



Department for
Communities and
Local Government

Relaxation of planning rules for change of use from offices to residential

Impact assessment

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<p>Title: Relaxation of planning rules for change of use from offices to residential</p> <p>IA No:</p> <p>Lead department or agency: Department of Communities and Local Government</p> <p>Other departments or agencies:</p>	Impact Assessment (IA)
	Date: 08/05/2013
	Stage: Validation
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: Maria Stasiak

Summary: Intervention and Options	RPC Opinion: RPC Opinion Status
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Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
£5.0m	£5.0m	- £1.4m	YES OUT

What is the problem under consideration? Why is government intervention necessary?

It is recognised that there is an urgent need to increase the rate of house building in England and make housing supply more responsive to changes in demand. The Government believes that there is an opportunity to contribute to meeting housing need by recognising the scope for allowing changes of use from offices to residential to take place more easily. Therefore it is proposing to introduce new permitted development rights to allow changes from office use (B1a) to residential uses (C3) without the need for planning permission for a limited period of three years.

What are the policy objectives and the intended effects?

The objective is to allow changes of use of a building or land from B1(a): offices to C3: residential to happen more easily. The intended effect of the proposal is to support an increase in housing supply, encourage regeneration of offices and bring empty properties into productive use.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 1: Grant permitted development rights for changes of use from B1(a) to C3. A relaxation in change of use rules to allow change of use from B1(a): Office uses to C3: residential to happen freely without the need for planning applications.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 06/2014

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded:		Non-traded:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible SELECT SIGNATORY: _____ Date: _____

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2013	PV Base Year 2013	Time Period Years 3	Net Benefit (Present Value (PV)) (£m)		
			Low: 0.3	High: 12.8	Best Estimate: 5.0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low		0	0
High		0	0
Best Estimate		0	0

Description and scale of key monetised costs by 'main affected groups'

There are no monetised costs for the preferred option. Reducing the regulatory requirement for change of use is beneficial for business.

Other key non-monetised costs by 'main affected groups'

Loss of amenity from additional residential development. External impacts of residential development are likely to be equal to or less than for office use. Costs to businesses of increased rents from a reduction in office space. Certain areas will be exempt where the local planning authority has demonstrated that the introduction of these new permitted development rights in a particular area will lead to either the loss of a nationally significant area of economic activity or substantial adverse economic consequences at the local authority level which are not offset by the positive benefits the new rights would bring.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low		0.1	0.3
High		4.4	12.8
Best Estimate		1.7	5.0

Description and scale of key monetised benefits by 'main affected groups'

Benefits to applicants of no longer submitting applications for change of use from offices to residential (£0.1m to £4.4m per annum). This range is predominantly driven by variation in costs and complexity associated with submitting existing application.

Other key non-monetised benefits by 'main affected groups'

Benefits to local authorities from reduced planning process required on premises that meet the policy criteria.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

The number of changes of use from office to residential are based on the number of observations in the Department for Communities and Local Government Land Use Change statistics. Each recorded observation is assumed to represent one or two planning applications under the existing system. The cost of submitting a current change of use planning application is between £1,250 and £25,100 (best estimate £13,175).

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual, 2009 prices, 2010 discount base year) £m:	In scope of OIOO?	Measure qualifies as
Costs: 0	Yes	OUT
Benefits: 1.4		
Net: 1.4		

Evidence Base (for summary sheets)

Problem under consideration

The Government is committed to increasing the rate of house-building, making housing supply more responsive to changes in demand. Seasonally adjusted housing starts are now 58% above the trough in March 2009 but are still 45% below the March quarter 2007 peak and housing completions are 42% below their March quarter 2007 peak¹. Annual housing supply in England amounted to 134,900 net additional dwellings in 2011 to 2012, an 11% increase in net additional dwellings from 2010 to 2011 although the number of households in England is projected to grow by 221,000 per year. In part this is due to wider market conditions, but the Government believes that aspects of the current land use planning system also play a part.

The Government is committed to a raft of reforms designed to address the chronic under supply of housing. It is therefore proposing to amend the planning rules to make it easier to change use from office to residential use.

Under the Use Classes Order (UCO) most buildings and development land are classified into four main categories: each of which is itself subdivided. A schedule of its main provisions is shown below. Broadly Class A covers shops and other retail premises such as restaurants and bank branches; Class B covers offices, workshops, factories and warehouses; Class C covers homes and other residential uses including hotels; Class D covers non-residential institutions such as schools, halls, churches and cinemas.

