Title: Amendments to the permitted development right for the change of use of Commercial, Business and Service uses to dwellinghouses **IA No:** RPC-DLUHC-5336 **RPC Reference No:** RPC-DLUHC-5336(1) **Lead department or agency:** DLUHC **Other departments or agencies**: N/A	Impact Assessment (IA) **Date: 04/03/2023** **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:** Stuart Moseley

Summary: Intervention and Options

RPC Opinion: Green-rated

Cost of Preferred (or more likely) Option (in 2019 prices, 2020 present value)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
£157.6m	£157.6m	£-18.3m	Qualifying provision

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

- The government is committed to simplifying and speeding up the planning system: to deliver more homes to help redress historic undersupply; and to provide a planning framework that allows high streets to respond quickly to changing consumer demands and behaviours, curtailing high street decline.
- Therefore, the government is amending some of the limitations attached to the permitted development right (PDR) that allows Commercial, Business and Service uses to change use to residential, which will support an increase in housing supply and help reduce vacancy blight on the high street.

What are the policy objectives of the action or intervention and the intended effects?

- The objective is to allow more homes to be delivered without a full planning application, providing certainty to applicants, and supporting a mix of uses, including residential, in our high streets and town centres. The intended effect is to reduce the administrative cost of the planning system on individuals and businesses, which in turn results in increased housing supply.
- The government will now remove limitations to further encourage and support housing growth through the reuse of existing commercial buildings. Namely: the condition that requires that a building be vacant for a continued period of three months prior to application; and the condition that only 1,500 square metres of floorspace can change use under the right.

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

- Doing nothing retains existing restrictions. Retaining the floorspace limit would mean that less housing would be delivered through the right than could otherwise be the case. Retaining the vacancy requirement would mean that buildings would continue to sit empty unnecessarily, slowing down housing delivery and creating a temporary blight on the high street.
- We considered both doubling the floorspace limit and removing it entirely. Doubling the floorspace limit would increase the amount of housing deliverable through the right, whilst still preventing the largest buildings fully changing use. Whilst more housing could be delivered under the right, it would still be capped, meaning less housing could be delivered overall than if there was no floorspace limit.

Will the policy be reviewed? It will/will not be reviewed. **If applicable, set review date:** Month/Year

Is this measure likely to impact on international trade and investment?		Yes		
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** NA	**Non-traded:** NA	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible: Minister Rowley Date: 04/03/2024

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £105.4m	**High:** £220.6m	**Best Estimate:** £157.6m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£0.4m		0	**£0.4m**
High	£0.4m		0	**£0.4m**
Best Estimate	£0.4m		0	**£0.4m**

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

There are one-off familiarisation costs to developers. The measures are small, deregulatory amendments to an existing PDR, consisting of tweaks to two lines in legislation. Given the simplicity of changes to the legislation, we anticipate these costs will be small. This cost is more than fully offset by the much larger savings from no longer needing to submit a full planning application. There are no ongoing costs.

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

Potential additional incremental pressure on local infrastructure from new homes (could potentially be offset by the reduction in pressure on the same infrastructure (e.g. roads) by the ending of commercial activity). The loss or displacement of some services or viable Commercial, Business and Service uses (from the change of use to higher value residential use class) in a local area could have a negative impact on existing residents, both through reducing their amenity value and through the welfare loss of reduced access to shops, offices, and other property types.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0		£12.4m	**£105.9m**
High	0		£25.8m	**£221.1m**
Best Estimate	0		£18.5m	**£158.0m**

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

By far the biggest impact is Land Value Uplift to owners of properties brought into scope by the changes to the PDR. Some of this Land Value Uplift will also be captured by developers. We also estimate that there will be benefits for developers in the form of reduced planning fees and reduced labour costs. While change of use will still be subject to a prior approval, this is less costly and less time-consuming to prepare and submit than a full planning application.

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

In addition to the direct impact of the amendments to the PDR, it is possible the measures will induce behaviour change among landlords and developers to bring forward applications under Class MA which would not have been made under the planning system in the counterfactual. While uncertain, this would likely bring about further benefits. The additional units delivered by this policy, though small relative to the annual total Net Additional, may also have localised impacts on house prices and housing availability.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5%

The analysis is sensitive to some key modelling assumptions. Where possible we have used data to inform key assumptions. However, data in some areas is very limited, particularly on additionality and on the likely uptake of the amended right for very large commercial properties. The main assumptions affecting the EANDCB and NPV are the number of schemes in the counterfactual, the percentage of schemes that are additional (would not have been implemented in the counterfactual), and the Land Value Uplift per dwelling.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 0.1	**Benefits:** 18.4	**Net:** -18.3	

Evidence Base

Problem under consideration and rationale for intervention

Government sets the legal and policy framework within which the development industry operates. It has reaffirmed its commitment to continue progress towards the delivery of 300,000 new homes a year. In support of this, the government aims to deliver one million new homes of all tenures over the course of this Parliament. 2022/23 saw around 234,000 new homes delivered.

