Title: Permitted development rights for the change of use of offices, light industrial buildings, and launderettes	Impact Assessment (IA)
	Date: 31/10/2016
IA No: RPC15-CLG-3032 (2)	**Stage:** Final
Lead department or agency: Department for Communities and Local Government	**Source of intervention:** Domestic
Other departments or agencies:	**Type of measure:** Secondary legislation
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Summary: Intervention and Options

RPC Opinion: Fit for purpose

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2014 prices)	**In scope of One-In, One-Out?**	**Measure qualifies as**
£628.3m	£628.3m	- £70.3m	Yes	OUT

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

A key Government aim is to reduce the administrative cost of the planning system on applicants in support of housing and growth. Currently a planning application is required to change use of existing buildings used as offices, light industry and launderettes to new homes. The Government believes that this should instead be permitted development; a lighter touch planning process that allows for consideration of specific planning matters. The measure will boost the delivery of additional homes, as evidenced by the impact of the existing temporary right for the change of use from office to residential. At national level, removing the requirement for a full planning application is secured through regulations.

What are the policy objectives and the intended effects?

The objective is to allow more types of development to take place without a full planning application, so that development can take place more quickly and with more certainty, so as to ensure there are more homes available. The intended effect is to reduce the administrative cost of the planning system on individuals and businesses, which in turn supports increases in housing supply, makes better use of existing buildings, enables businesses to respond more quickly to changing market demands, and promotes growth.

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

Do nothing: Allow the current office to residential permitted development right to end on 30 May 2016. Continue to require a planning application for the change of use from light industrial and launderette to residential use. This will not achieve the Government's aims to support housing growth.
Option 1: (preferred option) To amend The Town and Country Planning (General Permitted Development) (England) Order 2015 to make permanent the existing permitted development right for change of use from office to residential, extend the existing exemption areas until 30 May 2019, and to allow three years from the date of prior approval to change use; introduce for three years a new permitted development right for change of use from light industrial to residential use, subject to prior approval by local planning authorities; amend an existing permitted development right to allow for the change of use from launderettes to residential use, subject to prior approval.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 04/2021

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 Minister : Gavin Barwell ***Date:*** 31 October 2016

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2015	PV Base Year 2016	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 625.6	**High: 631.1**	**Best Estimate: 628.3**

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

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

None. We do not consider there to be additional familiarisation costs as a result of this proposal, consistent with previous Impact Assessments relating to permitted development rights (e.g. RPC14-FT-CLG-2147(2))

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

Indirect costs to business as a result of increased rents due to a reduction in some commercial space (transfer from business occupants to business premises owners). Relocation of jobs / businesses due to conversion of some commercial, light industrial space or launderettes to residential use.

BENEFITS (£m)	**Total Transition** (Constant Price)	Yea	**Average Annual** (excl. Transition) (Constant	**Total Benefit** (Present Value)
Low			1.8	**625.6**
High		1	2.3	**631.1**
Best Estimate	609.7		2.1	**628.3**

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

Where businesses would have submitted a planning application, benefits to businesses (applicants) of no longer submitting full planning applications for change of use from some light industrial premises to residential use (£1.0m per annum, from October 2017 to October 2020), and from continuing to benefit from not having to submit full planning applications for change of use from office to residential uses (£1.8m per annum from May 2016, when the current right expires). The value of assets held by land owners (businesses) of office buildings is expected to rise by a total of £609.7 million.

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

Benefits to business (applicants) from no longer requiring a planning application for the change of use from launderettes. A benefit to land owners (businesses) from an increase in land values for sites with permission in light industrial use and launderettes.
A decrease in the adminstrative cost to local planning authorities from reduced scope of the planning process, removing the need for a full planning application.
Additional homes provided to meet the needs of the community and the wider economy.

Key assumptions/sensitivities/risks | 3.5%

The cost of an application for change of use is calculated using historical research and subsequent changes in application fees chargable by local planning authorities.
The estimated numbers of cases are taken from Land Use Change Statistics and Planning Application Statistics.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**In scope of**	**Measure qualifies**
Costs: 0	**Benefits: 70.3**	**Net:70.3**	Yes	OUT

Evidence Base

Problem under consideration

The Government believes we need an economy that is competitive for business and which delivers new housing to meet current and future needs.

The Government recognises the need for a proportionate planning system, to facilitate development, boost growth and reflect the changing nature of our economy and society. As part of the Government's on-going programme of reform it is making the planning system faster and simpler.

The Government is committed to increasing housing supply, and has an ambition to deliver one million new homes in the lifetime of this Parliament. A better housing market is vital for meeting housing needs and raising productivity. Since 2010, planning permissions for new homes are up 50%. In the year to September 30 2015, planning permission was granted for 251,000 new homes. However, there remains a national housing shortage and the Government has introduced a wide range of measures to boost housing delivery and home ownership, including support for the purpose built private rented sector, and a commitment to deliver 200,000 starter homes.

As part of this drive, improvements have already been made to the planning system to remove unnecessary delays to new housing development, including through the current permitted development right for the change of use from offices to residential use which ends on 30 May 2016. The Government wants to boost housing supply further by amending existing permitted development rights to change to residential use and introducing a further new right.

Context

The planning system provides an objective mechanism through which the impact of a proposed new development on land use and third parties, including neighbours, other businesses, and the environment, can be considered, in line with local and national policies. Applying for planning permission places an administrative burden on business.

The Town and Country Planning (Use Classes) Order 1987 (as amended) groups common uses of land and buildings into use classes. The uses within each class are, for planning purposes, considered to have broadly similar impacts to one another. Movement within a use class is not considered to be development and a planning application is not required.

The planning system aims to achieve proportionality by exercising different degrees of control over types of development which includes the change of use. A full application for planning permission is usually appropriate for large scale, complex developments, or those with greatest impact on neighbours, the wider community or the environment. The requirement for local authority scrutiny of many small scale proposals, including for the change of use, with limited impact is removed by the grant of national permitted development rights. The rights are set out in Schedule 2 of the Town and Country Planning (General Permitted Development) (England) Order 2015[1].

Permitted development rights are a deregulatory tool, reducing bureaucracy and cost. They use a general impact based approach to grant national permission for development that complies with limitations and conditions set out in regulations. Prior approval is a light touch

[1] http://www.legislation.gov.uk/uksi/2015/596/contents/made

process that applies where the principle of the development has already been established, but certain specific planning matters require consideration by the local planning authority.

Reducing the administrative burden of the planning system is an imperative for Government. As part of its ongoing reform it has streamlined national policy and planning guidance, and introduced a number of permitted development rights to reduce the burden on business and make the best use of existing buildings in support of key Government agendas. In May 2013 it introduced, for a three year period, a permitted development right for the change of use from office (B1 (a)) to residential (C3), subject to prior approval. The right does not apply in 33 exemption areas, in 17 local authority areas, as set out in regulation. The right requires the change of use by 30 May 2016 for the development to be permitted. DCLG planning application statistics show that while there has been successful take up of the right, the increase in numbers coming forward has slowed as May 2016 nears.