Figure 1: Use Class Orders

A1 Shops	Shops, retail warehouses, hairdressers, travel and ticket agencies, post offices, pet shops, sandwich bars, internet cafes, showrooms, domestic hire shops, dry cleaners and funeral directors.	No permitted change	C1 Hotels	Hotels, boarding and guest houses where no significant element of care is provided.	No permitted change	D1 Non Residential Institutions	Clinics, health centres, crèches, day nurseries, day centres, schools, art galleries, museums, libraries, places of worship, public halls, exhibition halls, church halls, law courts and non residential education and training centres.	No permitted change
A2 Financial and Professional Services	Banks, building societies, estate and employment agencies, professional and financial services and betting offices.	Permitted change to A1 (Where there is a ground floor display window)	C2 Residential Institutions	Residential care homes, hospitals, nursing homes, boarding schools, residential colleges and training centres.	No permitted change	D2 Assembly and Leisure	Cinemas, music and concert halls, bingo and dance halls (but not night clubs), swimming baths, skating rinks, gymnasiums or sports arenas (except for motor sports, or where firearms are used).	No permitted change
A3 Restaurants and Cafés	Establishments where the primary purpose is for the sale of food and drink for consumption on the premises - restaurants, snack bars and cafés.	Permitted change to A1 or A2	C2A Secure Residential Institutions	Secure residential accommodation - Prisons, young offenders institutions, detention centres, secure training centres, custody centres, short term holding centres, secure hospitals, secure local authority accommodation and military barracks.	No permitted change	Sui Generis Not in any use class	Uses include for example: Theatres, houses in multiple paying occupation, hostels providing no significant element of care, scrap yards, petrol filling stations, shops selling and/or displaying motor vehicles, retail warehouse clubs, nightclubs, launderettes, taxi businesses, amusement centres.	No permitted change
A4 Drinking Establishments	Public houses, wine bars or other drinking establishments (but not night clubs). In Wales, these uses are included within A3.	Permitted change to A1, A2 and A3	C3 Dwelling Houses	A) Houses occupied by a single person, couple, or family (also including an employer and domestic employees, as well as a carer and the person receiving care). B) Houses occupied by up to six people living together as a single household and receiving care (supported housing schemes). C) Houses occupied by up to six people living together as a single household which do not fall within the definition of C4 (e.g. a small religious community or a person/family with a lodger).	Permitted change to C4 (except where the Local Authority has made an Article 4 Direction removing this permitted change).	Casinos	In Wales, casinos are included within D2. In Wales, it is permitted to change from motor vehicle sales to A1.	Permitted change to D2
A5 Hot Food Takeaways	Establishments where the primary purpose is for the sale of hot food for consumption off the premises. In Wales, these uses are included within A3.	Permitted change to A1, A2 and A3	C4 Houses in Multiple Occupation	Houses occupied by between three and six unrelated individuals as their only or main residence, where basic amenities such as a kitchen or bathroom are shared (e.g. student lets). In Wales, such shared houses are included within C3.	Permitted change to C3			
B1 Business	A) Offices - other than those in A2; B) Research and Development; C) Light Industry - use for any industrial process which can be carried out within a residential area without causing detriment to the amenity of that area.	Permitted change to B8 (where no more than 235 sqm)						
B2 General Industrial	Use for any industrial process, other than that falling within B1.	Permitted change to B1; Permitted change to B8 (where no more than 235 sqm)						
B8 Storage and Distribution	Storage or Distribution, including open air storage. In Wales, this excludes the storage or distribution of radioactive material.	Permitted change to B1 (where no more than 235 sqm)						

The Use Classes Order is primarily concerned with land use impacts. It works by grouping together uses which are considered to have similar land use impacts into classes. Changes

¹ <https://www.gov.uk/government/publications/house-building-in-england-october-to-december-2012>

of use within a class do not constitute development and therefore planning permission is not required.

Further flexibility is provided by the Town and Country Planning (General Permitted Development) Order 1995 (as amended) (the General Permitted Development Order) which grants permitted development rights to allow certain changes of use between classes, where the impact of the proposed use is considered to be less than the existing use, to happen freely without the need for planning applications.

The Use Classes Order and General Permitted Development Order are deregulatory mechanisms which remove unnecessary applications from the planning system.

Under the current rules, apart from changes of use from C4: Houses in multiple occupation, all other material changes of use to C3: Dwelling houses require planning applications. Local planning authorities determine planning applications on a case by case basis depending on the individual circumstances of each case. They assess applications against policies in the local plan.

Land Use Statistics show that in 2005, 10% of England was developed; domestic buildings covered just 1.1%; and commercial offices 0.1%.² Looking at recent Land Use Change Statistics shows the reliance on existing residential sites for the provision of new dwellings. Nationally between 2007 and 2010 39% of land developed for housing was previously residential. In London and the south east the proportion rises to around 50%.³

In contrast, in 2009, just 2.8% of land changing to residential use came from land previously used as offices.⁴

Rationale for intervention

The Government is committed to boosting housing supply to deliver the homes that people need. There is a shortage of housing land nationally relative to the demand for housing, a shortage which is revealed in the relative value of land for housing compared to its value in other uses. And some land in other uses may be suitable for residential use. We are all aware of office blocks lying empty, even in areas with buoyant commercial markets, with many becoming dilapidated. However, the clearest evidence of this oversupply is in the relative land values of commercial and housing land – in some cases housing land is twice the price of that for commercial uses.

This price differential has grown over time which suggests that factors other than market forces are having an impact. In some areas the market response is to demolish old buildings and replace them with new property where the market can command a higher rent yield. The planning system, and in particular controls over change of use, are clearly a part of this. If there was complete freedom to change between uses, over time, supply would simply adjust to the price differences resulting in more land for housing, where there was sufficient demand.

Removing the requirement to submit planning applications for changes of use from business to residential, and so the associated costs and delay, may encourage developers to bring forward more land and buildings for housing use where the financial model works.

