

# Authorities' growing concern at PD rights for offices to residential use

Nick Taylor anticipates an increase in the number of London boroughs applying for Article 4 Directions to limit conversions providing low-cost homes

Our annual survey of the largest English Local Planning Authorities reveals that nearly half think Permitted Development Rights ("PDR") allowing conversion of offices to residential are a problem in their area, mainly because of concerns around the loss of jobs and impact on local economic growth. This is an increase from 40 per cent in 2016.

The figure rises to nearly 70 per cent across the 29 London boroughs included, a marked increase on last year's result of 50 per cent. Interestingly, Wandsworth, Greenwich and Southwark have changed their position over the last year and are now reporting that pressures for office-to-residential conversion are now more of an issue facing the authority.

Notwithstanding the pressures, almost half of all English local authorities surveyed indicated that they will not yet consider introducing restrictions in the form of an Article 4 Direction, preferring to monitor market conditions and rely on evidence to support development plans to determine whether a formal policy response is necessary. In effect, they will be operating a 'wait and see' approach, with intervention required only where necessary which is the approach that the Government endorses.

However, when the inner London boroughs are analysed in isolation, the story is very different with half stating that they would introduce a Direction or seek to extend an existing Direction. This was largely because of concerns about loss of workspace, economic impacts and the market evidence that conversion of offices to residential is financially viable in those boroughs. In other words, the financial metrics are in place in these locations to support the change. Although this approach to constrain change would appear to be at odds with the view of the Government and its priority to utilise underused buildings, it is clear that authorities are concerned that the change is happening to office buildings where residential is a higher value and thereby impacting on the overall stock of office space.

The threat from these changes is acknowledged in the draft London Plan and the Mayor confirms that he supports councils to consult and introduce Article 4 Directions for the areas currently exempt in and around the Central Activities Zone ("CAZ") and for geographically-defined parts of other existing and viable strategic and local office clusters. It will be interesting to monitor the success of the applications to extend these restrictions and we anticipate debate over the definition of strategic and local office clusters.

**Why is PDR more of a concern for local authorities now than previously?**

There is a combination of reasons, but we consider that fun-

damentally it is because PDR is now a permanent fixture and for authorities, it now poses a threat over the medium to long-term. During the three-year trial period, it was not clear what would happen to a scheme that was not fully implemented or occupied by the end guidance. At that time, it was believed that any new homes created through this route would have to be completed and occupied before the trial ended, thus only schemes that could satisfy both tests were implemented. Towards the second half of the trial period, we saw a significant number of schemes come forward but they were not started because of concerns that both tests could not be satisfied.

Another concern surrounded the availability of office buildings suitable for conversion to residential use. During the three-year period, an office block needed to be vacant or likely to become vacant within the relevant timeframe. Now that the opportunity to use PDR is available permanently, it provides landlords and investors with the option to consider PDR when the moment suits them as there is more time to plan for the change and take steps to bring it about. Whereas the LPA could have taken comfort from the knowledge that only a small number of buildings might change in the trial period, it now must consider the potential for a greater number of buildings being converted over the medium to longer term.

Some local authorities have now become concerned about how much office space has already been lost or might be lost in the future. This might not have been a significant threat when PDR was temporary, but rising house prices and the falling or stagnant value of commercial space along with the overall shortage of housing means that it could contribute to the steady erosion of space in any given area or borough.

The quality of accommodation is also important, with many office-to-residential conversions failing to meet minimum space standards, which means that the council would not have otherwise approved the density of development. A 14 sq m apartment in Croydon is probably one of the best-known examples of just how small these units can be. Whilst micro-flats have a very positive role to play in the market and developers such as Pocket Living and Town Flats by U&I prove this, councils would prefer to have some control over the quality and type of accommodation within their administrative areas – larger family units are, in particular, highly sought after.

Lastly, by using PDR instead of submitting a normal planning application, local authorities miss out on Section 106 contributions, the provision of affordable housing and any associated infrastructure benefits. They are also unable to apply other policy controls concerning car parking and amenity space as well as >>>



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>>> unit size and mix.

**What are the benefits of office-to-residential conversions?**

Taller buildings can be converted at a high density without reference to the GLA or national space standards. There are also no requirements to provide parking spaces and affordable housing or make Section 106 contributions. The turnaround can be fast – compared with a standard planning application at least – and there is likely to be a considerable saving on the costs of taking the proposal through the planning system. Wider benefits include making use of redundant space, supplying much needed housing in sustainable central locations and enlivening town and city centres.

From the perspective of developers, there is profit to made. Secondary or tertiary office accommodation can cost at least £50 per sq ft to refurbish, but only generate a rent of £25 per sq ft if a tenant can be secure at all. As a result, the option to refurbish at £100 per sq ft and sell a finished residential unit for £450 per sq ft when there is already demonstrable demand is the fastest way to enhance the value of the asset and realise it. However, office to residential conversions are not always lucrative for landlords and developers. In locations where the value of commercial space is high or rising and residential values are flat, conversion is clearly not the best option. This is why our survey suggest that the challenge is localised rather than systemic.

**How many homes has PDR delivered in London?**

Research from the DCLG for 2016/17 indicated that nearly 6,300 dwellings were created by office-to-residential conversions. This is an increase of close to 73 per cent on the

previous year, which saw 3,645 homes delivered via this PDR route.

While the number of homes delivered increased, the overall volume of office-to-residential schemes fell by nearly 30 per cent. It is worth noting that the number of schemes that did not require prior approval fell from 201 to 126 along with the overall volume.

As noted, in the draft London Plan, the Mayor is encouraging authorities to consult and introduce Article 4 Directions in certain specified locations. This is in response to the approval of 1.6 million sq m of office space to change to residential by March 2016 (source: London Development Database).

The London Office Policy Review 2017 estimated that over 30,000 jobs have been disrupted, with the overwhelming majority of these being SMEs occupying economically priced space, which might be hard to replace. Hot spots of change in London were close to the CAZ boundary in Camden and Islington, in the South Bank and in Lambeth. Further out, clusters occur in many of the outer London towns, with a clear westwards bias where the values are highest, although Croydon and Brent have experienced the highest level of approvals.

In response to the Mayor’s encouragement, we anticipate an increase in the number of London Boroughs applying for Article 4 Directions. This should be monitored over the next few years and it will be interesting to see how many succeed. The London Borough of Richmond upon Thames has been successful in increasing the number of areas subject to an Article 4 Direction, and this may be a good model for other Councils to adopt. Outside of London, we envisage that the ‘wait and see’ approach will continue. ■

RIGHT:  
Richmond has imposed an Article 4 Direction across the borough despite the number of faded ‘Offices To Let’ boards

