May 2018
Extending permitted development rights in England: the implications for public authorities and communities
Extending permitted development rights in England: the implications for public authorities and communities
Report for Royal Institution of Chartered Surveyors

Report written by

Ben Clifford
Patricia Canelas
Jessica Ferm
Nicola Livingstone
University College London

Peter Bibby
Paul Brindley
John Henneberry
Anthony McLean
Daniel Tubridy
University of Sheffield

Richard Dunning
University of Liverpool

RICS Research team

Dr. Clare Eriksson FRICS
Director of Global Research & Policy
ceriksson@rics.org

Katherine Pitman
Global Research Project Manager
kpitman@rics.org

Published by the Royal Institution of Chartered Surveyors (RICS)
RICS, Parliament Square, London SW1P 3AD
www.rics.org

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Executive summary

Introduction and objectives

In recent years there has been a significant expansion in permitted development (PD) rights. This means, inter alia, that many more types of building conversion can now proceed without having to go through the full formal planning procedure in England. Concerns about the impacts of these changes to planning control prompted a RICS Research Trust call for research on this matter. Two teams were commissioned to investigate this approach using complementary methodologies.

The first team, from the University of Sheffield, looked at PD in general in England. This quantitative research assessed the extent, pattern and financial consequences of PD across England. The second team, from University College London, looked specifically into office-to-residential PD in England (and, for comparison, in Scotland and the Netherlands). A qualitative case study approach was taken. Five local authority (LA) case studies were examined (Camden, Croydon, Leeds, Leicester and Reading – all local authorities with high rates of PD schemes) to gauge the extent of individual office-to-residential building schemes that have proceeded under PD and the implications on LA revenues, planning and local communities.

The full findings of both research projects are published separately by the RICS Research Trust in parallel to this Insights report (see Bibby et al, 2018 and Clifford et al, 2018). The objective of this Insights report is to bring together the key findings from both projects and consider the implications of extending PD in England.

Findings

Quantitative review of PD across England

The review identified financial differences between developments allowed under PD rights and identical proposals that required formal planning permission. The most significant financial differences are the loss of planning application fees and affordable housing contributions and the savings of planning officer time spent processing planning applications. Technically, there should be no effect on the Community Infrastructure Levy (CIL) revenue because PD is not exempt from the levy, although local authority charging policies vary. At the national scale, PD has no impact on the income from local property taxes or from contributions to utilities because the way that the development of subject properties was permitted has no effect on such taxes and charges.

The study estimates that between 86,665 and 95,045 dwellings (depending on how student accommodation is classified) might potentially have been created under the extended PD rights between 2010 and 2017. The bulk of these additional dwellings arises from small-scale (less than 10 units created) conversions from commercial uses (including offices) to residential use and from agricultural buildings use to residential use.

These small schemes have been broadly distributed (largely in locations with relatively low property values) through cities and towns without any marked regional patterning. The large-scale conversions of office and other commercial uses to residential use that are a key matter of concern to policy makers are less important with regard to the overall number of dwellings delivered and are overwhelmingly concentrated near the cores of major urban areas. These large scale office conversions (excluding student accommodation) are concentrated in the South East. The scale of PD occurring entirely within the industrial and commercial use classes is relatively modest.

Cost-Benefit Analysis (CBA) compared the direct costs and benefits to local authorities of extended PD rights with the outcomes of an identical development that had obtained formal planning permission. The key findings were that:

- The largest estimated financial impact is the loss in affordable housing contributions. This amounted to about £42.5m.
- The benefits arising from savings in staffing costs within planning departments (£14m) are not enough to offset the loss of fees (£22m).
- Overall, this part of the analysis estimates that the direct financial impact of the extension of PD rights is a net loss to all the Local Authorities across England of around £50m.
Findings from the five local authority case studies

High rates of prior notification for office-to-residential conversion were found in all the case study local authorities, far more than was predicted by the Department for Communities and Local Government (DCLG) when introducing the policy (DCLG, 2013). There were 487 proposed schemes across the five case study LAs, which would produce 8,057 housing units if all implemented, in the first four years of office-to-residential PD (2013-17). The analysis indicates that the net additional housing units data from DCLG records approvals rather than completed schemes. Implementation rates varied, but overall 69% of the proposed schemes were completed or under construction, delivering 72% of the approved units.

There were divergent views from the 30 stakeholders interviewed on the merits of PD rights and their impacts. The developers and agents interviewed generally thought PD had delivered many more housing units, aided the regeneration of town and city centres and led to quicker implementation. In some case studies, such as in Leicester, there was support for the principle of office-to-residential conversion in the city centre, but strong concerns about the quality of what was being delivered. Planners, local politicians, civic societies and also business interests were generally concerned about the quality of housing being achieved and its impacts.

Site visits were conducted to a total of 568 buildings either converted or proposed for conversion from office to residential use. The quality of these schemes varied enormously. There were some high-quality developments. However, PD has also allowed extremely poor-quality housing to be developed. Comparison with residential units that were permitted under the full planning process showed PD residential quality was significantly worse. The site visits indicated office-to-residential schemes that had been conducted under the full planning process were still commercially viable. Evidence from Leeds and Leicester indicated many completed schemes are being marketed primarily to students and so are not really contributing towards meeting local housing need. Evidence from Camden and Reading indicated a poor mix of residential provision among PD schemes compared to local needs.

Looking more closely at 45 of these conversion schemes revealed that:

- Only 30% of the units delivered through PD that were investigated met national space standards.
- Among all the PD schemes analysed, 77% were studios or one bed units compared to just 37% of the planning permission units.

At the case study scale, it was possible to quantify the potential impact on local publicly funded infrastructure when considering the cost of permitted development to local authorities. It is complex to quantify these costs, but taking a very low figure of costs per additional unit developed (see Clifford et al, 2018 for further discussion), the burden on these five LAs alone is calculated to be £27.5 million. Because these schemes were not making Section 106 (S.106) contributions², the local authorities examined were subject to:

- a potential loss of income of £10.8 million and 1,667 affordable housing units (calculated using local policy for each LA)
- a further loss of £4.1 million due to reduced planning fees.

There were examples of extremely high-quality conversions delivered through PD, but there were also some examples of very poor housing. In many cases no amenity space had been provided, there were conversions with low quality design and the situation of conversions was in poor locations for residential amenity.

The comparative case study of Glasgow, where office-to-residential conversion requires full planning permission rather than PD, showed higher residential quality being maintained with better space standards. The comparative study of Rotterdam showed that under a soft-governance approach that focused on engagement with real estate owners and developers over specifically identified vacant office buildings, a similar number of office-to-residential conversions were achieved.

Conclusions

The bulk of additional dwellings that result from the exercise of PD rights are small-scale conversions from business uses, including offices, to residential use, and from agricultural buildings use to residential use. Large scale office to residential conversions delivered fewer residential units across England than the small-scale schemes. In contrast, it is these large schemes that account for the largest element of the direct financial costs of PD to public authorities, through the loss of affordable housing contributions.

Looking specifically at office-to-residential schemes suggests that office-to-residential PD has been a fiscal giveaway from the state to private real estate owners and developers³. The research indicates that office to residential conversions under PD have also produced a higher amount of poor quality housing than schemes governed through full planning permission.

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¹ Now the Ministry of Housing, Communities and Local Government ² Most were not liable for CIL payments because there was partial occupancy of the building before conversion ³ There are several examples of prior approval leading to large uplifts in sale prices apparent in the case studies – 90% in one example, over less than a year period.
Recommendations

Further research

- It is recommended that more research be undertaken on the impacts of smaller commercial and agricultural to residential conversions and ways to mitigate the harm being caused by office-to-residential PD.

Central government

- Office-to-residential change of use should not be counted as permitted development in England. The policy should be revisited, particularly given that many of the assumptions in the original impact assessment (DCLG, 2013) can now be questioned.
  - Were the government unwilling to reregulate here, it might instead consider introducing more safeguards to the prior approvals process. For example:
    - adding a requirement that the office space is actually demonstrated to be vacant before approval can be granted for conversion
    - adding minimum space standards which would apply even to PDR schemes.
- Ensure a reasonable fee level for the local planning authority (LPA) in processing the prior notifications and ensure planning gain can be levied (including affordable housing contributions).
- Amend CIL regulations so that all development creating new residential units are liable for a contribution towards local infrastructure need regardless of previous use or vacancy of the building.
- Housing statistics collated by DCLG should report the number of office-to-residential units actually implemented rather than just applied for in prior approvals, and central government should consider the resources available to LPAs to support monitoring and reporting functions.

Local government

- LPAs should seek to take a proactive approach to office-to-residential PD, including using Article 4 directions.
- Proper plans should be required with prior notifications. Conditions should be imposed to ensure schemes follow the agreed plans and required notification of commencement and completion of works. Some LPAs already do this, but others do not and it can help improve standards.
- Where necessary, appropriate enforcement action should be taken against inadequate housing provision.
- Authorities should consider S106 legal agreements where appropriate in relation to the issues they can consider during prior approval, so as to try and mitigate any harmful impacts of conversions.
- Greater attention should be given to assessing the cumulative effects of small-scale conversions from commercial and agricultural building uses to residential use, and to developing appropriate policy responses.