² Land Use Statistics (Generalised Land Use Database) 2005
http://data.gov.uk/dataset/land_use_statistics_generalised_land_use_database

³ DCLG Land Use Change Statistics for 2010 (2011)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/10872/1955418.xls

⁴ Ibid

Making it easier for land to be used for its most valuable purpose, whilst still protecting against damaging spill-over effects, will reduce transaction costs and increase economic efficiency. As discussed in detail below, in the absence of controls the market would allocate land according to its most valuable use reflecting the underlying demand for what can be done with the land, be it housing or industrial output, agricultural production or retail consumption.

In this case, making it easier to change the use of buildings and land from B1(a): Offices to C3: Dwelling houses will help to reduce transactions costs faced by developers and encourage the more efficient use of land. It will more easily allow land and buildings for housing development to come forward as well as result in less land and buildings for other uses, where relative values show there to be lower demand for such uses. It is the price differential between sites in different uses which illustrates the scale of the efficiency gain possible.

The value of land reflects the value of the output provided from it (housing, agricultural produce, manufactured goods, office space, etc). Urban economics shows that in the absence of controls land in different uses is more valuable the closer it is to town centres as illustrated below in academic research focusing on the Reading area⁵. As expected, for all types of land use apart from agriculture, the value of land increases as it gets closer to the centre, reflecting the relative scarcity of this land in relation to the demand for it.

However the impact of planning restrictions for certain types of development can be to cause discontinuities in land prices. This is shown by different values for land by use category for a given distance from the centre; in a free-market such differences would not exist over the long-run as supply adjusted to the price differences. For example, the price of industrial land at the urban fringe of Reading is around £650,000 per ha (January 2011) while the price of residential land is more than £1.2m ha. Whilst there may be other factors including difficulties in building on industrial land, imperfect information on price differentials and the costs of conversion which may make planning intervention appropriate or reduce the number of changes of use, these are unlikely to justify such a vast differential in land value.

This suggests that from an economic perspective, more land currently in uses such as industry could be switched to residential and other development without, in many cases, the wider costs outweighing the private and social benefits. The table below indicates the scale of the land value differential for a number of locations:

Table 1: Price differential between residential and industrial land (Jan, 2011)

Region	Location	Residential (£/Ha)*	Industrial (£/Ha)*	Mutiple of residential £/Ha to industrial £/Ha
South West	Bristol	2,100,000	800,000	2.6
	Plymouth	1,500,000	400,000	3.8
South East	Reading	2,750,000	1,900,000	1.4
	Oxford	4,000,000	1,000,000	4.0
West Midlands	Birmingham	1,235,000	650,000	1.9
	Stoke	775,000	300,000	2.6
North West	Liverpool	1,500,000	450,000	3.3
	Manchester	1,350,000	650,000	2.1

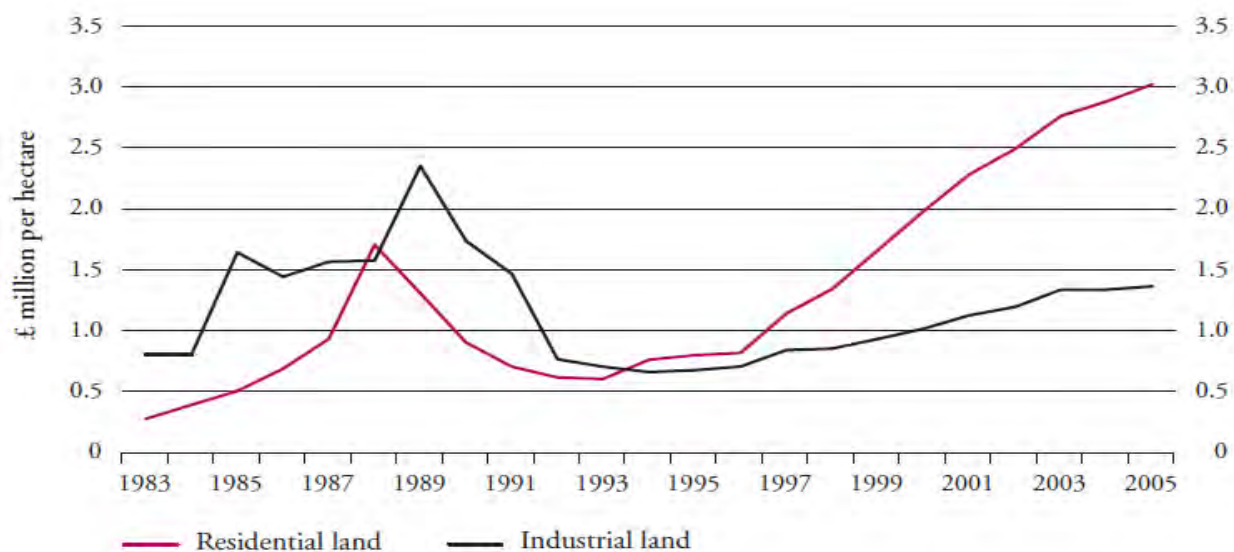
⁵ Barker Review of Land Use Planning: Interim report - analysis (2006). http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/independent_reviews/barker_review_land_use_planning/barkerreview_land_use_planning_index.cfm

Wales	Cardiff	2,750,000	620,000	4.4
	Wrexham	850,000	260,000	3.3
Scotland	Glasgow	850,000	370,000	2.3
	Edinburgh	2,200,000	750,000	2.9
London Outer	Ealing	4,800,000	3,000,000	1.6
	Croydon	4,700,500	2,000,000	2.4

Source: Property Market Report, VOA (2011)
*Average figures reported by valuers

And as the chart below shows, this differential has grown over time. As discussed above in relation to spatial discontinuities, temporal divergences such as this would be less prevalent if land could change use more easily. In turn it suggests that more land would be made available for housing use in the absence of controls and that this increase in supply would begin to impact on the price differential

Figure 2: South East residential and industrial land values (£m/hectare, 1983 – 2005)



Source: VOA

More recent evidence suggests uplift between office and residential values are still significant. For example, In Birmingham the differential between secondary office and residential space is £225 per square foot⁶.