The Coalition Government consulted in summer 2014 on a package of permitted development rights as part of its 'Technical Consultation on Planning – Supporting housing, high streets and growth'. This sought to allow more types of development to take place without a full planning application, so that development can take place more quickly and with more certainty. The intended effect being to reduce the burden of the planning system on individuals and businesses, and so support an increase in housing supply, make better use of existing buildings, increase flexibility in the high street, enable businesses to respond quicker to changing market demands, and promote growth. Included in this were proposals to amend the current temporary permitted development right for the change of use from office (B1 (a)) to residential (C3) use which ends on 30 May 2016, and to introduce a new right to enable buildings for storage and distribution (B8) or light industrial (B1 (c)) use to change to residential use (C3), and named sui generis uses including launderettes to change to residential use (C3) subject to prior approval by the local planning authority. A Regulatory Triage Assessment based on these proposals was assessed in July 2014 (RPC 14-FT-CLG-2147).

Rationale for intervention

Following the consultation in summer 2014, the majority of proposals were taken forward, some with minor amendments to reflect comments raised, and implemented in April 2015. This package of new permitted development rights was validated under RPC14-FT-CLG-147(3). However, in a Written Ministerial Statement in March 2015, the Government stated that it would further consider the case for extending the office to residential permitted development right that was not taken forward as part of this initial package. The Government has now given thought to this right, and how it could support its wider housing agenda. In addition, it has taken the opportunity to revisit the proposed rights for the change of use from light industrial (B 1 (c)) and launderettes to residential that were not taken forward in April 2015, and the part these rights could play in achieving its housing ambitions.

While the planning system exists to protect positive externalities, such as amenity value, from land use, deregulation to reduce the cost and complexity of applications for certain types of development, decreases the economic cost of development and creates incentives to deliver more homes. Therefore, the Government announced in October 2015 that it now plans to take forward these proposals from the 2014 consultation to further increase the amount of development that can take place without the need for a full planning application and boost the delivery of much needed new homes.

Details are set out in Option 1 below.

Policy objective

The policy objectives are to:

- Deregulate and streamline the planning system by removing more development from the requirement for detailed local planning authority assessment of proposals by granting new permitted development rights, and extending an existing right.
- Increase housing supply and promote growth in support of the country's broader economy.

The rights will help to allow the best use to be made of existing buildings, and reduce the pressure to build on greenfield land and the loss in amenity value associated with this.

Description of options considered

Do nothing. A full application for planning permission with associated fees is required for development, unless permitted development rights as set out in The Town and Country Planning (General Permitted Development) (England) Order 2015 apply.

The existing office to residential permitted development right would end on 30 May 2016, and those who have not changed use by this date would not have permission. Businesses would in future have to submit a full planning application and incur the associated costs for such change of use.

Option 1 (preferred option).

To amend The Town and Country Planning (General Permitted Development) (England) Order 2015 to:

- amend the existing temporary permitted development right for change of use from office (B1 (a)) to residential (C3) to make it permanent, extend the exemption areas to 30 May 2019, and allow three years from the date of prior approval to change use;
- introduce, for three years, a new permitted development right for change of use from light industrial (B 1 (c)) to residential (C3) use, subject to prior approval;
- amend an existing permitted development right to allow the change of use from launderettes (sui generis) to residential (C3), subject to prior approval, and allow for physical works reasonably necessary.

These changes will apply to England only.

Option 1: New and amended permitted development rights to reduce planning bureaucracy and increase housing supply

New homes from office buildings

The existing temporary permitted development right for change of use from office (B1 (a)) to residential (C3) use, introduced in May 2013 for an initial 3 year period, requires the change of use by 30 May 2016. The Government is amending this permitted development right to make it permanent. The right is subject to prior approval by the local planning authority, where required, on transport and highways, flooding, and contamination. The permanent right will include prior approval on the impact of noise on new residents. The existing exemption areas will be maintained until 30 May 2019 to allow the local planning authorities to consider whether they want to bring forward an Article 4 direction in line with national policy. Those who secure, or have secured, prior approval, will have three years from the date of prior approval in which to change use. (It is further intended that the right will also be amended to allow for the demolition of offices and replacement build as residential use on a like-for-like basis within the same footprint and external dimensions. However, this measure will be taken forward at a later date as part of separate regulations, and will be the subject of a separate validation impact assessment.)

New homes from light industrial buildings

Light industrial uses (B1(c))are premises which are used for any industrial process provided it is compatible with being carried out in any residential area without any detrimental impact to the area by reason of noise, vibration, smell, fumes, smoke, soot, ash, dust or grit. Currently, to change from light industrial (B1 (c)) use to residential (C3) use requires a full planning application. The Government is introducing a new temporary permitted development right for three years, so that premises in light industrial use can change to residential use, subject to prior approval by the local planning authority on transport and highways, flooding, contamination, and the impact of the introduction of residential use in an industrial or storage or distribution area. The right will be subject to a size limit of 500 sq m. Those who secure prior approval will have three years from the date of prior approval in which to change use. To provide time for a local planning authority to bring forward an Article 4 direction where it is felt that it is necessary to protect the amenity or wellbeing of the area, the rights will take effect in October 2017, 18 months after the rights are introduced. The right will apply in Article 2 (3) land (National Parks, Areas of Outstanding Natural Beauty etc).

New homes from launderettes

Launderettes are sui generis – a class of their own, and a full planning application is required for the change to any other use, including residential (C3). The Government is amending the existing Class M permitted development right for the change of use of retail, betting shops and pay day loan shops, to additionally allow launderettes to change to residential use. The right allows for physical works reasonably necessary to change use. The right is subject to prior approval by the local planning authority on transport and highways, flooding, contamination, and the impact of the change of use on the provision of services and the key shopping area. The right is subject to a size limit of 150 sq m and does not apply in Article 2 (3) land. Those with prior approval will have three years in which to change use.

Minor clarifications

Minor clarificatory changes will be made to the General Permitted Development Order. These minor changes do not add burdens to developers and have not been separately costed.

Costs and benefits of the preferred option

The costs and benefits of the preferred option will impact on the main affected groups in the following way:

<u>Business</u>

Where this development would have come forward by planning application, businesses (applicants) will benefit from no longer being required to submit full planning applications for the change to residential use from light industrial uses and launderettes, and will continue to benefit from not being required to submit full planning applications for the change from office to residential use. This represents a reduction in transaction costs, including a reduction in fees and the administrative burden in the preparation of a full planning application. Businesses (applicants) will also benefit from the added certainty the rights provide, as consideration can only be given to specific planning matters. Businesses (applicants) will also benefit from not being required to make a section 106 contribution. These vary depending on the size of the scheme, local plan policies and thresholds, and negotiation on individual schemes and have therefore not been quantified. However, we expect that only a limited amount of development (140 applications for office to residential, and 67 applications for light industrial to residential conversion per year, as estimated below) would have come forward by planning application, as these rights are intended to incentivise new development that would not have otherwise come forward. We would also expect the total level of contributions to be low, given the low average size and commercial viability of such developments. In general, we have not quantified the indirect impacts of additional activity incentivised by the rights.