Local communities and civic groups

- Local communities and civic groups should closely monitor office-to-residential conversions and notify their LPA if they are aware of any inadequate housing provision or where evidence may qualify an area for an Article 4 Direction.

Developers and their agents

- Developers should give careful consideration to the wider implications of their schemes on communities and people’s everyday quality of life. Their agents should also provide robust advice about this, particularly if there are professional conduct and ethics implications.
1.0 Introduction

Reform of the planning system in pursuit of economic development and in particular, housing delivery, has been high on the political agenda in recent years. A key part of this has been the extension of permitted development (PD) rights, with further extensions to these in England promoted as part of the Autumn 2017 budget (HM Treasury, 2017). To avoid administrative sclerosis, much small-scale development has been exempt from the need to obtain formal planning permission. Permission is instead granted via PD rights - under which certain categories of development can proceed without formal planning permission.

Although these rights have been a feature of the planning system since its inception, recent years have been characterised by a significant expansion in PD rights, achieved through major regulatory amendments in 2005, 2010, 2013 and 2015. PD rights are primarily granted by the Town and Country Planning (General Permitted Development) (England) Order 2015, but other recent devices such as Planning Permission in Principle and Neighbourhood Development Orders also grant PD rights. Taken together they form a complex and evolving body of planning law. The new or extended categories of PD include:

- large extensions, residential annexes and other alterations to houses
- the conversion of commercial buildings, including offices, to residential use
- the conversion of agricultural buildings to residential use
- changes between different industrial and commercial uses
- the extension of industrial and commercial buildings and the construction of new buildings on their sites
- the development of new residential units through the Planning Permission in Principle (PPiP) process and under Local and Neighbourhood Development Orders (LDOs & NDOs).

The most high-profile of these has been the ability to change the use of office buildings to residential use without needing full planning permission. This was a policy decision taken by central government, primarily to boost the supply of housing. When this particular extension of PD was first introduced, the Department of Communities and Local Government (DCLG) published an impact assessment suggesting that there would be no monetary impact from the change, it would not place a burden on additional infrastructure, and developers were unlikely to choose to develop housing in unsustainable locations (DCLG, 2013).

The main argument in favour of PD rights is that they remove unnecessary administrative impediments to development imposed by the planning system (Lichfield & Partners, 2003). From the local planning authority’s perspective, it is presumed that PD rights will reduce the number of applications for minor and uncontentious developments (DCLG, 2008a; Lichfield & Partners, 2003). In the face of an acute housing shortage in England, Eric Pickles, former Secretary of State for DCLG argued that:

“by unshackling developers from a legacy of bureaucractic planning we can help them turn thousands of vacant commercial properties into enough new housing to jump start housing supply.” (cf. Derbyshire and Havers, 2015, p.312).

Concerns have been raised, however, about both the principles and the specific impacts of different categories of PD. These concerns include:

- PD rights remove the opportunity for local authorities (LAs) to weigh up the specific costs and benefits of a particular development and to refuse permission or impose the conditions that they judge to be necessary (for example, over materials and similar detailed design issues, notification of commencement and completion of construction).
- The impact on the quality of housing (Marrs, 2016) and the evidence of reduced affordable housing contributions (London Councils, 2015; BCO, 2015) in the case of office-to-residential conversions.
- Rural residential developments are not ‘sustainable’ due to added road traffic; to this extent LAs have used the requirement for prior approval to block agricultural-to-residential conversions (Goodall, 2017).
- There may be systematic and cumulative impacts that are not immediately apparent (Prior and Raemakers, 2006) but mean that PD rights would diminish the ability of the local government to promote long-term economic development through planning adequate provision of office space (Fulcher, 2011).
These debates highlight the need for more evidence about the extent, usage and implications of new PD rights. In response to this need, two research projects funded by the RICS Research Trust were carried out in parallel looking at PD from different perspectives.

### 1.1 The extent and costs and benefits of permitted development

The first project, carried out by the University of Sheffield, sought to analyse the exercise of PD rights in England since 2010 across all categories and quantify the financial costs and benefits of permitted development for LAs. The research objectives were:

- to identify the main extensions to PD rights since 2000
- to define the main financial differences between PD and development requiring formal planning permission
- to assess the scale of PD activity in England between 2010 and 2017
- to estimate the direct costs and benefits arising from the exercise of extended PD rights.

The findings from this research are highlighted in chapters 3 – 5 of this report. The full results of this research project have been published by the RICS alongside this Insights report (Bibby et al, 2018).

### 1.2 Extending permitted development to office-to-residential change of use

The second project, carried out by University College London, focussed more specifically on the office-to-residential PD which was introduced in May 2013. A case study approach looked both at the scale of the local authority (Camden, Croydon, Leeds, Leicester and Reading – all local authorities with high rates of PD schemes) and, within those five authorities, at the scale of individual office-to-residential building schemes, with an aim of considering the:

- Financial implications for local authorities (for example potential loss of planning fees, differential between business rates and council tax, loss of planning gain).
- Planning implications (for example potential loss of ability to manage change of use and associated externalities or the location of new housing development).
- Implications for communities (for example potential loss of employment, loss of affordable housing provision, and concerns over the quality of housing provided, for example, space standards, amenity, supporting infrastructure).

It also considered potential alternative governance approaches through comparison with planning approaches beyond England. In doing so, it intended to test some of the assumptions and claims made by central government when introducing the policy.

The full results of this research project have also been published by the RICS alongside this Insights report (Clifford et al, 2018). This Insights report (chapters 6 and 7) aims to give an overview of the key findings from both projects with an overall objective of providing a broad range of evidence concerning the implications of extending PD in England.

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4 It is important to note that not all costs and benefits arising from development that is PD can be attributed to the existence of such rights; it is not possible to assume that the planning authority would have turned down a planning application even if formal planning permission was required. In addition, as highlighted by Goodall (2011) some public costs associated with new residential development, for example, new schools, are due to demographic change rather than new homes per se.
2.0 The extension of permitted development rights

The use of PD is not a new issue in planning; in England exemptions existed in the 1947 act for sectors such as agriculture. These exemptions have been adjusted frequently, with new statutes in every decade between 1940 and 2000. In recent years PD rights have been extended several times, with major changes in 2005, 2008, 2010 and practically every year since then. In early 2017 the government began consulting on further extensions to agricultural PD rights (Smith, 2014). Figure 1 and Table 1 below illustrate some of the key changes since 2000.

Key developments in the law relating to permitted development include:

- **PD rights for householders**: these include the right to make alterations to their homes such as extensions, loft conversions and the construction of residential annexes. Following a series of amendments, it is now possible to construct very large extensions (up to 8m beyond the rear wall of a house) without planning permission.

- **Change of use (between the different use classes into which buildings are categorised)**: in 2013 the Government relaxed restrictions on change of use and allowed offices to be converted to residential use, subject to the prior approval process. This has attracted significant opposition from LAs, which have attempted to gain exemptions and block the new PD rights once implemented. However, government has blocked a number of these ‘Article 4 Directions’. A strong signal was sent by DCLG to local government when the Secretary of State cancelled the Article 4 Direction prepared by Islington Council and insisted on amendments to reduce the scope of that prepared by Brighton and Hove Council (Local Government Lawyer, 2014; Brighton and Hove City Council, 2014).

- **Prior approval**: some developments require ‘prior approval’ before they can be undertaken. This includes office-to-residential conversions. Under prior approval the planning authority must review the application before providing consent, but can only review the application in regard to a limited number of matters. According to Goodall (2016) it is perceived to be a ‘light touch’ planning process.

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5 Article 4 of the GPDO has the effect of preventing development being carried out over a specified area or site in question unless planning permission is obtained. In other words, it removes PD rights. Article 4 directions are made by the relevant local planning authority and must have a clear justification for removing national PD rights and are subject to modification or cancellation by the Secretary of the State if they do not. There is also evidence that this process is regarded by LAs as burdensome. This is for several reasons, including the need for LAs to compensate developers unless the Article is introduced with a one-year delay and the fact that government retains the right to modify or even cancel the Direction (London Councils, 2015).
Office-to-residential PD: past research has charted the rate of use of the new rights, the potential loss of office space and impact on local office markets and businesses and concerns about the potential loss of affordable housing resulting from the deregulation (e.g. BCO, 2015; EGI, 2015; BCO, 2017; GLA, 2017). These previous studies have tended, however, to involve desk-based quantitative analysis of secondary data drawing on DCLG and local authorities’ statistics and submitted proposals only.

Agricultural to residential changes: prior to redevelopment it is necessary to apply for prior approval and many LAs have used this requirement to block developments, often on the grounds of ‘sustainability of location’, referring to an inability for new developments to be served by public transport. However, the government published revised Planning Policy Guidance in 2015 to prevent these rejections (Goodall, 2017).

PD rights for industrial and commercial property: amendments in made in 2010 and 2013 have allowed for major extensions, changes of use between different types of non-residential use and for the construction of new industrial and commercial buildings on their sites.