Policy objective

The objective is to allow land and buildings to more easily transfer to use as housing from their current office use. The intended effect of the proposal is to increase housing supply. By encouraging development on brownfield land the proposal will help to reduce the pressure on greenfield sites. It will also promote the regeneration of commercial land and bring empty properties back into productive use.

Description of options considered

Do nothing. Permitted development rights between use classes (as set out in the Town and Country Planning (Use Classes) Order 1987 (as amended)) remain as currently set out in the Town and Country Planning (General Permitted Development) Order 1995 (as amended). This means that an application for planning permission is required for material changes of use from B1: Business (i.e. offices not within A2, research and development, studios, laboratories, high technology and light industrial) to C3: Dwelling houses.

⁶ Savills (2013) UK Market in Minutes: Where is office to residential conversion viable. www.savills.co.uk

Option 1: Amend the Town and Country (General Permitted Development) Order 1995 (as amended) to grant permitted development rights to move from B1(a): Office use to C3: Dwelling houses use.

Under this option business uses falling within the B1(a) use class would be able to convert to housing falling within the C3 use class without the need to submit planning applications.

The proposals relate only to the change of use of buildings or land. Where a development requires any additional work to an existing building, applications for planning permission will be required.

Certain areas will be exempt from the permitted development rights, where the local planning authority has demonstrated that the introduction of these new permitted development rights in a particular area will lead to either the loss of a nationally significant area of economic activity or a substantial adverse economic consequences at the local authority level which are not offset by the positive benefits the new rights would bring. Areas exempt from the permitted development rights will be set out in the General Permitted Development Order and are listed at Annex 2.

Costs and benefits of the preferred option

- Housing Developers

Housing developers will benefit from this policy where they are no longer required to submit planning applications to change use from office to residential use. This represents a reduction in transaction costs, including planning application fees that would previously have been paid.

- Housing Consumers

The central policy objective in making this change is to facilitate an increase in appropriate housing development. Where this occurs there is a benefit to the end consumer of that additional housing, be it for rent or ownership. This benefit is two fold: firstly, it is captured by the land value uplift that occurs as a result of the change of use to a relatively higher value use; and secondly all other things equal it will lead to a reduction in the marginal cost of housing through increased supply. It is difficult in advance to estimate the extent of additional housing units as a direct result of this change, especially given the extensive wider reforms to planning for housing and concerns the need to isolate the impact on housing development from this proposal alone, and across the variety of functional housing market areas that will be affected.

- Commercial Property Owners

Owners of buildings that fall into the category affected by the change, and which are suitable for housing, may see an increase in demand for their property. The maximum this increase can be is the difference between the value of a site in its current (business) use and its value as housing. This would arise where previously the probability of obtaining planning permission for housing was zero and is now certain; in practice the increase will be somewhere within this range as there are likely to be few examples of sites with zero probability of permission previously and so such a stark change in the probability of obtaining planning permission is unlikely.

- Wider Business

If the change leads to fewer sites, which are currently in economic use, being available for office use then wider business may see a marginal increase in the price of renting commercial space. This may influence negotiation at the time of rent reviews, which are often upward only anyway, so existing firms may pay higher rents or decide to move and

incur the transaction costs associated with moving to find properties which offer better value. The extent to which this risk may arise depends on local circumstances and the relative balance of demand for land and buildings for business use and the supply; where supply is relatively elastic with respect to demand then we would not expect to see any significant impact. Vacancy rates for secondary office stock were 12% in 2012, an increase from 5% in 2000. This is indicative of supply being more responsive to demand for land for commercial use than it is for housing. Additionally, the proposed exemptions ensure there will be no loss of a nationally significant area of economic activity or substantial adverse economic consequences at the local authority level which are not offset by the positive benefits the new rights would bring.

- Local Authorities

Local authorities will benefit by this policy due to the reduced planning process required on premises that meet the policy criteria. They will benefit from corresponding administration savings which could be used to provide other services. They will also see a decrease in fee income that would have arisen if planning applications were still required.

Local authorities may incur some marginal costs of familiarisation with this policy, though this will be time-limited and small.

There may be increased pressure on other local authority regulatory regimes (for instance environmental health officers regarding noise issues) or their budgets (they may have to fund additional road calming measures in the absence of developer agreements).

- Local Communities

As with any change of use there may be externalities associated with this change. In advance it is difficult to know whether such externalities are positive or negative. It is possible that in a particular case a change of use to housing may result in, for example, higher traffic density, on the other hand where sites are empty or derelict for a long time then a change of use to residential may result in an increase in amenity.

Local communities will lose the opportunity to comment on such development proposals through the planning system. However survey evidence (Saint Index 2006, sample based data) shows that 67% of respondents would strongly/somewhat oppose an office development compared to 33% who would oppose housing development.

