

Finding Purpose

Whilst Bull is full of praise for Mr Gove's efforts to deliver more homes by repurposing obsolete office buildings, Bear is on hand (as always) to offer a few words of caution.

Bull: Ah, Bear. Thank goodness you're here. I used to enjoy a quiet hour on my own with the Sunday newspapers, but I am not sure that I can take many more outraged reactions to the multi-coloured St George's cross on the back of the new England team football kit.

Bear: Tell me about it, Bull. I've just spent five minutes reading an article discussing whether Iceland's Easter range of hot cross buns should dispense with the 'cross' and replace it with a 'tick'. I know I am a relative simpleton but surely the answer is in the name! Anyway, I am just pleased we're here to only talk about property. Every other topic feels like a minefield!

Bull: Don't worry, Bear, you're in a safe space here. I don't think you are going to upset anyone by discussing property pricing, rents and yields. Unless, of course, you are in a particularly bearish mood.

Bear: Talking of yields, Bull, did you see CBRE's latest yield sheet? Secondary offices yields currently stand at 14.00%. And they are trending weaker!

Bull: I did, Bear. However, I was reassured to see that most of the other sector yields have now stabilised, even if office yields (excluding London and the best-in-class regional offices) do appear to be in freefall. Still, it just strengthens my case for a swift round of re-purposing. For once, Michael Gove and I are singing from the same hymn sheet.

Bear: You've lost me Bull. What exactly is the link between the Right Honourable MP for Surrey Heath and secondary office yields? Or singing for that matter.



Bull: My dear Bear, Mr Gove has been busy trying to unlock our notoriously complex planning system to deliver much-needed new homes. Re-purposing secondary office stock now forms an integral part of his strategy.

Bear: Are we talking about his recent, high-profile bust up with London Mayor, Sadiq Khan? I am sure I read that he 'directed' (ordered) Sadiq to partially review the London Plan to try and boost homes in the capital.

Bull: That all forms part of the Government's wider drive to increase the delivery of new homes. But what I am focused on are his changes to Permitted Development Rights (PDR) legislation which will promote further commercial-to-residential conversions.

Bear: Ah. I must have missed that one. Subtle changes in planning policy don't tend to be headline news! What's he changed that's got you so excited?

Bull: Well in simple terms, the government has removed two key restrictions to the existing permitted development rights (PDRs) that allow a change of use from Class E (commercial, business and service uses) to residential without going through the traditional planning process.

Bear: This is already sounding rather complicated.

Bull: It's not. All the Government has done is (1) remove the floorspace cap of 1,500 sqm so there is no limit on the size of the building, and (2) remove the requirement that the space must have been vacant for 3 months prior to submitting the application. The aim is to simplify the rules on re-purposing and unlock opportunities.



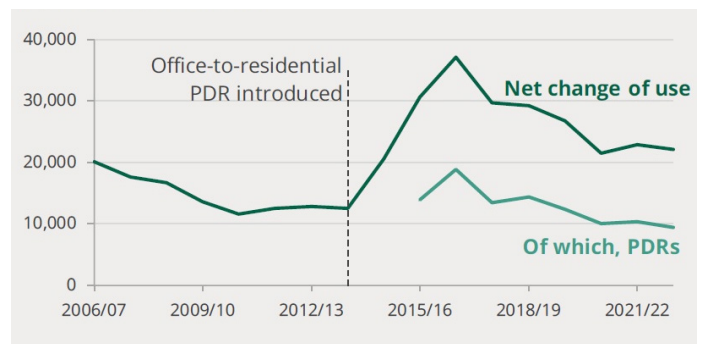
Bear: I get it, Bull. But permitted development rights have been around since 2013. Will a couple of tweaks really make a material difference? And how many new homes will really be unlocked through the re-purposing of commercial buildings?

Bull: Trust me, Bear, this is a significant policy shift. Since PDRs were introduced, the number of new homes created through change of use has increased significantly. Between 2015 and 2018, for example, delivery increased by 140%. The original PDR legislation (2013) gave the housing market a much-needed shot in the arm and we could see the same sort of spike again.

Bear: Okay. But, do the actual number of new homes we are talking about really represent a meaningful contribution to overall household delivery?

Bull: Well, in the seven years between 2015/16 to 2022/23, a total of 102,830 new homes were created through change-of-use PDRs. That's around 6% of the net additional homes that were delivered. I'd say that's meaningful. And the Government has said that PDR is going to continue to play a "significant role in supporting our housing ambition".