Planning Permission in Principle (PPIP), Local Development Order and Neighbourhood Development Order (LDO & NDO) are other policy instruments which have reduced local government’s control of development. These give de facto planning permission to developments identified in documents such as brownfield registers, development plans and neighbourhood plans.

The changes to the planning system wrought by these extensions to permitted development rights will result in costs and benefits for LAs and impacts for local communities. Both research reports were concerned to understand these more thoroughly. The next chapter identifies the direct financial costs and benefits to LAs arising from the exercise of PD rights and the categories of PD to which they apply.

### Table 1: Extension of PD rights 2010-2017

<table>
<thead>
<tr>
<th>PD Category</th>
<th>Development possibilities 2000</th>
<th>Development possibilities 2017</th>
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<tbody>
<tr>
<td>Householder Permitted Development Rights</td>
<td>Small extensions without planning permission</td>
<td>Increase in scale of extensions, new PD rights for loft conversions &amp; construction of residential annexes</td>
</tr>
<tr>
<td>Shops [A1], Professional and Financial Services [A2], Casinos &amp; Amusements [SG] &amp; Betting and Pay Day Loan Shops [SG]</td>
<td>No change without planning permission</td>
<td>Conversion to Residential [C3] up to 150m²</td>
</tr>
<tr>
<td>Offices [B1]</td>
<td>No change without planning permission</td>
<td>Conversion to Residential [C3]</td>
</tr>
<tr>
<td>Agricultural Buildings</td>
<td>No change without planning permission</td>
<td>Conversion to Residential [C3] up to 450m²</td>
</tr>
<tr>
<td>Industrial and Commercial: extensions, changes of use and on-site construction</td>
<td>Small extensions without planning permission</td>
<td>Increase in scale of extensions, new PD rights for change of use and on-site construction of industrial and commercial buildings</td>
</tr>
<tr>
<td>Local Development Orders and Neighbourhood Development Orders</td>
<td>No change without planning permission</td>
<td>Residential development on land designated by LA (at behest of local/parish councils in case of NDOs)</td>
</tr>
</tbody>
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3.0 Financial differences between permitted development and planning permission

3.1 Approach

This chapter identifies the direct financial differences for the public sector between a development being pursued under PD rights and one that has been granted full planning permission. The approach adopted was to compare these two scenarios as they apply to identical schemes. Four differences were identified. These are:

- affordable housing contributions under S.106 agreements
- planning application fees
- the Community Infrastructure Levy (CIL)
- planning officer time.

The potential impact on infrastructure funding and property taxes is also briefly considered. These costs and benefits do not apply equally across the various types of development permissible under PD rights. The categories to which they do apply are indicated in Table 2 and discussed briefly below. The key categories of PD rights discussed here are:

- large extensions, residential annexes and other alterations to existing houses
- conversion of commercial buildings including offices to residential use
- the conversion of agricultural buildings to residential use
- changes between different industrial and commercial uses, the extension of industrial and commercial buildings and the construction of new buildings on their sites
- new residential units under the LDO and NDO systems.

3.2 Results

In the case of infrastructure, providers are often third parties or privatized utilities (e.g. water or energy companies) and for these kinds of contracts, there is generally no requirement to involve the LA. There may be impacts on publicly provided infrastructure in some areas where there has been a large quantity of new housing delivered (see chapter 6), however these are highly variable between authorities and dependent upon thresholds of provision being exceeded, so these could not be considered in this national scale modelling exercise.

The case of property taxes is similar in that business rates and local property taxes are charged on the rental and capital values of the subject properties. The form of planning permission under which these developments were approved has no effect on this.

The first and potentially the most significant financial difference between PD rights and planning permission relates to affordable housing contributions. The extension of PD rights affects the ability of local planning authorities to impose planning obligations on developers (under Section 106 of the Town and Country Planning Act 1990). This is because where a development is conducted under permitted development there is usually no requirement for the developer to enter into a S.106 agreement with the local authority. This contrasts with the formal planning application process, where LAs can impose obligations upon developers to make developments more acceptable in planning terms (for example, by providing public open space or community facilities where these are lacking).
The loss of affordable housing contributions only applies in the case of (B1) office to residential PD rights as these are the only category of PD rights exempt from planning obligations that could potentially involve the creation of more than ten units (PPIPs, LDOs & NDOs could result in more than ten units but it is also technically possible to attach planning obligations). According to London Councils (2015), prior approval has been granted for 7,000 new dwellings in schemes of 10 units or more in London. If these had been approved through the planning system, they would have produced as many as 1,000 new affordable homes or equivalent S.106 contributions (ibid.).

In addition to affordable housing contributions, there is a second category of S.106 agreements which are intended to allow LAs to impose tariffs to fund new infrastructure or services. However, this has been largely superseded by the CIL (introduced in 2010, see below) and at the national scale, it is unlikely that there will be a significant loss of revenue from this type of planning obligation. The remaining charges are also highly variant between each authority (see chapter 6) and so were again not possible to model at the national level.

The second major financial cost to LAs as a result of PD rights is a loss of planning application fees, which are not typically payable when PD rights exist. In cases where there is a requirement to obtain prior approval, there is a reduced fee. The scale of the loss to LAs varies significantly between different categories of PD rights. It is relatively small in the case of householder PD rights (reduced from £172 to zero), whereas it is much more significant in the case of office-to-residential changes of use. If formal planning permission were required, there would be a £385 fee for every residential unit created (up to a maximum of £250,000), resulting in a potential loss for LAs of between £213 and £305 per residential unit. The reduction in planning application fees is evidently a significant private benefit. For estimates of the savings for developers see DCLG (2013) and de Waal and Amesbury (2011).

The third potential cost to the public sector due to the impact of PD rights is regarding the Community Infrastructure Levy (CIL). The CIL was introduced in 2010 to replace the system of negotiated S.106 Agreements with locally determined fixed charges.

### Table 2: Public sector financial costs and benefits due to PD rights

<table>
<thead>
<tr>
<th>Category of PD Rights</th>
<th>Loss of planning application fees</th>
<th>Loss of CIL</th>
<th>Loss of affordable housing contributions</th>
<th>Benefit due to officer time savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Householder PD rights</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Changes of use from commercial to residential</td>
<td>Yes</td>
<td>Depends on LA charging policy</td>
<td>Yes [if scheme is above relevant threshold of units]</td>
<td>Yes</td>
</tr>
<tr>
<td>Changes of use from agricultural to residential</td>
<td>Yes</td>
<td>Depends on LA charging policy</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Industrial and commercial buildings: changes of use, extensions and on-site construction</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>PPIPs, LDOs &amp; NDOs</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>
per m² of development. CIL is charged on developments that create new buildings or extend existing ones. It can also be charged where buildings are being converted to a new use. Most types of development involving the exercise of PD rights are treated in the same manner for the purposes of CIL as those that require formal planning permission. The law relating to CIL is complex and there are conflicting interpretations that have resulted in some LPAs exempting PD from CIL. However, overall it is likely that there will be no significant losses of CIL revenue for LAs as a result of PD rights per se.

Finally, the review has identified one potential financial benefit for the public sector, which is a reduction in planning officer time expended on dealing with planning applications. This is typically referenced as one of the major benefits of the extension of PD rights (Lichfield & Partners, 2003). According to the Planning Advisory Service (2015), planning officers spend a relatively limited amount of time dealing with matters related to PD. However, there is also contradictory evidence indicating that PD does not necessarily translate into significant savings in terms of staff time. Lichfield & Partners (2003) note that one LA claimed it had over 1,000 enquiries a year seeking clarification or written confirmation that PD rights apply to specific proposals. In addition, if a development requires prior approval and the local planning authority believes it could result in a ‘material increase or a material change in the character of traffic in the vicinity of the site’ then it must consult the relevant statutory consultees (Cameron, 2013), leading to a workload effectively equal to determining a full planning application. The methodology for estimating the financial benefits associated with planning officer time is given in chapter 5.

### 3.3 Conclusions

This chapter has outlined the financial differences between PD and formal planning permission. As previously stated, the objective was to compare one scenario where development proceeded under PD rights with another scenario where the same development followed a grant of formal planning permission. The major financial differences arise from a loss of planning application fees and affordable housing contributions. In principle, the extension of PD rights should have no effect on CIL revenue although LPAs’ charging policies may vary. The categories of development under PD to which these costs apply are illustrated in Table 2.

Not all of the categories of PD rights have been included in the cost benefit analysis outlined in the following chapters. Those that are excluded are householder PD rights, due to the difficulty of estimating the amount of development under them, and the LDO and NDO systems because evidence of uptake of these planning mechanisms is very limited.