Separately, the land owners (businesses) of these types of buildings will benefit from the change of use to residential through maximising the effective use of their buildings and increased property values. This is due to fact that, in many local markets, demand for residential space relative to supply is higher than demand for office space relative to supply. As a result, the marginal value of residential space exceeds that of office space in these markets. It is widely acknowledged that a planning restriction on change of use will create an economic cost that would not be present without the restriction.[2] Restricting change of use between existing buildings by requiring an applicant to seek consent introduces a transaction cost, which will render some development commercially unviable. By reducing this cost, this measure therefore presents an opportunity to ensure existing building stock is used more efficiently, and generates an economic benefit. Given present market conditions, we would expect a proportion of this benefit to be captured by land owners (businesses).

Other businesses may incur costs from displacement to alternative office space, or higher rents, but we consider these costs to be indirect[3], and in many cases would have occurred under the counterfactual in the longer term given trends in the underlying demand for and supply of land in different uses.

Local planning authorities

Where the development would have come forward by a planning application, local planning authorities may benefit from the reduction in administrative costs required for the planning process as a result of having fewer full planning applications to determine. However this benefit will be offset by the time taken to consider prior approval where required, for these and any additional applications. Where the development would have come forward by a planning application, there will be a decrease in fee income from prior approval applications which attract a lower fee.

By removing the need for planning permission for some types of development, local authorities will lose the opportunity to consider such development in the context of their local plans. Where they consider it is necessary to protect the local amenity or wellbeing of the area, they may make an Article 4 direction to remove the national permitted development rights in a specified area and require a planning application to be submitted. There will be associated costs to local planning authorities in making an Article 4 direction, including the costs of collecting evidence and consulting on the proposed Article 4 direction, as well as the administrative cost of processing planning applications, because the fee is waived where Article 4 directions have been made.

Local planning authorities will also lose any section 106 contributions from development which would have come forward by a planning application. As stated above, given the

[2] For example, see Nathan and Overman (What We Know (and Don't Know) About the Links between Planning and Economic Performance. 2011)

[3] We consider these costs to be an indirect result of the proposal as they are the result of a choice by building owners to convert office space into residential units, following deregulation, rather than a direct regulatory burden on the affected businesses. We would also consider any benefits to businesses, such as buy-to-let landlords, from additional residential development to be indirect.

number, size and commercial viability of such applications we would expect the total of such contributions to be small.

Assessment of Costs and Benefits

Option 1: New and amended permitted development rights to reduce planning bureaucracy and increase housing supply

The changes to be introduced are to; amend the office to residential permitted development right to make it permanent, extend the exemption areas until 30 May 2019 and to allow three years for the change of use from the date of prior approval; introduce a new temporary permitted development right for light industrial buildings to change to residential use; and amend an existing right to allow the change of use from a launderette to residential use. The approach taken to the assessment of costs and benefits to business for each of these is similar and is explained below.

Permitted development rights with prior approval: No longer preparing and submitting a planning application for change of use - saving to applicants

While developers will have to submit an application for prior approval they will save some costs relative to producing a full planning application (in cases where the development would have come forward by planning application). These savings come from a reduced administrative burden in preparing an application, and from a reduction in planning fees paid to local planning authorities. These are charged to cover the administrative cost of processing applications, which is lower for prior approval applications as local planning authorities can consider fewer planning matters compared with a planning application. The fee for a change of use application to residential use is £385 per dwelling in the scheme (for each of up to 50 dwellings), while a prior approval application involves an £80 flat fee for the change of use.[4]

Given the bespoke nature of planning proposals discussed above – we expect applicants to consult regulations in every case – applicants need to find the detailed regulation for each planning application. As a consequence applicants incur the costs of searching for regulations in the counterfactual. We do not therefore expect there to be familiarisation costs for searching for new regulations as these costs are also incurred in the counterfactual. This argument is consistent with a previous Impact Assessment covering the introduction of a larger number of permitted development rights. This was validated by the Regulatory Policy Committee (reference RPC14-FT-CLG-2147(2)).

(i) Extending office to residential permitted development rights

Reduced planning costs – benefit to applicants

This section considers the costs and benefits of making permanent the office to residential permitted development rights which were introduced in May 2013 for a period of three years until May 2016. Where a development would have come forward by planning application, there is an on-going cost saving to applicants from the reduced administrative burden required for prior approval, compared to a full planning application.

[4] A fee of £172 is payable for the change of use with physical works. This will apply only to the change of use from launderette to residential and only in some cases where they seek prior approval for both change of use and physical works. As we are not able to determine the number or proportion of applications affected, we have excluded savings in applications for the change of use from launderettes from our analysis.

The Department's Planning Application Statistics[5] show there have been 3,981 applications for prior approval under the office to residential permitted development right in the year from April 2014 to March 2015. The highest level of applications has been seen in London and the South East where residential values are high, and Bristol. Many applications were brought forward quickly to benefit from the temporary right. We therefore expect that while the take-up will continue to be a high, there will be a slight reduction in the volume of applications received per year. The prior approval on noise will enable the local planning authority to consider plans to mitigate the impact on residents where there is significant noise from nearby commercial buildings, and this may give rise to additional build costs in some cases compared to developments unaffected by significant noise. These build costs would also occur if a full planning application was submitted (i.e. without the extended Permitted Development Right).

However, many of these applications made in 2014/15 would only have been viable (in that the benefits of conversion exceed the costs) as a result of the existing permitted development right and therefore in this validation assessment we do not consider savings on these applications as a direct benefit of this proposal. This is consistent with paragraph 1.9.35 of the (previous) Better Regulation Framework guidance that states that subsequent effects that occur as a result of the direct impacts, including behaviour change, are indirect.[6]

Land Use Change Statistics used in the original impact assessment for the office to residential permitted development right show that approximately 140 applications for change of use from office to residential use were brought forward each year prior to the change. We therefore estimate savings only for this underlying activity. The British Council for Offices (BCO) estimates that between 3,800 and 11,400 dwellings were created from office conversions in 2014, as a result of 860 to 2590 granted prior approvals being implemented.[7] We therefore assume that the average scheme includes 4.4 dwellings. This means a direct saving on application fees to developers of £1,610 in our central estimate.[8]

Analysis by Arup for DCLG[9] in 2009 estimates that the median cost to applicants of preparing and submitting a planning application for change of use for a small residential development is between £1,040 and £27,310, with a central estimate of £14,180. The same research suggests that the median cost of preparing and submitting an application for prior approval is approximately £2,360.