Do nothing (baseline)

There are no new or additional costs and benefits associated with this option which would maintain the status quo. There are, however, ongoing costs to applicants of submitting change of use planning applications (compared to Option 1). And any benefits associated with increased housing delivery from the relaxation envisaged here (Option 1) would not arise. Similarly, any costs associated with Option 1 – for example, any adverse impact in amenity – would not arise from the do nothing option.

Option 1: New permitted development rights for changes of use from B1(a) to C3

For the purpose of the analysis presented here it is necessary to make a number of assumptions, particularly around the volume of applications for change of use.

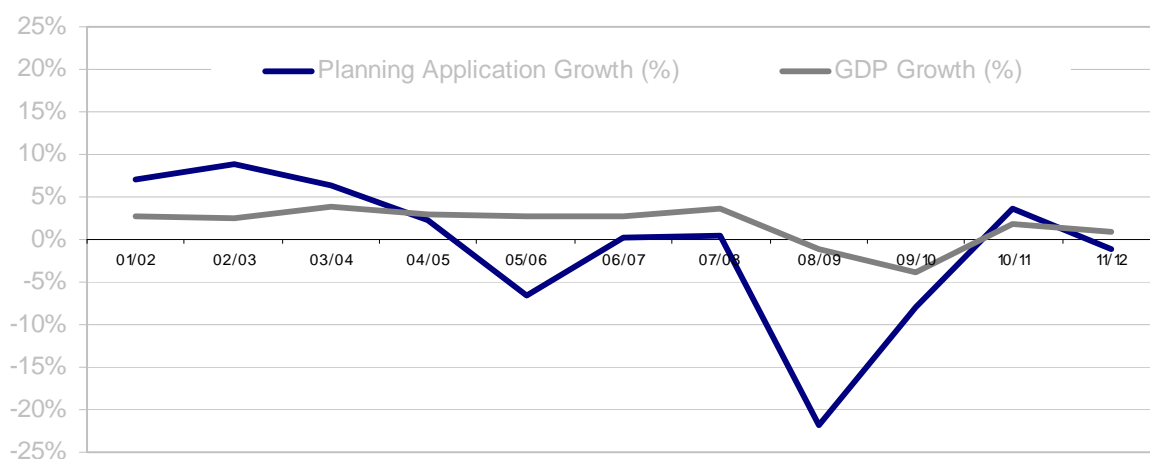
Number of changes of use:

- The number of change of use applications for offices to residential are not centrally recorded. Department for Communities and Local Government Land Use Change Statistics record the number of observations of a change of land use taken from the Ordnance Survey map revisions process. In England, between 2001 and 2010 there

were an average of 90 observations of conversions from offices to residential per annum⁷;

- An observation on the land use change statistics is not the same as a planning application. Each observation may represent a single premises or a number of co-joined premises. If joined premises had more than one owner then separate applications may have been submitted. This illustration assumes that each observation represents 1 existing planning application in the low scenario and 2 existing planning applications in the high scenario;
- Analysis of the relationship between applications and GDP growth suggests there is a cyclical relationship between applications and GDP growth. Ten year average growth rates (excluding an obvious anomaly in the planning application series) show a close to one-to-one relationship and our provisional modelling of this relationship also suggests a similar relationship. In light of this we have adopted a one-to-one relationship between GDP growth and the change of use planning applications.

Figure 3: Ten year planning application and GDP growth rates



- 33 exemptions to permitted development rights across 17 local planning authorities. Change of use applications are assumed to be uniformly distributed across all 337 local planning authorities as data for observations of change of use by local authority area is not sufficiently robust. Where an exemption is granted it is assumed to cover all of the local authority. As a result only 95% of identified changes of use will be in scope of the new right⁸.

Costs of changes of use:

- Analysis by Arup estimates that the average cost to applicants of preparing and submitting a planning application for change of use from a small residential development is between £1,250 and £25,100.⁹ The components of this estimate are set in more detail below. The researchers report that the wide range reflects the bespoke nature of individual planning applications and the range of work required to support current change of use applications. Costs to applicants are assumed to remain constant in real terms (this will include fees, productivity of planning agents and other costs associated with development management).

⁷ DCLG Land Use Change Statistics 2001 to 2010: <https://www.gov.uk/government/organisations/department-for-communities-and-local-government/series/land-use-change-statistics>

⁸ $= (337 \text{ authorities} - 17 \text{ authorities with exemptions}) / 337 \text{ (authorities)} = 95\%$

⁹ DCLG (2009) Benchmarking the costs to applicants of submitting a planning application: <http://webarchive.nationalarchives.gov.uk/20120919132719/http://www.communities.gov.uk/documents/planningandbuilding/pdf/benchmarkcostsapplication.pdf>

- Applicants will be required to complete a prior approval notification process. There is a fee of £80 to cover the processing work for the local authority. This will reduce their net saving.
- Ten percent of applications give rise to appeals.¹⁰ This is based on the proportion of residential applications that were appealed in 2011/12.

Benefits

Benefits to applicants (developers)

This option would provide developers with greater flexibility and would result in increased savings in terms of not incurring costs of submitting a change of use planning application. The savings relate to those applicants who would have applied for planning permission had this policy not been introduced (i.e. the do nothing option). The benefits to developers are the cost savings associated with permitted development: the resource, time and fee cost of a planning application can vary for the applicant. For estimating the total costs incurred to the applicant when making the applications, a range of values have been used to illustrate the possible span of benefits which applicants may incur from the policy. It is important to note these costs are far wider than the just a planning application fee.