Commercial vacancy can blight our high streets. People want to see thriving town centres and where there are many empty shops, it can contribute towards their decline. Allowing commercial, business and service uses to respond more quickly to changing consumer and market demands helps to support increased footfall, attracting people and businesses and can help avoid long-term vacancy.

Improvements have already been made to the planning system to remove unnecessary delays to new housing development and high street vacancy, including through the change of use of existing buildings to dwellinghouses and the introduction of the broad Commercial, Business and Service use class. PDRs provide flexibilities and planning freedoms to different users, including businesses, local authorities and local communities. They are an important tool to support growth by providing certainty and removing the time and money needed to submit a planning application.

Alongside the more streamlined planning process and greater planning certainty, PDRs also allow for local consideration of key planning matters, set out in a light touch prior approval process. Individual rights provide for a wide range of development. While traditionally for quite minor development, such rights have been increasingly used in recent years to support the provision of new homes through change of use of existing buildings and extending buildings upwards, as well as key government agendas around issues such as high street vitality. The government wants to boost housing supply further, including through PDR.

Following the 2020 '*Supporting housing delivery and public service infrastructure*' consultation, a new PDR (Class MA of Part 3 of the Town and Country Planning (General Permitted Development) (England) Order 2015 (as amended) came into effect in August 2021. This provides for the change of use of premises in the Commercial, Business and Service use class (Class E) to residential. This broad use class includes a range of uses commonly found on the high street, such as shops, restaurants, offices, as well as gyms and light industrial buildings.

The government '*consultation on additional flexibilities to support housing delivery, the agricultural sector, businesses, high streets and open prisons; and a call for evidence on nature-based solutions, farm efficiency projects and diversification'* ran over the summer of 2023. To support housing delivery and high street vitality, this included proposed changes to the Class MA Commercial, Business and Service premises to residential PDR, some of which will now be introduced.

Deregulating 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. That is why the government intends to provide additional flexibility for Class MA. Following consultation, the government is amending the Class MA Commercial, Business and Service premises to residential right to remove the 1,500 square metre limit on the cumulative amount of floorspace that can change use, and the requirement that the premises needs to be vacant for a continuous period of at least 3 months immediately prior to the date of an application for prior approval for change of use under the right.

Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

This impact assessment relies on data and evidence where possible, and most of the analysis conducted is informed by reputable sources of data. In some limited cases it was not possible to obtain data to inform assumptions. In these cases, it was necessary to use high level indicative modelling assumptions which have been sense checked internally with the appropriate analyst and policy teams. Sensitivity analysis has been conducted to highlight the uncertainty in the analysis, especially where there is particular uncertainty such as the level of additionality of Class E buildings (excluding offices). In other cases, the data we have is very limited, for example on the expected take-up of the Class MA PDR. Therefore we have made use of the limited data and evidence that we hold, in this case on the historic prior approvals of offices to residential conversions.

This impact assessment estimates the impacts of removing the vacancy requirement and floorspace limits, which were introduced in August 2021 with the introduction of Class MA. The impact of introducing the vacancy requirement and floorspace limit are estimated in Impact Assessment RPC-CLG-5094(1)[1]. We maintain consistency with the approach taken in the previous impact assessment as far as possible, including retaining some of the high level indicative modelling assumptions.

Description of options considered

The Secretary of State has powers to grant planning permission by development order for specified development, known as a PDR. These national PDRs as set out in the Town and Country Planning (General Permitted Development) (England) Order 2015, as amended, (the GPDO) are deregulatory: removing the need for a full planning application, and therefore reducing bureaucracy and cost. PDRs are subject to prior approval allow for local consideration of specific planning matters as set out in legislation.

The consultation proposed that the PDR that allows for the change of use from Commercial, Business and Service uses to residential be amended to (i) allow more floorspace to change to residential use and (ii) that the vacancy requirement be removed (with the driver of helping to deliver more new homes to support the government's housing ambitions).

Floorspace (i): The PDR currently allows up to 1,500 square metres of Commercial, Business and Service use to change use to residential. To provide greater flexibility for owners and support housing delivery, it was proposed that the right be amended to allow more floorspace to change to residential use. We sought views on whether the size cap should (a) be doubled to 3,000 square metres or (b) removed, to provide no limitation on the amount of floorspace that can change use. A third (c) option for 'no change' was also considered.