These estimates include fees, which have since risen in nominal terms (from £335 to £385 per dwelling for small residential developments). To avoid double-counting the reduction in fees, we remove this element from our central estimate of costs, and assume the non-fee costs are £12,710 for a planning application (£14,180 less 4.4, the estimated average number of dwellings, times £335) and £2,280 (£2,360 less £80) for prior approval. We uprate these estimates from 2009 prices using HMT GDP deflators, giving an estimate of non-fee costs of £14,090 for a planning application for the change of use and £2,530 for a Prior Approval application in 2015 prices.

We estimate the total saving to developers who would have submitted a full application in the base case, and who will be able to submit an application for prior approval under the

5 Live tables PDR2. https://www.gov.uk/government/statistical-data-sets/live-tables-on-planning-application-statistics#permitted-development-rights-tables

6 This is a change in methodology from the Regulatory Triage Assessment approved by the RPC (RPC15-BIS-3032(1)).

7 Office-to-residential conversion: Establishing the impacts of the prior approval regime, British Council for Offices, 2015, http://www.bco.org.uk/Research/Publications/Office-to-residential_conversion.aspx

8 These figures are calculated by multiplying the fee per dwelling (£385) by the estimates of the average number of dwellings.

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/benchmarkingcostsapplication.pdf

extended right, to be £13,170 per application and £1.8m per annum in 2015 prices.[10]

The assumptions around savings to applicants for a change of use are consistent with those set out above and in the previous office to residential impact assessment previously validated by the Regulatory Policy Committee (RPC11-CLG-0845(3)), with revisions in line with subsequent evidence. The number of applications to which these estimated savings have been applied is reduced to reflect the number of projects which would come forward without the permitted development right. Experience of the right to date suggests that the actual volume of applications for prior approval and therefore the cost savings to business will in practice be greater.

Asset value uplift – benefits to land owners
We have also considered the one-off benefit to land owners (businesses) of making the right permanent, separate to the planning savings accrued by applicants (developers/businesses) who bring forward development in the counterfactual.

Given a reduction in the cost of securing planning permission (discussed above) and an expected increase in planning certainty for converting office buildings to a more valuable use (as residential space), we estimate that developer's valuation of convertible office space will rise. In turn, this will push up the prices paid for office buildings – assuming that developers will compete to purchase land[11] - benefiting the owners of such buildings by an estimated total of £609.7 million. The detailed calculation of this figure is set out in an Annex to this Assessment. It is based on the expected benefits of development activity, which in turn depend upon the value of office space, the value of residential space, the probability of planning permission and the costs of seeking planning permission.

In our analysis, we have considered the increase in asset values for land owners as a direct benefit of the policy measure, where land would not be developed in the counterfactual. This is analogous to the treatment of the transfer of assets from Government to business in RPC case law on Impact Assessments, although in this instance ownership does not change. We do not include buildings where permission would be sought in the counterfactual in this analysis, in order to avoid double-counting the planning savings described above.

(ii) Light industrial and launderette to residential permitted development rights

This section considers the costs and benefits of introducing a new temporary permitted development right for the change of use from light industrial to residential for three years, and amending an existing right to allow the change of use from a launderette to residential use.

There is an on-going reduction in costs to applicants from the reduction in application fees chargeable by local planning authorities. This reflects the reduced administrative burden required for considering prior approval, compared to a full planning application.

Using data from Land Use Change Statistics 2014-15, we estimate that land changing from industrial to residential use accounts for approximately 480 additional residential addresses each year. (Light industrial uses are suitable for residential areas. We therefore expect that a

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[10] The saving per application is estimated as the change in non-fee costs (£14,090 less £2,530) and the change in fees (£1,610 in our central estimate). The annual figure assumes 140 applications per year in the base case.

[11] This assumption follows the official DCLG Appraisal Guide, and is supported by evidence on changes in land values more generally. See, for example, http://pdf.euro.savills.co.uk/uk/commercial-development-activity-uk/market-in-minutes-uk-residential-development-land-february-2016.pdf

significant number but not all of these cases will apply to light industrial uses.) It is not possible to determine how many applications are submitted in relation to these dwellings from these statistics, and high, low and central estimates of activity are used to estimate savings. This range also reflects uncertainty over the proportion of applications which would not require additional works. There will also be a size limit within the right, restricting to 500 sq m the amount of floorspace that can change use. We do not expect this limit to reduce the current level of activity.

The rights provide for the change of use, and separate planning permission is required for any physical works. Evidence from the BCO report on office to residential rights suggests that in some cases prior approval on change of use is used as a negotiating tool in securing permission on a planning application for a development for both physical works and change of use. We therefore consider that not all prior approvals will build out. It is not possible to cost the benefits of this approach.

Based on the total area of land changing use, and typical floorspace per dwelling, we estimate that the average application will include three dwellings. The change in fees is therefore £1,075 per application (i.e. the £385 fee per dwelling, multiplied by 3 dwellings, less the £80 flat fee for a Change of Use application). Business will benefit from reduced planning costs where development would have come forward by planning permission, and from any rise in land or property values.

Where the development would have come forward by planning permission, there is also an on-going reduction in the non-fee costs of preparing an application. We again assume that the non-fee costs are £14,090 for a Change of Use application and £2,530 for a Prior Approval application, resulting in a saving of £12,630 in administrative costs for each of the estimated 80 relevant applications under the central estimate based on 3 dwellings per application and 50% of industrial land changing use being in light industrial. Where more than 3 dwellings are provided, the savings to business will be greater.

The total saving to business (applicants) as a result of this right is estimated as £1.0m on a 12-month, constant price basis. As this is a temporary right, we have not sought to quantify and include any value uplift to land owners (businesses) of light industrial sites. Any uplift in property values at the introduction of the right, reflecting their increased potential for conversion, would be lost when the right expired in 2020. The benefit to business, based on the level of activity in the counterfactual, is captured through the estimated reduction in fees. We are unable to quantify any benefits from increased planning certainty for the developers of schemes which would occur in the counterfactual, given uncertainty about the relevant land values. We consider this approach to be proportionate.

For the launderette to residential element of the proposal there is no centrally recorded change of use data at the level of detail required. The responses to the consultation suggested that there are few launderettes. In October 2015 Nathanial Lichfield and Partners noted that the numbers of launderettes had declined from a peak of 12,500 in the early 1980s to 3,000. They note that there are 311 launderettes in London, with Manchester having the second highest at 31. It notes that the average size is 73.2 m sq, and that in 2012 96.6% of households owned a washing machine. Given the lack of recorded data of any kind on the number of such uses converting to residential it is reasonable not to attempt to quantify the costs and benefits to applicants (businesses) (consistent with the Better Regulation Framework Manual paragraph 2.2.3). Nor, given the low numbers of sites and the protections provided through the prior approval, have we sought to quantify and include any land value uplift to owners of launderettes (businesses).