---

6 During the course of this research it was found that different LAs have different CIL charging policies for vacant buildings under development. Some LAs chose to exempt developments involving vacant buildings from CIL because, in their view, this was necessary due to the existence of PD rights. Other LAs levy CIL because they treat PD as a grant of planning permission. These differing approaches apply in the cases both of vacant agricultural buildings and of vacant office buildings that are converted to residential use. It is notable, however, that for office-to-residential conversions, almost none of the case study conversions examined as part of this research (see chapter 6) had paid any CIL, because the affected buildings had been at least partially occupied by a lawful use for at least six months over the three years preceding conversion. Schemes permitted either via PD or via full planning permission would benefit from not paying CIL in these circumstances, so it is not a PD specific issue, but it was a notable feature of the case studies.
4.0 Assessing the scale of development realised under permitted development

4.1 Introduction

This chapter presents estimates of the scale of development that were realised between the introduction of the extended rights (in May 2013 for B1/C3 and industrial and commercial PD; and April 2014 for agricultural building to residential PD) and 2017 in England. The chapter also estimates the scale of permitted development that could potentially have been realised through the exercise of PD rights between 2010 and 2017. These data were then input into the Cost-Benefit Analysis which is described in chapter 5.

The detailed methodology is described in Bibby et al. (2018). The most important limitation of this analysis was that householder PD rights, the most familiar category of PD, were excluded. This is because estimation would not be feasible at the national level. In addition, assessing the scale of development possible under PD rights is subject to error; there are no substantial previous studies to guide the analysis and there is a lack of reliable statistical data sources on the exercise of PD rights.

The categories of PD considered here are:

- the conversion of commercial buildings, including offices, to residential use
- the conversion of agricultural buildings to residential use
- the development of industrial and commercial buildings and sites, including changes of use, extensions and onsite construction.

The results are summarized in Table 3.

### Table 3: Estimates of actual (2013/14-2017) and potential (2010-2017) scale of PD realised in England

<table>
<thead>
<tr>
<th>Region</th>
<th>Commercial to residential</th>
<th>Agricultural building to residential</th>
<th>Industrial and commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Large developments incl. student</td>
<td>Large developments excl. student</td>
<td>Small developments</td>
</tr>
<tr>
<td>East</td>
<td>2105</td>
<td>1618</td>
<td>2105</td>
</tr>
<tr>
<td>East Midlands</td>
<td>2607</td>
<td>2022</td>
<td>0</td>
</tr>
<tr>
<td>London</td>
<td>3836</td>
<td>2907</td>
<td>3057</td>
</tr>
<tr>
<td>North East</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>North West</td>
<td>1934</td>
<td>1484</td>
<td>1288</td>
</tr>
<tr>
<td>South East</td>
<td>1172</td>
<td>901</td>
<td>1172</td>
</tr>
<tr>
<td>South West</td>
<td>1139</td>
<td>785</td>
<td>242</td>
</tr>
<tr>
<td>West Midlands</td>
<td>1569</td>
<td>1108</td>
<td>1142</td>
</tr>
<tr>
<td>Yorkshire &amp; Humber</td>
<td>1552</td>
<td>1269</td>
<td>0</td>
</tr>
<tr>
<td>England</td>
<td>16305*</td>
<td>12094</td>
<td>7925*</td>
</tr>
</tbody>
</table>

*Divergence of national estimate of large scale B1 to C3 change from sum of regional totals results from sampling error in estimation of contribution of conversion relative to demolition and rebuild.

In order to avoid the attribution of spurious precision to the detailed figures relating to the exercise of PD rights presented in Table 3, we stress that such data have significant margins of error and that they are simply our best estimates.
4.2 Changes of use from office to residential

Table 3 shows separate estimates of numbers of dwelling units created through changes of use from B1 to C3, for large and small schemes. Large schemes involve ‘locally significant change’; that is, schemes that necessitate the creation of new unit (i.e. full) postcodes. The large schemes category includes the conversion of office blocks to some form of residential use. When student accommodation is included, an estimated 16,000 new units have been created through conversion of B1 buildings, whereas when student accommodation (even self-contained flats) is excluded, this estimate falls to 8,000.

Although much attention has focused on larger schemes, it is also important to assess the scale of more dispersed conversions of individual office and business units to residential use. This is captured in the second category (in Table 3) of smaller developments involving change of use from B1 to residential. Table 3 shows that a total of 47,044 units have been created through small-scale developments involving conversion from B1 to residential use.

Overall, the conversion of B1 to C3, in large and small schemes, is estimated to account for 55,000 dwellings (over eight full years) or rather less than 4% of the entire growth of England’s residential stock. Large-scale conversion schemes are overwhelmingly concentrated near the cores of major urban areas, in particular in London and the South East (when discounting student accommodation).

The areas of locally significant change which have been identified are the most striking visible indication of what is termed ‘studentification’ and a broader tendency for non-residential uses of property to be relinquished in favour of residential use. Government has facilitated these processes through the liberalisation of the PD regime and through the release of government office property. In aggregate, a rather larger volume of B1 to residential conversion has occurred in small rather than large schemes. Small schemes have been broadly distributed (largely in locations with relatively low property values) through cities and towns without any marked regional patterning.

4.3 Changes of use from agricultural to residential

The liberalisation of the PD system has followed and extended a shift in policy from one which deliberately sought to secure non-residential uses for agricultural conversions, to one which far more readily accommodates domestic use. In the order of 32,000 additional dwelling units are estimated to have been created in England between 2010-2017 through changes of use from agricultural to residential use that are now permissible under PD rights. This is consistent with previous research on the period between 2001 and 2011, which highlighted the small contribution of new construction to the number of additional dwellings in areas of dispersed settlement (Bibby, 2018).

In terms of geographical distribution, there is a concentration of agricultural to residential conversions in the South West that reflects the significance of historically dispersed settlement patterns. It appears that more liberal PD rights facilitate the continuing trend of converting agricultural buildings that runs alongside a very long term agricultural decline and the emergence of localities given over to retirement and holiday accommodation (see Bibby, 2014).
4.4. Industrial and commercial: changes of use, extension and onsite construction

In this study it is only possible to begin to explore the volume of development occurring as permitted change between industrial and commercial uses or through small scale building operations on industrial and commercial premises. Table 3 provides the estimated area of floorspace added to existing commercial and industrial buildings and sites, whether through extensions, new build onsite or through change of use. An estimated total of 14,138,000m² of floorspace was created in England in the period 2010-2017.

Industrial and commercial PD is concentrated in areas with the greatest endowments of business property. This is unsurprising. In only a very few locations has occupiers’ ability to expand using PD rights made a substantial contribution to a net increase in floorspace. On the contrary, absolute volumes of PD are very modest in locations where they contribute to a net increase in commercial floorspace. PD thus appears to accommodate new uses in a context of static aggregate industrial and commercial floorspace. Moreover, the stock of industrial and commercial floorspace is generally declining in those areas where the gross additional floorspace secured through PD rights is particularly large. The clearest examples are places such as Bristol, Leicester, West Yorkshire and the West Midlands conurbation.

4.5 Conclusions

This chapter has estimated the order of magnitude of various categories of development that might be undertaken with the benefit of PD rights (excluding development under householder PD rights). Generally, it is difficult to form authoritative estimates of the quantities of development falling into the various categories, particularly due to the difficulties of distinguishing between developments involving new construction and those which involve changes of use. These caveats aside, it appears that the extension of PD rights evidently also serves to facilitate the conversion of office blocks to residential accommodation. The extension of PD rights facilitates long term trends such as:

- the gradual decline of the stock of business property, alongside the expansion of the dwelling stock
- the conversion and subdivision of agricultural buildings to create new dwellings and holiday accommodation.
5.0 Estimating the direct costs and benefits of permitted development

5.1 Cost benefit analysis

The objective of this chapter is to focus solely on financial impacts; the qualitative impacts of PD are discussed in subsequent chapters. This chapter builds on the estimates of development activity given in chapter 4 and incorporates them into the cost benefit analysis (CBA). For the purposes of the CBA the ‘baseline’ is an estimate of the costs and benefits of the estimated development activity if it had proceeded under full planning permission. These costs and benefits arising from PD rights examined in this chapter are:

- Financial savings through a reduction in staff time spent dealing with planning applications.
- A reduction in planning application fees received from developers.
- A loss of affordable housing contributions (either through direct financial payments to LAs or through in-kind obligations).

The most significant extensions to PD rights were made in 2013 and 2014. Consequently, we estimated the financial impact of the new PD rights through two scenarios. In Scenario 1, it was assumed that the PD rights currently extant applied to all qualifying development that occurred between 2010 and 2017. This gives an indication of the potential impact of the new PD rights over the medium term. In Scenario 2 an estimate was made of the actual financial impact of the extension of PD rights by considering only the qualifying development that occurred from the relevant dates. For further details of the methodology of the CBA see Bibby et al. (2018).

5.2 Results

In terms of planning officer time, a comprehensive 2015 report by the Planning Advisory Service (PAS, 2015) provided data on the average expenditure by LAs in England on planning staff and how many hours they spend on planning applications. Because officers still need to undertake some form of consultation as part of the prior approval process, savings of officer time are limited. In this research, it was assumed that prior approvals lead to a 10-20% reduction in officer time (authors’ judgement based on interpretation of Planning Advisory Service, 2015). As shown in Table 4, this gives two separate upper and lower estimates of national public sector benefits over the period 2010-2017 (although these figures must be treated with caution).