Research commissioned by the Department found the cost to developers of preparing and submitting an application varies between £1,250 and £25,100.¹¹ The low scenario represents relatively simple change of use applications whereas the high scenario represents redevelopment of existing premises between ten to 15 dwellings. The average cost of £13,175 is used for a central estimate of savings from reducing the instances where change of use applications must be submitted.¹² The costs identified were those that were specific or additional relating to the requirement for planning permission, as distinct from those other costs associated with, for example, producing and implementing a design scheme. These include the overall costs of devising, planning, designing, project managing and commissioning development schemes including the following elements associated specifically with preparing and submitting an application:

- costs attributable to staff working for the applicant (the developer or eventual occupier)
- research-type costs towards identifying sites, gaps in the market for particular use configurations, development potential etc;
- professional services focused on bringing forward or shaping the research findings into practicable schemes – such as making development plan representations to have a site included in local authority land allocations;
- land or site acquisition costs – including the costs of establishing ownership, procuring deeds, legal and contractual advice, and of course the finance cost of purchase or lease itself;
- scheme scoping to identify potential and desirable uses, including the possible mix, scaling or massing as the ‘terms of reference’;

¹⁰ The Planning Inspectorate, Statistical Report: England, 2009/10. (Page 15.)
http://www.planningportal.gov.uk/uploads/pins/statistics_eng/09_10/full_report.pdf

¹¹ DCLG (2009) Benchmarking the costs to applicants of submitting a planning application:
<http://webarchive.nationalarchives.gov.uk/20120919132719/http://www.communities.gov.uk/documents/planningandbuilding/pdf/benchmarkcostsapplication.pdf>

¹² Department for Communities and Local Government (July 2009), *Benchmarking the costs to applicants of submitting a planning application*,
<http://webarchive.nationalarchives.gov.uk/20120919132719/http://www.communities.gov.uk/documents/planningandbuilding/pdf/benchmarkcostsapplication.pdf>

- scheme development based on the parameters to work into a fully-considered scheme appropriate for planning submission including design, pre-application consultations with authorities and consultees, and interdisciplinary liaison;
- submission of the application – including the information required for the validation of the planning application, again drawing upon a similarly diverse range of disciplines;
- post-submission negotiation and representation with additional information requirements or alterations to the original scheme, design, mix or layout; and
- post-determination elements including handling or any appeal against refusal or particular conditions, or work towards discharging pre-commencement and other conditions.

Over the period, after taking account of the exemptions granted, the number of applications avoided annually ranges between 90 and 185 (best estimate is 140). This is based on 90 or 180 applications in the base year (Land Use Change Statistics). 33 exemptions in 17 local authorities are assumed to retain 5% of change of use outside of the permitted development. Annual numbers of changes of use benefiting from the change are shown in Annex 1.

Annual average savings from no longer requiring these applications based on the costs to applicants set out above is between £0.1m and £4.4m. Annual costs for each year of the appraisal periods are also set out in Annex 1.

As part of the prior approval process applicants will be required to pay a fee, assumed to be £80 per application. Total prior approval costs payable on all applications are significantly less than £0.1m in all scenarios.

As a result net savings to applicant are expected to be between £0.1m and £4.4m per annum (best estimate £1.7m). Three year net present value is £5.0m (£0.3m to £12.8m).

Furthermore, some of these existing applications may have been appealed under the previous arrangements. Wherever applicants take a decision to appeal they incur further costs. Around ten percent of residential scheme decisions were appealed in 2011/12¹³. If the same proportion of existing schemes were also appealed previously, around 40 appeals will be avoided over the three year appraisal period. Appeal costs vary significantly across schemes and are difficult to quantify accurately. This saving will however be significant.

Benefits to local authorities

Local authorities will benefit from reduced applications, freeing-up resources to be employed elsewhere. Local authorities are constrained by centrally set fees and cannot charge more for additional work in determining applications. Wherever possible, local authorities will seek to determine applications at a cost equal to the fee. In cases where local authorities are under recovering costs (ie they spend more determining the application than they receive in fees) they will make additional savings.

However they will now receive a prior approval fee rather than a full planning application fee. The prior approval fee is intended to cover the costs of processing the prior approval notification. As such there will be no additional cost to the local authority in relation to the prior approval process.

¹³ The Planning Inspectorate (2012) Statistical Report 11/12:
http://www.planningportal.gov.uk/uploads/pins/statistics_eng/stats_report_final_2011_2012.xls

As set out above, some existing applications are likely to have been appealed under the previous arrangements. Local authorities incur significant costs in defending appeals. Costs to local authorities vary widely, however previous estimates have suggested that average costs to local authorities are around £800 per appeal. For illustration only average annual local authority savings may be in excess of £10,000 (these savings are not included in the summary sheets).

Benefits to the Planning Inspectorate

Similarly to local authorities, there will be benefits associated with determining a reduced number of appeals. In 2011/12 the Planning Inspectorate determined around 4,700 residential planning appeals. Reducing the number of residential appeals inspectors are required to determine will provide a marginal cost reduction for the Inspectorate as they do not currently charge a fee.