We have not quantified the (indirect) impacts of any additional development incentivised by the rights for the change of use of light industrial or launderettes to residential use. Nor have we been able to estimate the asset value uplift falling to owners of launderettes, given the uncertainty over the relevant land area and values, and the limited number of launderettes in England. We consider this approach to be proportionate.

Table 1: Summary of direct, monetised impacts (£m, 2015 prices)

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Reduction in application costs:											
Office to residential	1.4	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	18.0
Light industrial to residential	0.0	0.3	1.0	1.0	0.8	0.0	0.0	0.0	0.0	0.0	3.0
Asset value uplift	609.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	633.2
Total	611.1	2.1	2.8	2.8	2.6	1.8	1.8	1.8	1.8	1.8	654.2
Net present value, Jan 2016	611.1	2.0	2.7	2.6	2.3	1.6	1.5	1.4	1.4	1.4	651.4

The estimated average annual benefits to applicants (business) from applications for prior approval under these new and amended rights is in the range of £1.8m to £2.4m, with a central estimate of £2.1m.

The wider economic impact

Administrative impact on local authorities

Local planning authorities may benefit from a reduced administrative burden where the application would have come forward by planning application, but this will be offset by a greater number of applications, and a reduction in fee income per application. Local planning authorities may experience a rise in the numbers of environmental complaints about the noise or operation of neighbouring businesses, but this indirect impact has not been monetised.

Delivery of additional housing

As already noted there may be wider costs and benefits which this validation impact assessment is not designed to capture. DCLG do not collect data on the number of dwellings provided through the rights, however it is understood that the rights are benefitting communities through the delivery of additional much needed new homes. Housing completion data shows an 8,000 increase in the number of dwellings delivered in 2014 through change of use, a proportion of which may have come forward through permitted development, primarily office to residential.[12] Based on their assumptions about average size, the number of dwellings per proposal, and the build out rate, the BCO estimates that 7,600 dwellings were developed in England in 2014. The BCO note that the rights are more likely to affect the conversion of smaller units, as larger schemes may need additional

[12] Table 120 https://www.gov.uk/government/statistical-data-sets/live-tables-on-net-supply-of-housing

physical works, for which planning permission is required. DCLG planning statistics show that the highest number of applications has been in London (40% of the national total up to June 2015) giving rise to new dwellings in an area where there is currently a significant housing shortage. London Councils[13] estimates that there have been 2,639 applications between May 2013 when the rights were introduced and April 2015, from which permission has been granted for at least 16,600 new dwellings in London, although it makes no estimate on how many have in practice been implemented. In their report on the London Residential Market 2015, the Estates Gazette[14] notes that at the end of May 2015 there were 5,354 housing unit starts under the right. They suggest that at the end of 2014 there were 24,806 private residential unit starts in London, and that if there are similar figures at the end of 2015, units delivered under the right would account for nearly 21% of the total.
The Department's planning statistics provides the number of applications for prior approval, broken down by those granted, refused and prior approval not required. The figures for permissions are the sum of those granted and prior approval not required. For the year to March 2015 in England, there were 3,981 applications of which 3,282 (82%) were permitted. It is accepted that not all planning permissions are built out. In their recent report, the British Council for Offices[15] estimates an implementation rate of 27 % in London, and that it may be higher elsewhere e.g. Bristol 50%. The BCO report suggests that some applicants with prior approval use this to negotiate with the local planning authority on an amended scheme for which planning permission is then sought.

We consider that the rights will make an important contribution to the delivery of additional new homes. The delivery of additional housing would, other things being equal, have a marginally negative effect on the price of housing services. This would be beneficial to newly-formed households and to those investing in housing, but potentially harmful to existing investors and owners.

The potential benefit from the delivery of additional residential space is partly captured in the estimate of the increase in building values above, however the (indirect) benefits of additional conversion activity incentivised by the rights is discussed below.

Impact on tenants of office space and building owners

Recent reports note a reduction in office space, some displacement of existing businesses, and a rise in rents. The BCO report estimates that nationally 6.1 m sq ft of office space has changed use to residential as a result of the rights. It notes that some conversions would have happened anyway in line with long term national trends.

Vacancy rates are evidence of the supply of land and buildings in a particular land use relative to the demand for that land use. The vacancy rate for secondary office stock was 12.6% in 2012, up from 5% in 2000.[16] Nationally the vacancy rate varies, with rates in 2014 falling in Birmingham and Bristol, and increasing in Manchester and Leeds.[17] The BCO report that some areas, such as central London, (an exemption area) notes low vacancy rates of 3.3 %. It notes that the market is responding, particularly in regard to prime office space. In addition, it is also providing for cheaper and smaller office space, including through 'hub', incubator and serviced office models.

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[13] London Councils – The impact of permitted development rights for office to residential conversions http://www.londoncouncils.gov.uk/our-key-themes/housing-and-planning/permitted-development-rights-offices/impact-permitted

[14] http://www.estatesgazette.com/egi-about/london-residential/permitted-development-rights/

[15] Office to residential conversion http://www.bco.org.uk/Research/Publications/Office-to-residential_conversion.aspx

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

[17] http://www.lsh.co.uk/~/media/files/lsh/pdfs/research-reports/national-office-market-reports/officereport2015.ashx

It has been noted that in Birmingham the differential between secondary office and residential space is £225 per square foot[18]. DCLG publishes land values provided by the Valuation Office Agency for use in appraisal. These suggest that land with permission for residential use is worth an average of £5.5m per hectare more than land with permission for industrial use in England (although the value of residential land is strongly determined by prices in London).[19] The increase in land value can be a benefit to business and drive land use towards those uses the economy values the most. However, some businesses could face some rent increases or relocation costs as they move to other sites with the appropriate use class. Any rise in rent may also lead to lower returns on conversions, as the differential value is reduced.

This may also be the case with changes between other uses. We have no equivalent vacancy data for light industrial buildings or launderettes. By allowing office, light industrial premises and launderettes to switch to more productive (higher value) uses, the opportunity cost to the building owner of not switching rises. Commercial rents may increase to reflect this private opportunity cost – whether rental values increase depends on the supply of commercial property. Such increases are an indirect impact of the policy, in the same way that the benefits of additional development to businesses, other than developers and land owners, more generally are not included as direct impacts in other DCLG impact assessments. For example, we do not include the benefit to commercial tenants when additional commercial space will be generated.

Regardless, the increase in rent to reflect the opportunity cost of holding the property in an economically less valuable use is a transfer. Any increase in rent charged to the occupant is received by the building owner as an increase in rent. Consequently, this represents a transfer from a business occupant to another business (property owner).

Attempting to estimate the value of the transfer would require detailed market investigation which is beyond the scope of this impact assessment. It would be disproportionate to attempt such a study to gain a value for a transfer between individual businesses for the purposes of this assessment. This is a validation stage impact assessment, and therefore specifically only considers the direct costs of the changes and therefore does not consider the indirect costs to businesses of increased rents if the supply of commercial buildings is reduced by increased change of use (Paragraph 1.9.33 of the previous Better Regulation Framework Manual).

