

Airspace development, what does it involve?

Find out in #TABU podcast season 2, episode 9

Podcasts

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TAB University podcast host Katrina Hindley was joined by Eli Korman from TAB and our special guest [Joe Griffin](#) from [London Penthouse](#) who specialise in airspace development.

We ask Joe the top five questions on airspace development:

1. What is air space development?

2. How do you keep all parties involved happy?

3, What is the design process of an airspace development?

4. What are the steps to the construction process of an airspace development?

5. How does the sales and marketing of airspace differ from other types of developments?

As well as going through and detailing the above, we also found out about party wall awards, and how they work, as well as how to find sites, what the challenges are and how they are resolved and what type of funding solutions there are for airspace development.

Question one: What is airspace development?

Airspace development is building on top of existing buildings to put new levels of accommodation. It's basically taking what was an unused space above an existing building and creating new residential apartments.

How does it work? How do you find the space? Who owns the airspace above that building?

It's just the flat roof of an existing apartment block, and we'd find them by sometimes just literally walking around and looking up in the air! Eight out of ten times we'd develop on a flat roof, it's easier. But we can convert the pitch roof of buildings as well. The freeholder would own the airspace above the building.

When you kind of buy this air space to then develop, are you buying the right to build or are you just buying that a certain amount of space on top of the building?

We would normally buy a lease of the airspace. Anything from the roof to the clouds would then be under our ownership or we could do a joint venture with a freeholder whereby there'd be a development agreement in place to say that we would have the building rights to develop. And then we would split the asset come the end of the project.

What are the considerations you need to think about when trying to get finance?

It's primarily about experience. It is logistically more challenging building on top of occupied dwellings. But we have a track record and we are currently doing projects together with you guys, which has been great.

From our perspective, for any development experience is really key. When it comes to airspace with the complexities of dealing with other people in the building, it's really important to know that the developer has done that before and has got out successfully.

Question two: How do you keep all parties happy?

If you have a building, with ten apartments in that building, the airspace will have a value. If the ownership structure is that each one of those ten apartments has a share of the freehold, then the premium that we would pay for the airspace, and the development rights, would automatically go to the leaseholders, because they would all have a share of the freehold.

What happens if eight are on board and two are not really interested, how does that work?

Again, it all depends on the voting structure and the articles of how the freehold company has been set up. Normally it's a majority vote in those instances, but each development that we have done whereby you have the ownership structure set up that each leaseholder has a share of the freehold - because it's such a big decision, the freehold company would normally insist that it's a unanimous vote in favour or the project doesn't go ahead

In the scenario where there's one freeholder and tenants what happens there?

Our offer then would go to the freeholder and it's normally the freeholder's responsibility to ensure that the leaseholders are suitably recompensed, or compensated for the nine to 12 months that we're actually gonna be on site. As a company ourselves, we would commit a part of money to overhaul the existing common areas of the building, which will have a positive impact on the tenants. Historically we've found that by adding penthouses or top floor apartments to existing buildings and overhauling the common areas, it automatically has a positive impact on the market value of the existing apartments within the block.

Would you say that once you've agreed your deal with the leaseholders or the freeholder, and they've taken money off the table effectively for the purchase of the rights that you have now to build those apartments, they then forget about the fact that they're now technically partners with you and want more from you?

Not necessarily. It's all about communication. I regularly hold tenants meetings. I will always go and meet with the tenants and address their concerns. People just like to know what's going on, and to have someone to vent to. We know that we are the unwanted guest that has come to stay for nine to 12 months. People like us out the door as quickly as possible.

From a lender's perspective, that's actually really important - knowing that you can get through a project with happy tenants at the end of the day means it'll be a speedy project, which is what all lenders want. They want to have a smooth, easy process from start to finish.

We're aligned with the tenants on that because we don't want to be on the site longer than necessary and they don't want us there longer than necessary. Once we've set up and have built a rapport with people they can understand why we're there and that we want to make it as pain free as possible for everyone.

I guess in this case you are swallowing the cost of developing or refurbishing the internal areas. What is the alternative? And I'm kind of leading into this section 20 thing that I previously heard. Is that something you guys do? Is that something other people do?

Section 20 is where there are works that are required to a building. For example, we're working on a project at the minute that needed a full new roof. The lease that the freeholder is selling us, the airspace and the rights to develop - that cost is no longer required to replace the roof because we would do that as a matter of course. So there's a genuine 200 grand savings going to the leaseholders of the block.

Is it usually roofs?

It's usually roofs, sometimes common staircases. A lot of buildings are seriously lacking with their fire regulations at the minute. So by us putting on a new story of accommodation, we have to overhaul and upgrade all the fire alarms, the common lobbies from roof to ground floor level. We upgrade all the existing flat entrance stores for example. It's a cost that we absorb as part of the development, but it's obviously a genuine benefit.