Net Increase in Housing supply through change of use (England 2006/07 to 2022/23)



Source: DLUHC

Bear: Were these new homes delivered through PDR all created by converting offices to residential? Or are we talking about other types of commercial property too?

Finding Purpose

Bull: If you believe the data from the Department for Levelling up, Housing and Communities (DLHUC), 87% of new homes created through change-of-use PDRs since 2015 have been created through the conversion of offices and buildings in commercial use. A small percentage (5%) have been delivered through the conversion of agricultural buildings, but it's small scale in comparison.

Bear: And you think this is the answer to meeting the Government's ambitions?



Bull: Not in isolation, Bear. But it certainly forms part of the answer. As you well know, case-by-case planning decisions are costly and unpredictable. Here is an opportunity to make the planning process faster and simpler. What's not to like?

Bear: I am all for speeding up housing delivery by reducing that burdensome bureaucracy, Bull. But I am concerned that by focusing purely on headline delivery numbers, we risk delivering the wrong type of homes in the wrong places. I've heard of PDR conversions taking place on business parks and in industrial areas, for example. That doesn't feel like the right way to go to me.

Bull: That's a predictably negative outlook, Bear! Surely you can see the benefit of converting increasing volumes of obsolete office stock to much-needed homes.

Bear: I can, Bull. But many of the office to residential PDR conversions since 2013 have been done on the cheap, creating poor quality homes. Unfortunately, if schemes are allowed to simply bypass the planning application process, they are inevitably open to abuse. There remains a real danger that we end up creating sub-standard homes for the most vulnerable families who simply can't afford alternative accommodation.

Bull: I understand your concerns, Bear. But do you have any evidence to back up these assertions?

Bear: Well according to an independent UCL study carried out across eleven Local Planning Authorities back in 2020, only 22% of PDR units met nationally prescribed space standards. And 73% of PDR units only had windows on one façade. Some had no windows at all! Does that answer your question?

Bull: Gosh. That's outrageous. I am certainly not advocating we create dungeons instead of homes! However, since that report, there has been a prior approval process in place that should prevent those sought of abuses. Since 2021, all homes created through PDRs must meet nationally prescribed space standards. And all habitable rooms must have adequate natural light.

Bear: Hmm. Those restrictions sound too loose to me. We want to ensure the provision of genuinely, high-quality homes where they are most needed. Short cuts in my experience are dangerous.

Bull: You've made your point. However, the responsible conversion of otherwise vacant premises must be a positive step forward. And it could also help to revitalise our high streets by bringing residents back into town centres.

New homes delivered through PDRs: Top 10 local authorities (Seven year total 2015/16 to 2022/23)

Local authority	Total
1 Croydon	3,666
2 Birmingham	2,638
3 Bristol	2,358
4 Buckinghamshire	2,122
5 Brent	2,025
6 Hounslow	1,858
7 Sheffield	1,600
8 Slough	1,546
9 Nottingham	1,501
10 Barnet	1,395

Source: DLUHC

Bear: I applaud all these intentions, Bull. We just need to be wary of the risks of relinquishing planning controls altogether. You need a coherent, strategic approach to town centre planning, with place-making at the heart. The British Retail Consortium (BRC), for example, expressed some serious concerns about the introduction of housing into core commercial areas.

Bull: I thought everyone these days had bought into the principle of mixed-use development, Bear. No-one wants to see vacant shops on the high street. Many towns simply have too much retail space.

Bear: I agree with that, Bull. But to succeed, high streets need a curated, unbroken retail frontage, not a pepper-potted, mis-match of housing and shops. Unchecked PDR conversions could run the risk of undermining the viability of a town centre, rather than reviving it.

Bull: I am getting the distinct impression that you don't view Mr Gove's expansion of Permitted Development Rights as a positive step.

Bear: I merely want to see the appropriate safeguards in place, Bull. The reality is that a swathe of commercial buildings across the UK should be repurposed, and this repurposing should play a central role in addressing the current housing crisis. I just think Mr Gove, or his successor, has some way to go in finding the right balance.

Bull: Well, I applaud Mr Gove's efforts to give commercial property owners the increased freedom to play their part in delivering more homes. And at least these changes offer an alternative for those beleaguered office owners staring at a 14%+ yield on their current valuations. Hot cross bun? Or should I just say bun. Best to keep it simple.