Planning application fees are set by the Secretary of State under Section 303 of the Town and Country Planning Act 1990 (DCLG 2008b). Despite the fact that fees have been increased since their introduction, researchers have argued that LAs are failing to recover the costs of determining chargeable applications from the fees (DCLG 2010). As is shown in Table 4, the actual loss of planning fees due to the changes in PD that occurred between 2013 and 2017 is estimated at approximately £22.1m. The majority of the lost fees (around £11.7m) arise from small and large office to residential conversions, reflecting the concerns raised within the literature on PD rights. A further £4.5m in fees is lost through agricultural building to residential conversions, and £5.8m is lost through changes of use between different industrial and commercial uses.

The provision of affordable housing is the single largest component of the value of agreed planning obligations and, as such, the main area of concern for developments proceeding under PD. In 2017 the threshold above which developments were required to include an element of affordable housing was 10 units or 1,000m² gross floorspace. The figures in the CBA come from previous academic studies which have used secondary data and case studies to estimate the value and scale of such contributions (Crook et al., 2006; Crook et al., 2008; Crook et al., 2010). Nationally, these studies estimate the average value of an affordable housing unit in 2007/08 to be £54,302. This was used as a lower estimate in the CBA. An alternative upper estimate is provided by the University of Reading and Three Dragons’ report (2014) covering 2011/12. The figures suggest an average value per affordable unit of £70,769. This figure is substantially higher than the lower estimate stated (especially given the intervening recession). However, this could be because the majority of units were built within London and the South East in 2011/12, where there has either been an increase in prices or a less pronounced reduction than elsewhere.

The extent of affordable housing provision varies widely across the country. Some LAs impose strict guidelines requiring a certain percentage of homes to be provided, whereas others do not, making it difficult to compare LAs and regions. Given this issue, we have assumed that each development would be subject to a 10% affordable housing requirement. The estimates of the value of the actual loss of affordable housing units ranges from around £36.6m (at the lower end) to £48.2m (at the higher end). If the changes in PD rights occurred in 2010, then the potential loss could have been between £50.4m to £66.5m.
5.3 Conclusions

The results of the final CBA for Scenario 1 and Scenario 2 are given in Table 4. They suggest that the major financial issue with PD rights is the loss in affordable housing contributions. LAs across England have been deprived of affordable housing contributions of between £36m (lower estimate) and £48m (higher estimate) between 2013 and 2017 (Scenario 2; actual losses). These are aggregate figures relating to the five years since the restrictions covering office to residential conversions were relaxed in 2013. Indeed, the values vary widely from around £4m in 2013 to around £15m in 2016 (central estimates).

Under Scenario 2 (actual losses), LAs have also missed out on planning fees of around £22m since 2013 with an average annual shortfall of £5m since 2014. From these figures it is clear that the benefits arising from savings in staffing costs within planning departments are not enough to offset the loss of fees. This conclusion reflects one concern from the Planning Advisory Service, which states that ‘anecdotal evidence suggests that some of the recent changes to permitted development and prior approvals have made the funding position worse in subsequent years’ (Planning Advisory Service 2015:18).

The cost benefit analysis adopted within this study was very restricted; by necessity, it focused on the direct financial costs and benefits to LPAs associated with PD rights. It did not examine any qualitative issues raised by the extension of PD rights, such as the size and quality of new dwellings produced by office to residential conversions, or the loss of control experienced by local authorities. LPAs may now struggle to direct where and when various forms of residential development may occur. These issues are clearly important and were considered further in the in-depth case study research, which is described in the next chapter.

### Table 4: Results of the cost benefit analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Scenario 1 (potential) 2010 to 2017</th>
<th>Total Scenario 2 (actual) 2013/14 to 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning fees</td>
<td>-£37.29m</td>
<td>-£22.06m</td>
</tr>
<tr>
<td>Affordable housing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper estimate</td>
<td>-£66.50m</td>
<td>-£48.29m</td>
</tr>
<tr>
<td>Central estimate</td>
<td>-£58.46m</td>
<td>-£42.45m</td>
</tr>
<tr>
<td>Lower estimate</td>
<td>-£50.43m</td>
<td>-£36.62m</td>
</tr>
<tr>
<td>Officer time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper estimate</td>
<td>£41.02m</td>
<td>£18.84m</td>
</tr>
<tr>
<td>Central estimate</td>
<td>£30.76m</td>
<td>£14.13m</td>
</tr>
<tr>
<td>Lower estimate</td>
<td>£18.33m</td>
<td>£9.42m</td>
</tr>
<tr>
<td>Final values</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper estimate</td>
<td>-£62.77m</td>
<td>-£51.51m</td>
</tr>
<tr>
<td>Central estimate</td>
<td>-£65.00m</td>
<td>-£50.38m</td>
</tr>
<tr>
<td>Lower estimate</td>
<td>-£69.40m</td>
<td>-£49.26m</td>
</tr>
</tbody>
</table>
6.0 Case studies of office-to-residential permitted development in England

The in-depth qualitative research focussed on office-to-residential PD in order to consider whether enhanced freedom to change the use of property threatens the development of sustainable communities through the loss of public revenue and unwelcome externalities. The key issues to consider were the financial implications for LAs, the planning implications, and the broader implications for communities from office-to-residential change of use becoming ‘permitted development’ (PD) with reduced scrutiny and control by LAs, in particular issues relating to housing quality.

The methodology adopted is discussed further in Clifford et al (2018), but in brief this was as follows:

- Different LAs were selected across England which have seen high rates of use of this PD (but each have quite different built environment and socio-economic characteristics): Camden, Croydon, Leeds, Leicester and Reading. Glasgow was also selected as a comparator authority from Scotland, where change of use is not PD and still requires full planning permission. The same methodology was applied to this case study as for the English case studies (as well as looking via a different approach at a case study in Rotterdam).

- Site visits were conducted to 568 of these buildings to look at scheme implementation, conversion quality, and amenity. A range of statistical data was collated and analysed. Interviews were also conducted with a range of stakeholders connected to these locations about their views on office-to-residential PD (30 interviews in total).

- Detailed research, including interviews, into a smaller group of 45 individual buildings across these case study authorities (for details see Clifford et al, 2018).
6.1 Case studies overview

High rates of prior notification were found for office-to-residential conversion in all authorities, far more than predicted by DCLG when introducing the policy. There were 487 approved schemes which would produce 8,057 housing units, if all were implemented across the five English authorities studied in the first four years of PD. Implementation rates varied, but overall, 69% of the approved schemes were completed or are under construction (Table 5).

Table 5: Contrasting office-to-residential conversions through prior notification in case study authorities with conversions through full planning permission in Glasgow

<table>
<thead>
<tr>
<th></th>
<th>Prior approvals</th>
<th>Full planning application</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Camden</td>
</tr>
<tr>
<td>Notifications 2013–17 (schemes and units)</td>
<td>249</td>
<td>263</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2354</td>
</tr>
<tr>
<td>Refusals</td>
<td>35</td>
<td>39</td>
</tr>
<tr>
<td>Withdrawals</td>
<td>59</td>
<td>28</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td>Granted</td>
<td>155</td>
<td>176</td>
</tr>
<tr>
<td>Duplicates (from granted)</td>
<td>42</td>
<td>57</td>
</tr>
<tr>
<td>Net approvals (schemes and units)</td>
<td>110</td>
<td>119</td>
</tr>
<tr>
<td></td>
<td></td>
<td>832</td>
</tr>
<tr>
<td>Number of approvals for fewer than 10 units</td>
<td>107</td>
<td>96</td>
</tr>
<tr>
<td>Mean average size of approved schemes (units)</td>
<td>9</td>
<td>30</td>
</tr>
<tr>
<td>Median average size of approved schemes (units)</td>
<td>4</td>
<td>7.5</td>
</tr>
<tr>
<td>Implemented (schemes and units)</td>
<td>76</td>
<td>89</td>
</tr>
<tr>
<td></td>
<td></td>
<td>605</td>
</tr>
<tr>
<td>Implemented schemes (% of net approvals)</td>
<td>69%</td>
<td>75%</td>
</tr>
<tr>
<td>Implemented schemes (% of notifications)</td>
<td>31%</td>
<td>34%</td>
</tr>
</tbody>
</table>

a The sum of refusals, withdrawals, others and granted unless noted
b Data provided by the LPA for units excludes refusals and withdrawals but includes duplicates
c Different LPAs register application status differently. In Croydon, categories other than ‘refused’ or ‘withdrawn’ include e.g. ‘application invalid’, ‘application not determined’, etc. In Camden it includes ‘prior notifications not required’. In Reading it includes ‘undetermined’. In Leicester it includes ‘not valid’
d Number of implemented schemes and units out of the sample visited
e Implemented over the sample visited
6.2 Camden

The primary concern of stakeholders interviewed in relation to Camden was of the local economic impacts from reducing the supply of workspace. The view in Camden was overwhelmingly that PD rights are not facilitating the redevelopment of ‘vacant’ office buildings, but are instead fueling the conversion of occupied offices, as this is very profitable. There was also concern that the increase in rents due to the constrained supply of remaining office space would further drive out small creative businesses and that the resultant loss of employees will undermine the viability of shops and services in local high streets. There was also anecdotal evidence from the Camden Business Improvement District (BID) that occupiers have been approached by the owners to pay them off to leave early.