Risks and assumptions

The options are modelled using the number and cost of applications for each development type by using planning application statistics in respect of office to residential, and categories used in Land Use Change Statistics (LUCS) as proxy indicators for Use Class Orders in respect of light industrial.

It is assumed here that a site level change, as reported in Land Use Change Statistics, is comparable to a planning application (which is likely to be an underestimate).

In order to capture the benefit to owners of office buildings as a result of increased planning certainty on their land, we have made a number of assumptions (set out above) on the function of the land market and the business model of developers. We have adapted

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

[19] DCLG (2015) Land value estimates for policy appraisal, https://www.gov.uk/government/publications/land-value-estimates-for-policy-appraisal

estimates of land values and floor space provided by the Valuation Office Agency. These assumptions are consistent with previous DCLG Impact Assessments.

Direct costs and benefits to business calculations (following OITO methodology)

Option 1 offers the most benefit to business applicants in cases where applications are avoided.

The combined net average annual savings accruing to business are calculated by the sum of the administrative, resource and time cost savings of no longer applying for planning permission and no longer paying an application fee after accounting for the cost administration and of paying the appropriate prior approval fee and the costs of submitting additional applications. A further benefit is calculated according to the change in the potential value of converting office buildings, which results in a rise in the value of assets held by businesses.

The Equivalent Annual Net Cost to Business (2014 prices, 2015 present value) is - £70.3m i.e. a benefit to business.

Annex – the calculation of Asset Value Uplift

We have considered in detail the one-off benefit to land owners (businesses) of making the right to convert office buildings to residential space permanent in detail, set out below. There is a difference in value between office and residential space in most local areas, driven by demand relative to a fixed and limited supply. The market rent paid for space in different uses is a proxy for the benefits which tenants gain by using the space. The projected, discounted flows of market rents and costs (such as maintenance) are key determinants of the value of a property. However, an additional 'hope value' component of property capital values, reflecting the possibility of changing to a more profitable use (i.e. a higher flow of rents), is well recognised by valuation professionals.[20] Further explanation of the determination of land values is given in the official DCLG Appraisal Guide.

Given a reduction in the cost of securing planning permission (discussed above) and an expected increase in planning certainty for converting office buildings to residential use, we estimate that developers' valuation of convertible office space will rise. In turn, this will push up the prices paid for office buildings – assuming that developers compete to purchase land - benefiting the owners of such buildings by an estimated total of £609.7 million.

Office space and values

The Valuation Office Agency estimated that there were 340,890 offices in England, representing a total of 89,250,000m^2 of floor space, in 2012 (the most recent year for which published estimates are available)[21]. Lambert Smith Hampton, in their 2013 Office Market Review[22], suggest that 73% of office space is less valuable secondary or tertiary space (with capital values ranging from £320 to £860 per square metre). Their estimates also suggest that 63% of secondary office space might be physically suitable, but not necessarily viable, for conversion to an alternative use. Taken together, this suggests that 157,000 of 340,000 offices in England (Table A1, columns 2 & 3) might be physically suitable for conversion.

In order to estimate the range office capital values for sub-national areas, we multiply the Lambert Smith Hampton estimate by the residual value of land for office development in each region, relative to the national average, using 2015 regional estimates from the VOA (the adjustment factor is given in Table A1, column 5. Results are given in columns 6 & 7). We would expect these to be strongly correlated with capital values (which also reflect construction costs, depreciation and other factors), but – as they are based on the use value of the space - not to be affected by the temporary permitted development right. We also assume an increase in capital values of 5% per year in order to inflate the 2013 LHS estimate to 2015 prices, consistent with the long-term increase in land values given as an assumption in the DCLG Appraisal Guide.

The underlying office land values are estimated from a small subset of settlements within regions. The size of this set prevents us from estimating office values at a smaller scale than

[20] For example, the HMRC manual on valuation of land for tax purposes, at IHTM 36275 - http://www.hmrc.gov.uk/manuals/ihtmanual/ihtm36275.htm. The term is also used in the Royal Institute of Chartered Surveyors (RICS) manual *Valuation – Professional Standards* within the definition of 'market value' (PS3.2) – referenced in a guidance note on the assessment of the commercial viability of development at E.1.2: http://www.pas.gov.uk/c/document_library/get_file?uuid=0c6ecae8-2330-4b7d-b43f-8ed0d8f4cf2f&groupId=332612 . Reference is also made in a 2006 report by Knight Frank for the British Property Federation, the House Builders Federation, RICS and the Confederation of British Industry: http://www.hbf.co.uk/?eID=dam_frontend_push&docID=20600&filename=PGS_Audit_Final_Report_18_September_2006.pdf

[21] https://www.gov.uk/government/statistics/business-floorspace-experimental-statistics

[22] Downloadable from: http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&cad=rja&uact=8&ved=0CCEQFjAA&url=http%3A%2F%2Fwww.lsh.co.uk%2Fdownload.aspx%3Fassetid%3D%257B08E6F334-F5DB-40BC-B7A3-76536B53DE48%257D&ei=XwE6VdPqNojTaNrogKAH&usg=AFQjCNFnAPJOFBD78dyMgCVIIPOqtQ23Hw&bvm=bv.91665533,bs.1,d.ZWU

the regional level. Inner London is excluded from our analysis as a high proportion of office space falls within areas exempted from the permitted development right until 30 May 2019 (and which may then consider bringing forward an Article 4 direction), and because of high variation between settlements within the region. This is likely to mean that the estimate of benefits underestimates the total impact of the policy.

Table A1: The stock of offices and range of office capital values by region

Region	Stock of offices (000s)	Of which, secondary or tertiary space suitable for conversion	Average office size, m^2	Regional office land values as a % of national average	Maximum office capital value per m^2	Minimum office capital value per m^2
East Midlands	22	10	227	27%	£260	£100
West Midlands	30	14	239	84%	£790	£300
East	33	15	237	106%	£1,000	£380
Yorkshire & Humber	31	14	228	41%	£390	£140
North East	13	6	281	19%	£180	£70
North West	43	20	250	81%	£770	£290
South East	55	25	262	190%	£1,810	£680
South West	29	13	233	89%	£850	£320
Outer London	25	12	227	122%	£1,160	£440
England[23]	341	157	262	100%	£950	£360

Value of residential land

We analyse VOA estimates of the value of cleared, permissioned land for residential development to estimate the potential benefits of converting a site in each region. This assumes that the net increase in value (new use value less development costs less the cost of permission and existing use value) from converting office to residential space is comparable to the net increase in value from building an equivalent area of residential space on vacant land. This assumption is justified by the fact that developers choose to pursue both of these activities when they are able to choose between them. Davis Langdon, a construction consultancy, has previously estimated that conversion saves up to 20% to 30% of the costs of development which does not include replacement of the building exterior.[24]

The Department has previously published estimates of the value of residential land by Local Authority.[25] However, it would be inappropriate to compare sub-regional estimates of residential values to regional estimates of office values. Comparing prices for residential space in high-value areas (such as city centres, where office values would also be higher than the regional average) to a regional average for office space would be likely to result in an overestimate of the uplift on viable sites.