Benefits to providers of new dwellings

It is anticipated that this policy will induce a change of behaviour bringing forward more housing development. In practice the scale of this effect will be influenced by a number of factors, most notably the wider market conditions.

There is significant stock of office space in the UK: DTZ, a consultancy estimate that poor quality secondary office space accounts for 70% of total space at 721 million square feet¹⁴.

Increasing conversion from office to residential units to include a small proportion of existing stock could bring forward a significant amount of office space. By way of illustration, if 1% of the current secondary B1(a) floor space were to shift as a result of this change it would provide over seven million square feet of residential development..

This potential benefit from bring forward more efficient residential development is not included in the summary costs and benefits sheet at the front of the assessment.

Benefits to consumers of new dwellings

The central policy objective in making this change is to facilitate an increase in appropriate housing development. Where this occurs there is a benefit to the end consumer of that additional housing, be it for rent or ownership. This benefit can be captured and monetised by the land value uplift that occurs as a result of the change of use (see Figure 2 above). Other things equal, an increase in the supply of residential land will also reduce the cost of housing.

Additional development will create economic value. One way to measure this is through the land value uplift from housing units, which can be viewed as a measure of the increase in welfare that arises from the more efficient use of land (in this case for housing rather than its previous B1(a) use).

In short, this approach uses land value changes following the approval of new housing developments as a measure of the 'private' value of additional housing and then nets off any external impact (which may be positive or negative). It can be summarised as follows:

(1) Net private value of new housing = residential land value – existing land use value;

¹⁴ DTZ (2011)

(2) Net social value of new housing = net private value of new housing + net external impact of housing development

As shown above, the significant differential in commercial and residential use values is likely to make this benefit highly significant.

Costs

Overall, there are no significant additional administrative costs associated with either option. As discussed above, there is a risk of higher rents to commercial users of buildings to the extent that sites are now less readily available for such uses; however it is difficult to quantify this in advance as the extent of any increase will depend on the overall availability for development in an area. By providing a small number of exemptions where the local planning authority has demonstrated that the introduction of these new permitted development rights in a particular area will lead to either the loss of a nationally significant area of economic activity or a substantial adverse economic consequences at the local authority level which are not offset by the positive benefits the new rights would bring this risk is mitigated.

Costs to local communities

There is a risk that this proposal may be perceived by some as a loss of control for local authorities and their ability to consider the wider external costs and benefits of development in coming to a decision.

Broadly, as the permitted development right would be extended to Business: Office use class, it is likely that such impacts will be similar to housing developments, for example in terms of footfall, traffic and parking. In advance it is difficult to know whether such externalities are positive or negative; where sites are empty or derelict for a long time then a change of use to residential may result in an increase in amenity.

And if the impacts are broadly similar it is unlikely to have any potential costs in terms of additional infrastructure requirements. However it is possible that a change of use to housing may result in, for example, higher traffic density.

Costs to local authorities

By removing the need for planning permission for some types of development, local authorities will not have the ability to attach any conditions to permission so may need to use their other regulatory powers instead, such as the use of Article 4 directions.

Local authorities have however been given the opportunity to seek an exemption from the permitted development rights for specific areas where unrestricted housing development could lead to an adverse economic impact. Exemptions have been granted in the areas where local authorities demonstrated a significant adverse economic impact.

Where local authorities still opt to use an Article 4 direction in order to remove permitted development rights, there will be associated costs to local planning authorities including:

- the administrative cost of processing planning applications as the fee is waived where Article 4 directions have been made
- costs associated with publicising and consulting on the Article 4 directions
- there may be costs associated with putting together an evidence base to justify the use of directions however where there are existing concerns about the need to protect business uses local authorities will already have evidence to support local policies

- Local planning authorities may be liable to pay compensation to developers on removal of the permitted development right. We propose that this liability is not capped by application of s189 of the 2008 Planning Act.

Costs to business

With the process of changing from business to residential use made easier, there is a risk of a reduction in the supply of business land/property relative to the demand for this use, which in turn may place upward pressure on rents. In practice there is evidence that suggests any such pressure will be low.

Firstly, the value of land and buildings in business/industrial use, which is typically many times lower than the value of land for housing, is the clearest evidence of the relative undersupply of land for housing – compared to the supply of land for other uses, such as commercial/industrial. As Table 1 shows in some cases housing land is as high as four times the value of that available for industrial uses.

Vacancy rates offer further evidence of the supply of land and buildings for different uses relative to demand for those uses. For example, between 1998 and 2005 the average vacancy rate in the commercial sector in England was around 9%. This rate has continued to rise: vacancy rate for secondary office stock was 12.6% in 2012, up from 5% in 2000.¹⁵ Market commentators agree that there is oversupply of this type of stock, which is typically used by small business and start-ups. In contrast vacancy rate in the housing sector is around 3%, one of the lowest in the European Union. It should be noted however that we would expect a certain level of vacancies in each sector reflecting the natural churn in the property market. In addition, vacancy rates will vary across the economic cycle and will typically be higher during and following times of recession.

The risk of upward pressure on rents may be thought to be greatest in major cities where demand for commercial/industrial space is greatest. However the evidence on vacancy rates suggests that they are highest in these cities as the table below shows.