Question three: What is the design process of an airspace development?

Where do you start? Do you have to match styles?

The first step would be to obtain planning consent. When we purchase an airspace it's nine times out of 10 subject to planning. It depends on how much flare you have with your design, some areas don't like a lot of change or don't want to see anything too wacky - they want things to blend in. But some areas allow it - there's a project in Highgate where we built something very contemporary on top of a 1930s traditional building.

What about structurally?

We'd get a structural report done that would go into the structural integrity and the feasibility of it taking on extra stories. Then we set our brief to our architects and planning consultants.

How do the engineers do that with tenants still there?

We use historical ground reports. A lot of the buildings that we look at will comfortably take one additional lightweight story and the structural engineers can work that out by the existing mass. There is a formula that they use without even having to do intrusive exploratory works to, to the existing structure of the building.

How do you connect your new airspace to the building below?

You have to have a common staircase which goes up to the existing top floor level to be able to extend it up to break through the existing roof and onto the new level. Sometimes where you have duplex apartments the staircase finishes a level below and that renders the scheme non-deliverable.

What are modular builds? Is that something you do? Is it something you are supportive of?

We've explored it extensively. We do a bit of a hybrid, we have the structure delivered to site in a panelled format so we can keep the structural element, the main construction element, on site and the timeframe down to a minimum. I'm not saying there's anything wrong with modular builds, but I'm yet to see the quality of having an apartment delivered to site. Painted, grouted kitchens, plates in the cupboards...

The whole flat is built in a factory. They come in set size pods. If you are going in for planning, you should be going in for planning with modular in mind. But we are buying rooftops that are already there, so we have to fit our design and our construction to the footprint of the existing building. That can be difficult with modular builds, and can be not as economical to build.

Do you find that the internal design of a rooftop airspace development is more complex?

It's dependent on the services below because you're connecting into existing services, like your drainage would dictate where you would house your bathrooms or kitchens.

Question four: What are the steps to the construction process of airspace development?

Where do you start with the construction?

For us the construction starts before we've even got the sign off of the planning, even before planning, we've made an assessment to see if the project is deliverable without upsetting people. It takes years to make a good name for yourself and it'll take 10 minutes to lose it so before we even go in for planning, we're thinking about the construction steps of each individual project in its own merits, but you have a pre-construction phase in which we'll discharge our pre-commencement conditions.

For a lot of the borrowers that we're working with now we have construction management plans that we have to adhere to - Kent and Chelsea for example. It's refreshing to see how much onerous they put on making sure you're not upsetting people - you've got to adhere to your hours of work and your delivery times.

Does that include the computer generated pictures of buildings that are put on the scaffolding to make it look not as garish?

When the budget allows! It's important to have a good, clean, strong site set up, trying to keep disruption to a minimum. We are part of the considerate constructors scheme. You can get planning on a site but you can't sell them unless you build them properly.

How do party wall awards fit into all that as well? What is a party wall award?

It's generally a notice that is served on adjoining property owners if you are carrying out any structural works or bearing load onto the party wall between a property or between your new property and an existing property. We're not actually building next to someone, we'll be building on top of someone. So the actual roof itself is a party structure. The building envelope doesn't require a party wall award to be served or a party wall notice to be served. But if you are bearing load down on internal spine walls then you will need a party structure, or if you're cutting into the structure of the roof itself, a party wall notice and a party wall award will be required. If the structure can be designed in a way to mitigate the need for party wall awards then that is the route we'd take.

And I guess when you are in mid construction, you've I dunno, laid your first brick. Where do you store the rest of them? Are they on the ground? Are they on the roof?

The way that we manage the construction process through our site managers and office staff is that we order enough to be getting on - it's little enough and we don't need to stockpile huge amounts of material. We try not to take up too much of the common grounds of the freehold that we're building on top of.

Question five: How do the sales and marketing of airspace differ from other types of development?

Is it considered a new build? Are you often building one unit or several?

Yes it is considered a new build. It all depends on the size of the building as to how many units we build. We've built one, two at a time and we're actually into a scheme at the minute where we're hoping to achieve 17 on a roof. Our sweet spot, if you like, is anywhere between two and 10 units. We very rarely build more than one story.

The most stories we have ever built is two, and the most units in a single scheme have been 17. Depending on what the market is doing when it's time to sell, sometimes we keep the units and rent them out ourselves. Each project is exciting for different reasons. We've currently agreed a deal with one at the minute in Kensington, which is a fantastic building. It'd be a great deal for us. And obviously the one in Acton that we're working on currently. They all have their merits.

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