23 Figures include Inner London, which cannot be estimated separately. See above explanation.

24 http://www.building.co.uk/cost-model-residential/5024902.article

25 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/407155/February_2015_Land_value_publication_FINAL.pdf

Expected cost of securing permission

Based on estimates of the proportion of full planning applications which are refused on the basis of the principle of development, and the proportion for which there are other grounds for refusal, we estimate that the introduction of permitted development rights increases the certainty of planning permission on suitable sites from approximately 86% to 94%.[26]

As detailed above, the cost of submitting a planning application falls to the cost of submitting an application for Prior Approval, from an average of £15,780 to £2,610. The expected cost of permission is given by the cost of submitting an application, divided by the probability that an application is granted. We therefore estimate that this falls from £18,410 (for planning permission) to £2,770 (for Prior Approval) as a result of the proposed right, a difference of £15,640 per application. This is divided by the average office size (Table A1, column 4) in each region to give a regional cost per m^2 (Table A2, columns 3 & 4) for comparison to office capital values (Table A1, columns 6 & 7). As we exclude applications which would have come forward under the counterfactual from our estimate of the uplift (discussed below) this reduction in the cost of permission does not result in any double-counting of benefits described above.

Table A2: The value of residential space, accounting for the costs of conversion and permission, under each scenario

Region	**Value of space for residential development, per m^2**	**Value less expected cost of permission (policy), per m^2**	**Value less expected cost of planning permission (counterfactual), per m^2**
East Midlands	£340	£330	£260
West Midlands	£460	£450	£380
East	£820	£800	£740
Yorkshire & Humber	£450	£430	£370
North East	£420	£410	£360
North West	£460	£440	£380
South East	£1,130	£1,120	£1,060
South West	£630	£620	£550
Outer London	£1,490	£1,480	£1,410
Average, weighted by office space	£730	£720	£660

Viability and uplift

26 This change in the probability of permission being refused on a given site is calculated using Bayes' Law. The Impact Assessment relating to Permission in Principle (RPC-3069(2)-CLG) estimated that 62% of current refusals are on grounds of the principle of development. The probability of a refusal of planning permission is currently 14%, meaning the probability of a refusal in principle is 62% multiplied by 14%, roughly 9%. The probability of rejection for technical matters, given that an application is not refused in principle, is given by 14% less 9% i.e. 5%. As permitted development rights establish the principle of development, this conditional probability should by divided by the probability of not being rejected in principle (81%) to give the total probability of rejection for technical matters, 6%. This assumes that the grounds for refusal are independent and unobserved by professional developers (given that they submit applications which are refused). Using actual planning statistics will significantly overestimate the mean probability of permission, given that developers select and design the applications which are submitted in order to maximise this chance. However, this selection bias should not affect the estimated *difference* between the policy and counterfactual.

An office can be viably converted if its value as residential space (taking into account the costs of conversion and permission, as discussed above) exceeds its capital value as office space. Assuming that offices are uniformly distributed between the minimum and maximum capital value in each region, we estimate the proportion of offices which could be viably converted and the mean change in value (uplift) which would result in both the policy scenario and the counterfactual. This is 100% if the value of residential space in a region (Table A2, column 2 or 3) is greater than the maximum office value (table A1, column 6); otherwise it is the proportion of the range of office values which fall below the residential value. The results of this comparison are given in Table A3.

Table A3: Estimated viability of stock, and mean uplift in value, under each scenario

Region	**% viable (policy)**	**Mean uplift on viable sites per m^2 (policy)**	**% viable (counterfactual)**	**Mean uplift on viable sites per m^2 (counterfactual)**
East Midlands	100%	£150	98%	£80
West Midlands	31%	£80	18%	£40
East	68%	£210	58%	£180
Yorkshire & Humber	100%	£170	91%	£110
North East	100%	£290	100%	£230
North West	32%	£80	19%	£50
South East	39%	£220	34%	£190
South West	57%	£150	44%	£120
Outer London	100%	£680	100%	£610
England	51%	£250	45%	£210

Totalling the uplift over viable land which would receive permission in each scenario[27], we estimate that office to residential conversion could generate a value of £4.5 billion under the policy compared to £3.0 billion in the counterfactual, a one-off benefit of £1.5 billion.

However, these estimates do not take into account the following complicating factors:

- *Developers' cost of capital* (borrowing costs)
- *Permissions under the temporary right*
- *Permission and development in the counterfactual*
- *Ownership of affected buildings*
- *Dynamic effects of expected conversion activity on values*

The impact of these factors is considered below.

Developers' cost of capital

The estimated increase in willingness-to-pay (the uplift) estimated above will be reduced by the developers' cost of raising funds over the period of development, which we estimate as

[27] The probability of receiving planning permission (above), multiplied by viability (Table A3, column 2 or 4), multiplied by the average uplift per m^2 (Table A3, column 3 or 5), multiplied by the average office size (Table A1, column 4), multiplied by the number of offices for each region (Table A1, column 3).

7% per annum for a period of 3 years, or 23% in total, as the price paid for each building must be financed until the completed development is sold. This is based on assumptions given in the DCLG appraisal guide and data on the length of development provided by Glenigan.[28] This cost is already reflected in the initial land values used above, and therefore is only applied to the increase (uplift) in values. This factor reduces the total estimated uplift to £3.6 billion under the policy compared to £2.5 billion in the counterfactual, a reduced increase of £1.1 billion.

Permissions under the temporary right

We estimate from planning statistics that approximately 7,400 buildings are already able to convert, or have converted, as a result of the temporary right.[29] This represents approximately 10% of the 76,000 offices – of a total stock of 340,000 in England - which might be suitable, viable and permitted to convert to residential space in total, estimated using the methodology described above (multiplying the relevant stock (Table A1) by viability (Table A3) and the probability of permission). In order to exclude the benefits to the owners of these buildings which have already been captured, we reduce our estimate of the increase in uplift by 10%. This reduces the estimated net increase to £0.9 billion.

Permissions and development in the counterfactual

We note that local plans may identify individual office sites as being suitable to change to residential use, with the result that they would have an increased probability of permission in the counterfactual. It is not possible to separate these sites from others recorded in the planning statistics. However, their total effect is already reflected in the probability of permission in the counterfactual which we estimate from these statistics, and can therefore be discounted.