Vacancy (ii): The PDR required that the premises be vacant for a continuous period of at least 3 months immediately prior to the date of the application for prior approval. This was introduced to safeguard against businesses being displaced. However, certain stakeholders had suggested that the requirement was ineffective and could result in property being left vacant for longer periods. In order to provide greater flexibility for owners, enabling more premises to change use, and therefore to deliver additional homes, we proposed (a) removing the vacancy requirement. A second (b) option for 'no change' was also considered.

Doing nothing on the floorspace limit would not deliver on the government's ambition to further support housing delivery, restricting the number of dwellings that could be delivered per building under the right, which could in turn further exacerbate housing pressures faced by people across England. Doubling the floorspace limit would also continue to restrict the number of units that

[1] RPC-CLG-5094(1) IA *[Available at: https://www.legislation.gov.uk/ukia/2021/93/pdfs/ukia_20210093_en.pdf]*

could be delivered under the right. Retaining the vacancy requirement would mean premises continue to need to be vacant for three months prior to the submission of an application for prior approval, blighting the high street and risking accelerating decline.

Therefore, we are implementing the option to (i, b) removing the floorspace limit, and (ii, a) removing the vacancy requirement.

Policy objective

The government is committed to simplifying and speeding up the planning system, which will help make effective use of land, support high streets and town centres, and deliver more homes.

There is an ongoing housing shortage, including in our towns and cities, and rural areas. The government is committed to delivering a million homes by the end of this parliament. National PDRs have an important role to play in housing delivery, making effective use of existing buildings and reducing the need to build on greenfield land.

The government consulted in 2023 on potential changes to a range of PDRs, in particular, to make sure that they continue to provide the flexibility needed to sufficiently support housing delivery. This included changes to the Class MA Commercial, Business and Service premises to residential right which will now be introduced. The consultation can be accessed at: https://www.gov.uk/government/consultations/permitted-development-rights[2].

We will amend the Class MA Commercial, Business and Service premises to residential right to remove the 1,500 square metre limit on the amount of floorspace that can change use under the right.

We will also remove the requirement that the premises needs to be vacant for a continuous period of at least 3 months immediately prior to the date of an application for prior approval for change of use under the right.

The amended right will support the delivery of the governments housing ambitions through providing a further simplified planning process which provides greater planning certainty.

Summary and preferred option with description of implementation plan

The revised Class MA PDR will be delivered through an amendment to the Town and Country Planning (General Permitted Development) (England) Order 2015. These amending regulations are secondary legislation set out in a Statutory Instrument.

Removing the vacancy requirement will allow applications for prior approval to be submitted at any time, not only after a three month vacancy period. This will take effect from the date the Statutory Instrument comes into force. No transitionary arrangements are required, as any applications for prior approval that adhered to the three month vacancy condition will have already been submitted by the date the amendment comes into effect.

Removing the floorspace limit will allow applications for prior approval to be submitted for the change of use of any sized buildings from the date the Statutory Instrument comes into force. No transitionary arrangements are required, as any applications for prior approval for smaller amounts of floorspace will still be within scope of an uncapped limit.

Following implementation, it is expected that the number of homes delivered under the right will increase and that high streets will be able to respond more quickly to changing consumer demands and expectations.

[2] PDR Consultation *[Available at: https://www.gov.uk/government/consultations/permitted-development-rights]*

Monetised and non-monetised costs and benefits of each option (including administrative burden)

Supply Impacts

Overview of approach

This impact assessment considers amendments to the Class MA PDR. Therefore, we build on and adapt the analytical approach taken in RCP-CLG-5094(1)[3], a previous impact assessment which covered the introduction of Class MA in August 2021.

The general approach taken to modelling the supply impact of the PDR amendments is summarised in the following steps:

1. Establish the baseline: estimate the number of schemes implemented in the counterfactual.
2. Estimate units per scheme: estimate the number of units delivered per implemented scheme in the counterfactual.
3. Then for each policy option:
   i) Increase in schemes implemented under the policy option
   ii) Increase in units delivered through the PDR
   iii) Net additional dwellings from the policy option: additional new supply compared with the counterfactual

In this Impact Assessment we monetise the direct impacts of the amendments to Class MA. These arise where applications are made through the Class MA PDR which would otherwise have been made as planning applications in the counterfactual. This leads to net additional dwellings because Class MA establishes the principle of development, reducing the likelihood of the applications being refused – and therefore increasing the number of conversions to dwellinghouses which ultimately go ahead.

