow floor space so all apartments can have windows. They need to have load-bearing capacity because apartments are much heavier. The zoning needs to be right, and of course the price needs to be right.

**SIMON BROWN:** What are your major challenges, assuming you're finding the buildings? Are there skills challenges? I've heard coming out of the US that at points there have literally been shortages of nails during the pandemic. What sort of challenges do you find in this space?

**GREG BLEND:** Besides a couple of instances of intimidation from construction mafia, no real challenges in the construction space. We work with excellent professionals. I can't say we've faced any of those challenges.

**SIMON BROWN:** And you're doing multi-family housing, which I understand is apartments. In the notes you sent via my producer you're saying this really is a viable asset class and fairly fundamentally overlooked in many instances.

**GREG BLEND:** Yes, I think institutional investors and pension funds have typically felt that it's very tough to collect your rents and it's an asset class to stay away from. We cater towards middle-income South Africans, the young professionals working at banks, they are doctors, they are lawyers, they just want to pay their rent and live in a safe, secure environment. Before Covid, during Covid and post Covid our rentals were paid, our bad debts were less than half a percent. They still are. Our occupancies are more than 97%, whereas if you take the typical Gauteng residential vacancy rates, they are probably closer to 10%.

We've found all our competitors are at similar levels to ours because the product offering that we can provide our tenants is so much better than typical sectional-title apartment owners can offer their tenants.

**SIMON BROWN:** And you're not converting and selling. You retain and own the buildings. How many have you got? How many apartments have you got around Johannesburg at this point?

**GREG BLEND:** We've about 3 600 apartments that we've developed and we own and manage, and in the next two years we'll own over 6 000 apartments.

**SIMON BROWN:** Wow. How many apartments per building? It's obviously how long is a piece of string, but I imagine it must number in the hundreds.

**GREG BLEND:** Yes. Economies of scale are very important to us. We provide on-site management teams and maintenance teams and resort-style swimming pools and gyms. So we need big buildings. Our smallest buildings probably [have] 250 and we've two buildings of 700 each. So the bigger the better for us.

**SIMON BROWN:** And are you just in Gauteng? You haven't ventured down to Western Cape, KwaZulu-Natal and the like?

**GREG BLEND:** We are just in Gauteng for now. We're starting to look a bit in the Western Cape, but the opportunities in Gauteng are massive.

**SIMON BROWN:** You made the point a moment ago in terms of the multi-family in terms of your getting much better rates. We don't see much in the listed space. There is a bit of residential. Is there a lot of activity happening – such as yourselves in the unlisted [space]?

**GREG BLEND:** Yes. There's not a fortune of companies because the barriers to entry are quite high. Remember, you need to buy the building up front. You need to pay for the full renovation costs – all of this before you know that it's going to be successful – whereas a typical sectional-title developer can sell off-plan, and then often have an option on the land and only exercise it once the units are sold and they have secured their bonds.

So there aren't many companies doing it, but there is a bit of competition.

**SIMON BROWN:** I take your point. There is a long lead time before you get that first rental income coming through. What is that lead time from when you find the building

and you sign a deal to purchase it? How long before you get your first tenants, typically?

**GREG BLEND:** It depends on whether it needs to be rezoned or not, which can take nine to 18 months. Assuming it's zoned and we can start construction, we can have ... tenants within nine months using a staggered approach. The whole building may not be complete but certain wings will be.

**SIMON BROWN:** Okay. Nine months. That is super-quick. We'll leave it there.

Greg Blend, director at Africrest Properties, was talking around office to residential conversions. Greg, I appreciate the early morning.