Table 3: Vacancy rates in selected cities

City / Area	Q4 2012	Q on Q (percentage points)	Y on Y (percentage points)
Central London	6.1%		
Birmingham	16.6%	-0.5	-0.6
Bristol	11.3%	0.0	+0.2
Leeds	10.6%	+0.5	+1.0
Manchester	10%	-0.7	-1.3
Western Corridor	14.8%	0.0	+0.9

Source: Jones Lang LaSelle, UK Office Market Outlook Q4 2012

Only where the vacancy rate falls to low levels, for example around 2 to 3%, is the relatively small impact of this proposal likely to any upward pressure on rents. On average between 1998 and 2005 30% of Local Authorities had vacancies of up to 5%.

¹⁵ Jones Lang LaSelle (2012) UK Office Market Outlook : http://www.joneslanglasalle.co.uk/ResearchLevel1/UK%20Office%20Market%20Outlook_Q42012.pdf

Direct costs and benefits to business calculations (following One In Two Out methodology):

This policy lowers the regulatory burden on business i.e. developers. The net cost savings represent the sum of the administrative and fee cost savings of no longer applying for planning permission for change of use from offices to residential. The fee for prior approvals is deducted from this to give a net benefit to business.

As set out on page 11 and in Annex 1, annual average saving from no longer requiring these applications is expected to be £1.7m (£0.1m and £4.4m). **Three year net present value for the central scenario is £5.0m. The Equivalent Annual Net Cost to Business in 2009 prices (2010 discount base year) is - £1.4m.**

Specific impact tests

Small firms

We do not consider that this proposal would have any adverse impacts on small firms. The Federation of Small Businesses have concluded that as a whole the proposals could bring benefits in terms of growth and new homes. The policy and its impacts will be kept under review.

Sustainable development

It may be argued that the proposals would result in more houses being located in unsustainable locations, such as industrial sites. However, this risk is minimal as these locations are unlikely to represent an attractive option for housing providers. Conversely, the proposals have the potential to positively impact sustainability, for example, by enabling change of use of a main town centre B1(a) use, which is highly accessible.

Annex 1: Numbers of change of use associated savings to applicants - ten year appraisal period¹⁶

Year		2013/14	2014/15	2015/16	
Growth Rate¹⁷		0.60%	1.80%	2.30%	Average
Low	Change of Use	90	90	95	90
	Change of Use (Excluding Exemptions)	85	85	90	90
	Cost of Application	1,250	1,250	1,250	1,250
	Prior Approval Cost	80	80	80	80
	Total Net Saving (£m)	0.1	0.1	0.1	0.1
Central	Change of Use	135	140	140	140
	Change of Use (Excluding Exemptions)	130	130	135	130
	Cost of Application	13,175	13,175	13,175	13,175
	Prior Approval Cost	80	80	80	80
	Total Net Saving (£m)	1.7	1.7	1.8	1.7
High	Change of Use	180	185	190	185
	Change of Use (Excluding Exemptions)	175	175	180	175
	Cost of Application (£)	25,100	25,100	25,100	25,100
	Prior Approval Cost (£)	80	80	80	80
	Total Net Saving (£m)	4.3	4.4	4.5	4.4

¹⁶ Numbers of change of use applications are rounded to the nearest 5.

¹⁷ Office for Budget Responsibility (2013) Economic and fiscal outlook March 2013

Annex 2: Areas exempt from office to residential change of use permitted development right

<i>Name of area</i>	<i>Local planning authority for the area</i>
Central Activities Zone and Tech City, London	Common Council of the City of London London Borough Council of Islington London Borough Council of Hackney London Borough Council of Tower Hamlets London Borough Council of Southwark London Borough Council of Lambeth London Borough Council of Wandsworth Westminster City Council Royal Borough Council of Kensington and Chelsea London Borough Council of Camden
The whole of the Royal Borough of Kensington and Chelsea (so far as not already designated under the entry for the Central Activities Zone and Tech City)	Royal Borough Council of Kensington and Chelsea
Areas in the Isle of Dogs (so far as not already designated under the entry for Central Activities Zone and Tech City)	London Borough Council of Tower Hamlets
3 areas known as the Royal Docks Enterprise Zone	London Borough Council of Newham
2 areas known as Milton Park Enterprise Zone	Vale of the White Horse Borough Council
Harwell Oxford Enterprise Zone	Vale of the White Horse Borough Council
2 areas known as Manchester City Centre Core	Manchester City Council
13 areas within the Gunnels Wood Employment Area	Stevenage Borough Council
8 areas in and around De Beauvoir	London Borough of Hackney
6 areas in and around Mare Street	London Borough of Hackney
BT Building, London Road	Sevenoaks District Council
An area in London Road	Sevenoaks District Council
Crown Inn, Westerham Trading Centre, Westerham	Sevenoaks District Council
Ashford Commercial Quarter	Ashford Borough Council
Petersfield Parish	East Hampshire District Council
Alton Parish	East Hampshire District Council
An area in Whitehall and Bordon	East Hampshire District Council
Horndean Parish	East Hampshire District Council
Liss Parish	East Hampshire District Council
Bramshott and Liphook Ward and Parish	East Hampshire District Council
Ropley Parish	East Hampshire District Council
Bentley Parish	East Hampshire District Council
Grayshott Ward and Parish	East Hampshire District Council
Four Marks and Medstead Ward	East Hampshire District Council