We estimate that only 0.002% of the space considered viable would actually be developed each year in the counterfactual, given 140 applications per annum (estimated in the previously validated Impact Assessment on the temporary right, RPC14-FT-CLG-2147(2)), compared to nearly 70,000 additional offices which might be viable, suitable and permitted to convert under the extended right. We would however expect the annual increase in the stock of floor space suitable and viable for conversion to equal or exceed the rate of conversion in the counterfactual, given the relative size of total stock and annual outflow.[30] We therefore do not consider it appropriate or proportionate to further reduce the above estimate to account for this effect.

Ownership of affected buildings

The vast majority of the office buildings affected will be in private ownership. An analysis of published data from e-PIMS, the Government's Property and Land asset database, for December 2015, identifies approx. 1,400 office buildings in England in which public sector organisations hold an interest (but may not be the freeholder). This represents approximately 0.4% of 340,890 office buildings identified in the 2012 VOA estimates. Using the same sources, approximately 3.4 million square metres of 89.2 million square metres of office space in England involve a public sector interest (4%). In the absence of readily-available evidence on the value, suitability for conversion, and freehold-ownership of these assets, we

[28] This description of business impacts under the policy assumes no behavioural change by businesses. There is evidence to suggest that land owners would make application for prior approval prior to selling land, which would increase the benefit to individual businesses but not alter the total estimated impact.

[29] DCLG Live Tables PDR2 (from April 2014) and 128 (for estimation between April 2013 and April 2014, using the change in the total number of Prior Approvals as a proxy)

[30] Although the proposed right only applies to space which was in planning use as offices on 29 May 2013, we would expect a stream of this historical stock to become viable for conversion as it ages and depreciates.

consider it disproportionate to apply a reduction to the estimated benefits of the policy to account for public ownership. We therefore assume that all freeholds affected by the policy are owned by businesses.

Dynamic effects of expected conversion activity on values

The calculations above are based on the initial values of residential and office space. However, given the area of office space which could be viably converted, we would expect these values to change as office space became scarcer and residential space became less scarce. We would also expect developers to include an expectation of these changes in price in their valuation of office space.

We therefore assume that there is a negative, linear relationship between the total number of buildings which could viably be converted and the increase in the expected value of a given building. To estimate this effect, we use commercially available data to consider changes in office capital values over the duration of the temporary right. This shows a 44% increase in values between 2012 and 2015. We would expect this to be composed of three elements:

- A speculative effect, driven by the temporary uplift in the value of office space through the result of the right. We estimate that this component accounts for 6 percentage points of 44, based on the scale of the uplift estimated above[31]. We would expect this component of prices to be preserved as a result of extending the right, and therefore do apply any further increase or reduction to our estimates to account for it.
- A macroeconomic effect, driven by changes in the effective demand for land as a result of growth in exogenous economic factors. We estimate this component using a model of historical trends in office values and changes in the value of other properties over the same period.[32] This suggests that this component accounts for 33 percentage points of 44. As this component occurs in the counterfactual, we exclude it from our estimate of benefits.
- A scarcity effect, driven by actual conversions which reduce the stock of office space. We assume that this effect accounts for the remaining 4 percentage points of 44, as a result of 1.4% of all stock, and 5% of the viable stock, being converted (approximately 3,800 offices, using an estimate of annual build out from the BCO). This reduces the price differentials between residential and office and hence the benefits from the conversion rights.

We assume that in the hypothetical scenario in which the remaining 95% of viable offices converted, the scarcity effect would increase on a linear basis over time, driving an increase of a further 53% on 2015 values if all stock viable under the policy was converted and assuming no increase in the construction of office space relative to the counterfactual.[33] In the counterfactual, this increase would only be 33% as a result of a smaller viable stock. We do not include this scarcity effect a benefit to office owners in our analysis. It depends on the stock of offices actually converted, and we therefore consider it to be indirect. Equally, there

[31] Using results for England in Tables A1, A2 and A3 – we estimate that 51% of 157,000 offices could viably convert under the policy, with an average uplift of £250 per m^2 on viable sites, an average capital value of £660 per m^2, and an average size of $260m^2$. Dividing the mean uplift per area by the mean capital value gives an estimated hope value under the policy of 38%. The analogous calculation for the counterfactual suggests an existing hope value of 31%. The change in hope value as a result of the temporary right would therefore increase capital values in this market segment by approximately 38%-31% = 6% percentage points after rounding.

[32] We estimate a MA(1) regression model of office capital values on industrial capital values prior to 2013, and then forecast values from 2013 to 2015. Residential land values and GDP growth do not have significant explanatory power within this model. The model specification is highly significant when using a Wald test (Chi squared (2) = 149.57, N = 32)

[33] To calculate this increase, we divide the 4 percentage point effect estimated by the 5% of stock which has already converted to estimate the scarcity effect per percentage point of conversions. We then multiply by (100%-5%) = 95%, the stock which is expected to convert in the future. We then divide by 144% to account for the historical increase in values from 2012 to 2015, rebasing our estimate of the effect into 2015 prices. We compare this to the counterfactual, under which – because fewer offices are viable to convert – would see a total increase of only 42% in office values.

would be an indirect cost to tenant firms if the cost of leasing office space rose as a result of conversion activity.

In addition to the hypothetical increase in office values as a result of scarcity, we consider a reduction in residential land values as a result of the increased supply of housing space. Research for the Department in 2010[34] estimated that, between 1984 and 2008, the value of residential space rose by 27% more than it would have done without planning restrictions. This research used rejection rates as a measure of planning restrictiveness, and found the average rejection rate over this period was 25%. As conversions under the temporary right accounted for approximately 4% of net residential additions (BCO estimates and Live Table 120), we assume that an 8% reduction in rejection rates would result in approximately a 0.5% decrease in overall residential values relative to the counterfactual.[35]

As the reduction in viability as a result of hypothetical conversions is endogenous (partly determines itself, as the scarcity effect depends on the stock of viable offices) we iterate[36] the analysis above until the reduction converges. This results in a reduction of the estimated uplift of 33% under the policy and 29% in the counterfactual. We therefore estimate the net increase in the uplift as a result of the policy as £0.6 billion.

Conclusion

Based on an increase in planning certainty and a reduction in the costs of submitting a planning application, and giving due consideration to other factors affecting private valuations, we would expect the 'hope value' component of the market price of office buildings, determined by their potential to convert to residential use, to rise from £1.6 billion to £2.2 billion as a result of permanent permitted development rights. This is a one-off direct benefit to landowners of approximately £609.7 million. Annualised over 10 years, this is a benefit to business of £70.8 million in EANCB terms in 2015 prices, 2016 present value.

[34] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6357/1767142.pdf

[35] This is 27% divided by 25%, multiplied by 8%, multiplied by 4%.

[36] I.e. we successively estimate the stock of viable offices given our most recent estimate for the dynamic effect, and vice versa, until both variables do not change between two consecutive estimates. This 'convergence' to a particular set of values is reached, to the nearest percentage point, after 6 rounds of estimation.