Maximizing housing supply was also high on the agenda among those interviewed, but there is a concern that the housing that is being delivered does not cater to local demand; it is not suitable or affordable to the borough’s residents: ‘I think you don’t have to look very far to see that what it’s produced is investment housing, not for living’ (Interview 14). Furthermore, there was a real concern over the quality of housing being produced.

Given the range of types of conversions under prior approval in Camden, seven prior approval case studies were examined. Details of these case studies can be found in Clifford et al (2018). Looking across the Camden PD case study schemes, we found that for 83 new units being created, 72% met national space standards but just 1% had access to amenity space. Eighty per cent of the units were studios or one-bedroom apartments, suggesting some issues over residential quality and mix.

As comparators, a range of office-to-residential schemes were also examined, which required planning permission in Camden: the conversion of Park Tower and 22 Tower Street (totalling 75 units). All of the units created met national space standards and the majority had access to amenity space. Forty-four per cent of the units were studios or one-bedroom apartments. This suggests a higher residential quality and better mix compared to demand. Camden was able to secure S.106 contributions of £844,885 and £626,297 respectively from these developments towards education, highways improvements and open space.

Looking at all prior approvals received over the first four years of PDR, the study calculates that Camden lost £665,853 in planning application fees. In the area outside the central activity zone (CAZ – granted government from PD) it is estimated that there has been a potential loss of 333 affordable housing units from PDR approved schemes. For S.106 contributions, there has been a minimum loss of £9,012,825 reflecting the loss of employment land and open space provision related contributions which would have been sought, had these PDR schemes required planning permission (and for which a suggested charging calculator is published by the Council to apply across the borough) (Camden Council, 2015).

6.3 Croydon

The response to PD from stakeholders in Croydon was very mixed. Developers and their agents highlighted the better profitability and so viability of PD schemes and felt it really had helped deliver additional housing and had regenerated Croydon through sustainably reusing redundant office space. In contrast, local planners, councillors and business interests were concerned about the quality of many of the residential schemes being delivered and the impacts on local infrastructure. There was also concern among those interviewed about the threat PD posed to the viability of future office supply, particularly the planned regenerated office quarter around East Croydon. This regenerated office quarter is part of a strategy of ensuring a vibrant and mixed-use town centre rather than one which is purely residential.

Given the scale of PD activity in Croydon, ten case study developments were looked at in more detail. Although some of these had been converted at a high quality, in general there was very poor housing being provided. Residential quality issues were seen, not just with larger schemes where minimal modifications to the building had been changed to convert from office use (Figure 2), but also with some smaller schemes (Figure 3). Two residents of office-to-residential conversions in Croydon delivered through PD gave very negative accounts of their experience, one highlighting the poor maintenance of the building and attitude of the landlord (as well as commenting on the large number of children living in the block and lack of play space). The other commented on the lack of noise insulation from the pub below, and the poor accommodation attracting unwanted neighbours including, apparently, a brothel. The conclusion of this resident was pretty damning:

‘I’m speechless. How can this be allowed in a civilized country? It’s so wrong. The politicians who allowed this [PD] need to come and live here. It’s a total nightmare’.

In another example, one of the research team had to contact the local authority and Fire Brigade due to concerns raised on a site visit and enforcement action was subsequently taken against the landlord. Just 31% of the 1,085 units being created through the PD schemes examined in Croydon would meet national space standards. Just 14% of the units had access to private or communal amenity space. Seventy-five per cent of the units were studio or one-bedroom apartments. This may explain some of the overcrowding and quality of life issues which the residents interviewed told us about.
The S.106 payable varies between schemes and is dependent on negotiation and viability testing. However, looking at just the £100 per unit that Croydon Council seeks for air quality contributions from developments over 10 units (for which there is a suggested standard charge rate, as opposed to many other more variable elements of S.106 which might be sought), suggests that the council has lost out on £159,000 of contributions. This excludes the other variable contributions that the council would have sought, including contributions towards employment and training (£2,500 per £1m of capital construction costs), carbon off-setting (£60/tonne CO₂ calculated over 30 years for projects which are not carbon neutral), car clubs and travel plans (Croydon Council, 2017). Even allowing for viability testing, given the scale of the proposed schemes, these contributions would amount to several millions of pounds. An older larger 184 unit office-to-residential scheme in Croydon predating PD had paid over £241,000 in planning gain.

There is also an affordable housing requirement. Croydon Council looks for 50% affordable housing (60% affordable rent to 40% intermediate rent within that) on schemes over 10 units. This means that schemes with prior approval in Croydon should deliver 795 affordable housing units (477 affordable rent and 318 intermediate rent). Looking at recent planning application cases, it is unlikely this would have completely survived viability testing, although 30% might have been achieved overall, or 477 units. Finally, had all the prior approvals been full planning applications, the fee income to the Council would have been £1,701,810 higher. Croydon Council have now successfully adopted an Article 4 Direction to limit PD in the town centre, although the council cannot recoup planning fees for those schemes which now require full planning permission as a result.

### 6.4 Leeds

The introduction of office-to-residential permitted development in Leeds has not been overly contentious compared to other locations studied. The availability of office floorspace coupled with a healthy office development market means that there is no real concern about the loss of office floorspace. Buildings were either vacant upon the prior approval, or businesses appear to have been easily relocated. There is a view among those interviewed that residential use (and student accommodation) in the city centre is a positive thing. In the city centre there have been two main players in conversions: YPP (providers of student accommodation, albeit technically each unit is a dwelling) and Mansion Suites (providers of short term rental apartments).
Little to no family housing is being provided. However, outside the city centre, the quality of conversions is more of a concern, most notably on peripheral industrial estates where conversions have resulted in some apartments with very low space standards and in locations providing poor residential amenity (Figure 4).

Six PD schemes were examined in more detail in Leeds. These included city centre buildings now in residential, student, and serviced apartment use. For the case study schemes, just 1% of the 310 new units being created by office-to-residential conversion under PD in Leeds had access to private or communal amenity space. Where it was possible to tell, only 43% complied with national space standards. Seventy per cent of the units were studio or one-bedroom apartments.

A comparator planning application, 14-28 The Calls was also examined, which (although a demolition and rebuild, rather than conversion scheme) illustrates the ability of the council to secure developer contributions in Leeds, with £43,260 provided for open space, environment and transport and 4 on-site affordable units (out of 77 units being developed). It also enjoys apparently higher residential quality, with most units having access to a private balcony and a communal courtyard area.

Comparing what contributions to the City Council would have been secured through prior approvals and planning applications, the calculated loss of fees, had all the prior approvals submitted required planning permission, would be £745,127. From the approved prior notification schemes, the potential loss of affordable housing could be 31 units and the loss of S.106 contributions could be at least £353,498 (based on the £562 per unit secured in the comparator planning application case).

6.5 Leicester

The views of the stakeholders interviewed in Leicester were mixed. In general, there was support for the principle of office-to-residential conversion in the city centre, but strong concerns about the quality of what was being delivered. There was a general feeling this could skew the market, making it less likely that higher quality residential development would happen. The case studies show that the concerns about quality are well grounded.

None of the prior approvals examined had any private or communal amenity space and most were below national space standards. There is also clear evidence that many completed schemes are being marketed primarily to students and so are not really contributing towards meeting local housing need.

Six case studies in Leicester were examined. Schemes had been undertaken in buildings that had been vacant for a number of years, whereas others involved the conversion of office space at least partially occupied by business into serviced apartments. In the case of 75 London Road, a planning application to turn it into a HMO had been refused by the city council in March 2015. The prior notification submitted in March 2015 is essentially identical to the refused application.

Figure 4: The exterior appearance of Whingate Mill on the site visit

Image source: Ben Clifford
Overall, of the PDR schemes examined in detail in Leicester, just 21% of the 105 new units being developed met the national space standards and none had access to any private or communal amenity space. Seventy-one per cent of the units were studio or one-bedroom apartments.

As well as the prior notification schemes, two schemes for office-to-residential conversion through full planning permission were also examined. 8 Buckminster Road included proposed changes to the external appearance of the building, an additional storey, and a large amount of amenity space as a roof terrace. The council were able to secure some planning gain (£13,499 for open space). Edward Buildings is a smaller scheme with notably generous space standards compared to many PD schemes (all 9 proposed units comfortably exceeding national space standards).

Looking at all prior approvals in Leicester, for potential planning gain, assuming a rate of £915 per unit (as paid in the 44 Abbey Street case, for a floor where planning permission was required for conversion) on all schemes of 15 units or more given prior approval in Leicester, missed planning contributions could amount to £1,165,710. For affordable housing, assuming this is 15% for schemes of 15 units or more (as per the Core Strategy requirement for the Strategic Regeneration Area), then, in theory, the schemes with prior approval in Leicester would have delivered 191 units (but subject to viability testing). Finally, if all prior notifications allowed and refused had required planning permission instead, the additional fee income to the City Council would have been £494,517.