There may be a further indirect supply impact resulting from behaviour change, where completely new applications come forward under the PDR which would not have been made under the planning system in the counterfactual. We address this indirect impact in the non-monetised benefits and costs section, but do not numerically quantify it. The reason is this further impact depends on a behaviour change from developers in bringing forward completely new applications.

Establishing the baseline: implemented schemes in the counterfactual

The first stage is to estimate the number of schemes which would go ahead under Class MA in the counterfactual, where the floorspace limit is unchanged and the vacancy requirement is not removed.

Identifying historic applications for prior approval

Class MA is subject to prior approval by the local planning authority. The prior approval covers transport impacts, contamination risks, flooding risks, and impacts of noise from commercial premises. The record of these prior approvals is a key dataset for estimating the supply impact of the proposed changes[4]. This baseline level of prior approvals is estimated using the published

[3] RPC-CLG-5094(1) IA *[Available at: https://www.legislation.gov.uk/ukia/2021/93/pdfs/ukia_20210093_en.pdf]*

[4] In DLUHC's live tables, PDR1 and PDR2 have slightly different values. We have confirmed internally that PDR2 is the preferred source because it incorporates the most recent revisions. The only exception is PDR2 has the values for the 'Office to residential' right erroneously missing from 2020Q4 to 2021Q4, so we take these values from PDR1.

data on how many prior approvals have been granted, rejected, and how many conversions didn't require prior approvals. For this analysis, for the counterfactual we estimate the rate of prior approvals granted or not required using the annualised average of prior approvals for quarters in the 'Commercial, business and service to residential' right from the PDR[5]. For the seven full quarters available, we calculate there was an annualised average of **707 prior approvals a year.**[6] This is based on the period of 2021Q4 to 2023Q3, and so it is possible the average may have been reduced by COVID-19.

Estimating total baseline prior approvals over the appraisal period

Over the 10-year appraisal period we expect an initial surge in properties converted to residential followed by a gradual decline, in line with the introduction of previous PDRs. This is because the most viable properties are converted first, leaving a remaining stock that gradually becomes less suitable over time. We estimate this rate of decline using the net additions figures for the old 'office to residential' PDR from 2015-16 through to 2022-23. Over this period the average percentage change in the number of homes delivered is 4.3%. Using this result we assume there will be a 4.3% annual decline in the number of prior approvals over the 10-year appraisal period.

Table 1.1: Estimated number of prior approvals granted, or prior approvals not required, under Class MA in the counterfactual.

Year	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Prior Approvals	707	677	648	620	593	568	544	520	498	476

Estimating office vs non-office baseline prior approvals over the appraisal period

We group Class E buildings into office and non-office categories so we can estimate the supply impacts separately. Offices make up over 80% of historic net additions from converting buildings to residential with a PDR (comparing the historic 'Office to Residential' to 'Total' net changes of use via PDR)[7]. They are also generally larger than non-office Class E buildings, leading to different impacts from removing the floor space limit. Therefore, we group Class E buildings into office and non-office categories and estimate the supply impacts in parallel.

Since 2021Q4, prior approvals for Class MA have been reported together in the PDR statistics under 'Commercial, business and service to residential'. Prior to this, 'office to residential' and 'retail and sui generis uses to residential' were reported separately. We use the proportions between these historic PDRs to estimate how the 707 prior approvals a year are split between office and non-office buildings using the most recent 8 quarters of historic separate prior approvals.

Over this period there were 2,837 prior approvals granted or not required for 'office to residential', and 894 'retail and sui generis uses to residential'. However, 'Retail and sui generis uses to residential' is too broad for our purposes because the 'sui generis' component is outside the scope of Class MA. We estimate the 'sui generis' component makes up 47% of prior approvals under 'retail and sui generis uses to residential' and adjust accordingly. The next paragraph explains how we reach the estimate of 47%

[5] Live tables on planning application statistics - GOV.UK (www.gov.uk) – live tables for statistics on planning applications at national and local planning authority level

[6] We use the period of 2022Q1 to 2023Q3. We exclude 2021Q4 even though it some values, after the commercial business and service to residential right was introduced on 1 September 2020. This is because this is an 'overlap' period with some applications recorded under the old right and under the new, so it is not a full quarter.