6.6 Reading

Given the vitality of both the local office and residential markets, the viability of development in Reading is generally very high and PD has led to a marked loss of planning gain, particularly around affordable housing. According to those interviewed, PD seems to have made it more difficult for the local council to fulfil the aspirations expressed in the emerging local plan for affordable housing. As in other case studies, there are strong concerns among those interviewed about the residential quality of conversions, and whether they are really directly servicing the housing needs of the local population. Some schemes are now explicitly providing student housing, and others are heavily pushed towards the investor and private rented sector (PRS) markets.

Within Reading, four town centre examples of office-to-residential conversion under PD rights and one suburban example were also examined. Garrard House had planning permission for conversion to a hotel and café before PD was introduced and a prior notification was then submitted for the whole building to go to residential, which was being implemented at the time of the site visit. King’s Reach (Figure 5) was another building for sale at the time of the site visit. Due to the shape of the building, the apartments were awkwardly shaped and some had no natural light into the bedroom (instead there was an interior window through to the living room, which did have a window). The marketing for this property has been strongly targeted at the investor market (e.g. mentioning expected yields). St Giles House

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Figure 5: The exterior appearance of King’s Reach on the site visit

Image source: Ben Clifford
is a conversion to what are technically dwellinghouses, but have been explicitly marketed as ‘student accommodation’.

Overall, for the schemes examined in detail in Reading, 93% of the 250 new units being created in PDR schemes were studio or one bedroom apartments, showing a poor mix of residential provision compared to local needs. For the 178 units where it was possible to tell, none met national space standards, although 71% of the units did have access to communal amenity space provided as part of the development.

Hanover House was also examined as a planning permission comparator. The majority of the building was converted to residential use through PDR, but as the fourth floor was in educational rather than office use, a planning permission was required to convert this floor. As seen with other schemes, the floor requiring planning permission had larger units than the PD floors (all 14 meeting national space standards) and a better mix of apartment sizes (2 two-bedroom and 1 three-bedroom units provided).

Furthermore, the council was able to secure a substantial contribution of £202,637 towards affordable housing and employment and skills through S.106.

Comparing what contributions to the council would have been secured through prior approvals and planning applications. The loss of fees, had all the prior approvals submitted required planning permission, was calculated to be £510,810.

From the approved prior notification schemes, the potential loss of affordable housing could be 317 units (based on 10% provision for schemes of 1-14 units and 50% for 15 units plus), and of S.106 contributions at least £97,002 (based on a £153 per unit contribution towards employment and skills from a recent comparator planning application case, ignoring contributions towards affordable housing if not provided on site).

6.7 Conclusions

The overriding drive for the policy change around office-to-residential PDR was to deliver additional housing. It is not straightforward to quantify the exact amount of new housing actually delivered through PD. The analysis suggests that the net additional housing units data from DCLG records approvals rather than completed schemes. An implementation rate must be factored in, as well as cases where there are multiple applications for the same building. Much of the new housing found in the case studies was actually providing student accommodation and short-term lets. Nevertheless, it does seem that the policy has led to much greater rates of office-to-residential conversion than were seen before 2013.

The case studies suggest that the housing that is being delivered comes at a cost both financially and socially for sustainable community creation. Looking at individual authorities and developments rather than calculating aggregate figures across the whole of England suggests that in areas with a high volume of office-to-residential PD (like these case study authorities), there will be an impact on local infrastructure, beyond just that provided by private utilities. These include impacts on transport, community facilities, play space and green space (particularly given the lack of amenity space in most PD conversions). It is complex to quantify these costs, but taking a very low figure of costs per additional unit developed from the several studies examined (see Clifford et al, 2018 for further discussion), the burden on these five LAs alone is calculated to be £27.5 million. The schemes examined are making no S.106 contributions to offset this cost, and most were not liable for CIL payments because there was partial occupancy of the building before conversion.

LAs in the case studies considered are likely to have incurred losses of around £4.1 million in fees, due to the much lower cost of submitting a prior notification than a planning application.

Beyond financial considerations, there have clear qualitative impacts in the case studies resulting from office to residential conversions allowed under PD. There has been a negative impact on the ability of LAs to proactively plan for their communities, protect employment space where really needed (including for those who actually do need cheaper, secondary offices), and properly consider residential amenity and externalities.

The most dramatic impact noted as a result of the site visits to converted properties in the case studies was on the quality of residential housing. There were examples of extremely high quality conversions delivered through PD, but there were also some examples of very poor housing. A high proportion of the conversions providing housing did not meet national space standards, in many cases no amenity space had been provided, there were conversions with low quality design and the situation of conversions was sometimes in poor locations for residential amenity.
7.0 Comparator approaches to governing office to residential change of use in Scotland and the Netherlands

To better understand the implications of office-to-residential PD, some comparative research was undertaken. In Scotland, office-to-residential change of use still requires full planning permission (as planning is devolved) but the planning system is still very readily comparable to that in England. The same analysis of site visits were also conducted, looking at scheme quality and implementation as well as interviewing stakeholders about office-to-residential change of use in the city and their perceptions around deregulation.

International comparison was provided by a visit to the Netherlands, where local government officials were interviewed and some conversions were visited in Rotterdam. National government officials were also interviewed in The Hague. There is a high rate of office vacancy in the Netherlands and efforts to promote conversion to residential use, but under quite different governance arrangements.

7.1 Glasgow

With no PD rights existing for office-to-residential in Scotland, the issue has been lower on the agenda of stakeholders in Glasgow than other cities examined. Office-to-residential conversion does not seem to feature highly in visions for the future of the city. There has also been growing demand for office space in Glasgow and the residential development context is quite different from the South East of England, with a far less expansive private rented sector. There were, however, strong concerns among those interviewed about the impact that office-to-residential PD would have, particularly on housing quality.

Despite the need for full planning permission, there have still been 77 planning applications – totalling 564 units – for change of use from office-to-residential change of use in Glasgow over the four year period examined in this study, albeit many of these are at a much smaller scale. The implementation rate of those schemes also compares favourably with those seen in Leeds and Leicester.

Five office-to-residential schemes were considered in Glasgow. A number of the largest office-to-residential conversions in Glasgow have actually been for student accommodation8.

Although there have been fewer large office-to-residential schemes coming forward than in the English case study cities, the quality of those that have been proposed and delivered in Glasgow has generally been much higher. For example, on space standards, across the five case study schemes 135 out of 140 units (96%) would comply with the English national space standards and many units were dual aspect.

7.2 Rotterdam

The Netherlands have been known in recent years for having the highest rate of vacant office space in Europe, with nearly half of this having been vacant for more than three years; termed ‘structural’ vacancy (Remøy and van der Voortd, 2014). The Netherlands government nationally, and the Rotterdam city council locally, have both adopted a range of methods to try to reduce the vacant office stock, with a key focus being to encourage conversion to residential use. The approach has been less focussed on deregulation and more on the softer governance tools; sharing best practice, creating promotional toolkits, seeking to achieve consensus about the issues and working together with developers and property owners to find solutions to them.

Recognising the need to deal with office vacancy, central government has been actively trying to tackle the issue in recent years. This has included signing a covenant between central and local government, real estate and finance bodies in June 2012 to agree actions and the establishment of an ‘Expert Team’ to develop best practice. The government has also promoted the conversion of vacant office space to other uses, particularly residential. Promotional materials have included a brochure of 10 ‘pilot projects’ of successful conversions. A website was set-up to provide information on conversions (RVO, 2017), and a toolkit of advice developed on a range of topics from tax issues to building regulations, planning, energy, sustainability and noise was developed to show what is possible.

There have been some changes to building regulations to aid conversions, however these still enforce some basic standards, such as the requirement that an apartment must have a minimum ‘living space’ (living room / bedrooms) of 18m² in addition to a bathroom and ‘cooking area’ (which means in practice the smallest apartments will be about 35m²).

8 As student accommodation is considered separately to normal ‘dwellinghouses’ in the planning system in both England and Scotland (and not covered by the PD in England), this category of change of use was not included in this research. It is important, however, to acknowledge that there have been some very large schemes implemented in Glasgow in this category.
Official statistics show the population of England as 3.25 times that of the Netherlands (CBS, 2017; ONS, 2017). Comparing the figures from DCLG on change of use of buildings in England with population adjusted figures from the Netherlands shows that the Netherlands delivered 20.75% more units in 2014-15 (25,431 compared to 20,650). For 2015-16, the 30,600 units approved in England might be compared to the 26,309 units delivered in the Netherlands. Adjusting further for the implementation rate in England, the Netherlands has had a higher rate of office-to-residential conversion despite quite different policy approaches.

Local governments in the Netherlands have been required to produce spatial policy frameworks showing their desired mix of office types, land uses, and location of offices in their area and opportunities for alternative uses of vacant offices.

In Rotterdam, the appointment of a new Alderman responsible for planning following the 2014 local elections has provided local drive around the issue of office vacancy, with targets set for conversions of vacant office space to alternative uses. The municipality proactively approached owners of vacant buildings to discuss their potential for conversion. There is also a local project officer who acts as a dedicated point of contact for developers, trying to guide office conversions. Rotterdam is one of 11 Dutch municipalities to have such an appointment (RVO, 2017) and has also developed a range of advice and publicity materials around the issue (available online at Gemeente Rotterdam, 2017a).

The result was that by 1 January 2015, a total of 56,000m² of vacant office space had been converted to other uses, by 1 January 2016 81,000m², and by 1 January 2017 116,000m² (Gemeente Rotterdam, 2017b). In the initial period, these were more frequently conversions from office use to, for example, medical use and schools (the target being for conversion to any other productive use, not just housing). Increasingly however, the focus has become conversion to residential use, with 40,000m² converted into 600 apartments over the last year. Data show 1,210 residential units created from the conversion of vacant buildings (including but not limited to offices) in Rotterdam between 2012-2015 (CBS, 2016), which is similar to the figures for Croydon and Leicester (Table 5) but without the degree of deregulation seen in England.
Cities are being continually made and re-made as they adjust to the demands for accommodation that arise from socio-economic, technological and environmental change. The urban built environment is altered by various combinations of development, including change of use, renovation, alteration, extension, demolition and new construction. The decisions about what responses should be made lie with various actors in the property market. The private actor focuses on the specific costs and benefits of a development and generally acts more quickly and more flexibly than a public agency. Regulators consider the wider development costs and benefits and bring greater stability and strategy to the urban system, but are slower to act and increase the rigidity of that system. The debate over permitted development is rooted in the tension between these actors and their ways of acting.

In recent years there has been a significant extension of permitted development rights. It is now possible to pursue a wider range of developments without the need to obtain formal planning permission. While the categories of development involved relate mostly to schemes of a modest size, the main exception – and one that has given rise to considerable concern – is the larger scale conversions of business uses, including offices, to residential use.

**Quantitative review of PD across England**

The aggregate quantitative analysis indicates that the bulk of additional dwellings that result from the exercise of recently extended PD rights take the form of small scale conversions from business uses, including offices, to residential use, and from agricultural building use to residential use (see Table 6). These account for 47,044 and 31,696 dwelling units, respectively. In contrast, the large-scale conversions of business uses, especially offices, to residential use that are a key matter of concern to policymakers are less important as a source of new dwellings at the national level – particularly when the student accommodation element is excluded from consideration. Finally, the scale of PD occurring entirely within the B1 use class is relatively modest.

**Table 6: Estimate of the exercise of PD rights in England 2010-2017 and 2013/14-2017**

<table>
<thead>
<tr>
<th>Category of PD</th>
<th>Sub-type</th>
<th>Result (units or m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conversions from commercial to residential</td>
<td>Large developments including student accom.</td>
<td>16,305</td>
</tr>
<tr>
<td></td>
<td>Large developments excluding student accom.</td>
<td>7,295</td>
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<tr>
<td></td>
<td>Small developments</td>
<td>47,044</td>
</tr>
<tr>
<td>Conversions from agricultural building to residential</td>
<td>31,696</td>
<td></td>
</tr>
<tr>
<td>Industrial and commercial: change of use, extension and onsite construction</td>
<td>14,138,000m²</td>
<td>8,246,000m²</td>
</tr>
</tbody>
</table>
### Findings from the five local authority case studies

The in-depth, qualitative research found that from the five case study local authorities examined, LAs may have lost out on £10.8 million in planning gain and 1,667 affordable housing units from approved office-to-residential PDR schemes. In contrast, office-to-residential conversions are indicated to be highly profitable for developers. There are several examples of prior approval leading to large uplifts in sale prices apparent in the case studies (90% in one example, over less than a one year period). Office-to-residential PD seems to have been a fiscal giveaway from the state to private real estate interests.

The most dramatic impact of PD on conversions was on residential quality. There are examples of extremely high-quality conversions delivered through PD, but also some examples of very poor housing. The case studies indicate that office-to-residential conversions are less likely to have amenity space, and are much smaller: across the case studies (where it was possible to tell), 94% of units that came through planning permission met national space standards compared to just 30% of those units with prior approval under PD. These conversions have also provided fewer family units: among the PD schemes analysed, 77% were studios or one bed units compared to just 30% of those units with prior planning permission units. The research indicates that PD conversions cater to a very narrow segment of the residential market and do not deliver homes that meet local demand.

Interviews with residents revealed their concern regarding developments with large numbers of children living in them, that were overcrowded and had no play space on site or nearby. These developments were also exempt from making contributions to local authorities so that they can provide this. In one case, a resident described the difficult daily reality of living in a scheme above a pub, where there had been inadequate noise insulation. The research also identified some isolated conversions situated in the middle of industrial estates and conversions where there were serious concerns regarding lighting, safety, amenity and potentially pollution from neighbouring buildings.

The comparative case study in Glasgow, a more economically challenging environment for residential development than southern England, indicates that it is possible to implement higher quality housing schemes through office-to-residential change of use when full planning permission is still required. The study in Rotterdam indicates an alternative approach to converting un-used office stock, through a soft governance approach involving engaging, steering and sharing best practice has delivered homes whilst maintaining housing standards and converting genuinely vacant office space. Both comparative case studies indicate successful alternative approaches that have delivered more housing units through converting office space.

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### Table 7: The costs and benefits arising from the extension of PD rights (2013/14-2017)

<table>
<thead>
<tr>
<th>Cost category</th>
<th>Values</th>
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<tbody>
<tr>
<td>Affordable housing</td>
<td>-£42.45m</td>
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<td>Planning fees</td>
<td>-£22.06m</td>
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<tr>
<td>Officer time</td>
<td>£14.13m</td>
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<tr>
<td>Final values</td>
<td>-£50.38m</td>
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</tbody>
</table>

It is, however, the same large schemes of conversion from business use (B1) to residential use (C3) that account for the largest element of the direct financial costs of PD to public authorities at the local level. This is the loss of affordable housing contributions from such developments (see Table 7). This value greatly exceeds the loss of planning application fees and the saving of officer time does not compensate for these costs.

It appears that the extension of PD rights facilitates long term structural change in England’s built environment. Permitted development contributes to trends such as the gradual decline of the stock of business property alongside the expansion of the dwelling stock and the conversion and subdivision of agricultural buildings to create new dwellings and holiday accommodation.

It should be stressed that the estimates of the aggregate financial impacts of the extension of PD rights conducted in chapter 5 are conservative. They focus on direct, specific consequences that are amenable to computational analysis. Other, more detailed quantifiable and wider, non-quantifiable effects arise from PD when examined at the local level. These were explored in the case study research in relation to office to residential conversions (chapters 6 and 7).

Looking at such office-to-residential changes of use, it is clear that this particular category of PD is having a large impact on the built environment in England. The changing nature of demand for office space had led to some areas of quite high vacancy across England, particularly for older stock from the 1960s and 70s. Given housing demand, the principle of sustainably reusing vacant buildings in brownfield locations is hard to contest. There have, however, been a variety of negative impacts resulting from the deregulatory approach taken to encourage this re-use.
9.0 Recommendations

Further research
• It is recommended that more research be undertaken on the impacts of smaller commercial and agricultural to residential conversions and ways to mitigate the harm being caused by office-to-residential PD.

Central government
• Office-to-residential change of use should not be counted as permitted development in England. The policy should be revisited, particularly given that many of the assumptions in the original impact assessment (DCLG, 2013) can now be questioned.
• Were the government unwilling to reregulate here, it might instead consider introducing more safeguards to the prior approvals process. For example:
  – adding a requirement that the office space is actually demonstrated to be vacant before approval can be granted for conversion
  – adding minimum space standards which would apply even to PDR schemes.
• Ensure a reasonable fee level for the LPA in processing the prior notifications and ensure planning gain can be levied (including affordable housing contributions).
• Amend CIL regulations so that all development creating new residential units are liable for a contribution towards local infrastructure need regardless of previous use or vacancy of the building.
• Housing statistics collated by DCLG should report the number of office-to-residential units actually implemented rather than just applied for in prior approvals, and central government should consider the resources available to LPAs to support monitoring and reporting functions.

Local government
• LPAs should seek to take a proactive approach to office-to-residential PD, including using Article 4 directions.
• Proper plans should be required with prior notifications. Conditions should be imposed to ensure schemes follow the agreed plans and required notification of commencement and completion of works. Some LPAs already do this, but others do not and it can help improve standards.
• Where necessary, appropriate enforcement action should be taken against inadequate housing provision.
• Authorities should consider S106 legal agreements where appropriate in relation to the issues they can consider during prior approval, so as to try and mitigate any harmful impacts of conversions.
• Greater attention should be given to assessing the cumulative effects of small-scale conversions from commercial and agricultural building uses to residential use, and to developing appropriate policy responses.

Local communities and civic groups
• Local communities and civic groups should closely monitor office-to-residential conversions and notify their LPA if they are aware of any inadequate housing provision or where evidence may qualify an area for an Article 4 Direction.

Developers and their agents
• Developers should give careful consideration to the wider implications of their schemes on communities and people’s everyday quality of life. Their agents should also provide robust advice about this, particularly if there are professional conduct and ethics implications.
10.0 References


11.0 Acknowledgements

Our thanks to Katherine Pitman and the RICS research team, led by Dr Clare Eriksson, for their support for both projects.
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Americas

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United Kingdom RICS HQ

contactRICS@RICS.org