[7] Live tables on housing supply: net additional dwellings - GOV.UK (www.gov.uk) – live table 120, components of housing supply; net additional dwellings, England

Since October 2021, PDR applications to convert sui generis uses to residential are now fully captured in the new category of 'Launderette, betting office, pay day loan shop, hot food takeaway, amusement arcade or centre or casino to residential'. We use the most recent 8 full quarters of prior approvals data for this category (2021Q4 to 2023Q3) and for the historic 'retail and sui generis uses to residential' (2019Q4 to 2021Q3) to estimate the proportion of 'retail and sui generis uses' which fell outside Class MA. Unfortunately it is not possible to compare across the same time period, because the 'Launderette etc.' category partially replaces the 'retail and sui generis'. Comparing across adjacent but different time periods introduces uncertainty because prior approvals may have changed across the period. We find in the most recent 8 quarters available there are 417 prior approvals in the 'Launderettes etc.' category, and in the 8 quarters immediately prior there are 894 prior approvals in 'retail and sui generis uses'. Therefore we estimate that 47% (417 / 894) of prior approvals under 'retail and sui generis uses to residential' are outside the scope of Class MA and should be excluded. Applying this 47% downwards adjustment to the historic data, we estimate between 2019Q4 and 2021Q3 there were 477 prior approvals granted or not required for 'retail uses to residential', compared with the 2,837 for 'office to residential'.

Using these two values we estimate that in the Commercial, Business and Service to residential category, 86% of prior approvals are for offices, and 14% are for non-office to residential conversions. Applying this ratio to the 707 prior approvals a year in Commercial, Business and Service to residential category; we estimate in the counterfactual for 2024-25 there would be **606 prior approvals for offices, and 102 for non-office buildings.**

Table 1.2: estimated prior approvals granted, or prior approvals not required[8], under Class MA in the counterfactual, split into office and non-office buildings.

Year	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Office	606	580	555	531	508	486	465	445	426	408
Non-office	102	97	93	89	85	82	78	75	72	69

Over the historic period used to estimate the office and non-office proportions, 'retail and sui generis uses to residential' captures all prior approvals applications to convert non-office buildings to residential which would now fall under Class MA, except for light industrial. We do not consider it proportional to disaggregate non-office from offices. Light industrial to residential conversions under PDRs make up less than 1% of net additions from change of use PDRs over the period (an average of 112 net additional units a year in live table 120). In addition, we only have statistics on prior approval applications for light industrial to residential conversions only exist between 2019Q4 and 2021Q1. Instead we treat these conversions as being included in the collective 'non-office' category, which is measured by the 'retail and sui generis uses'.

Estimating implemented schemes in the baseline

Finally, in practice there may also be some prior approvals granted, where units are not actually delivered. A UCL study[9] commissioned by the Department suggested that 64% of prior approvals were ultimately implemented, which is the assumption used in this analysis. This assumption is applied to the figures in Table 1.2 to give us the number of schemes that deliver actual units in Table 1.3 below.

Table 1.3: estimated schemes implemented under Class MA in the counterfactual, split into office and non-office buildings.

[8] Following the methodology of IA RCP-CLG-5094(1) on the introduction of Class MA: To estimate baseline prior approvals for conversions to residential using the PDR1 live table, we include prior approvals granted, and PDR applications where a prior approval is not required, but not prior approvals which are refused.

[9] Research into the quality standard of homes delivered through change of use permitted development rights (publishing.service.gov.uk)

Year	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Office	388	371	355	340	325	311	298	285	273	261
Non-office	65	62	60	57	55	52	50	48	46	44

In our analysis, non-office contains all other Class E categories including shops, restaurants and cafes, light industrial, and more. We take a proportionate approach to these other categories by grouping them in with retail to form the 'non-office' category.

Units per scheme: the number of units delivered per implemented scheme in the counterfactual
The first step (above) estimates the number of schemes implemented under the counterfactual. The next step is to estimate how many units each scheme will deliver. The approach taken is to estimate the average floorspace of the non-domestic property stock for each property category, using floor area figures from non-domestic Energy Performance Certificate data. We de-duplicate the records to only keep the most recent certificate for each building, to ensure a representative picture. The records used are the most recent 10 years of certificates for England.[10]

In the baseline we estimate the average floor area of properties being converted using the 75th percentile for floor area for the buildings in Class E under 1,500sqm, which is 375sqm for offices and 196sqm for non-office buildings. The reason that we use the 75th percentile is that we expect developers to get economies of scale from larger conversions, a trend seen in the office-to-residential PDR according to the UCL research on PDRs[11]. This is in line with the approach taken in the 2021 Impact Assessment on the introduction of Class MA[12].

We assume the converted residential units to be an average of 45 sqm, the same assumption used in the 2021 Impact Assessment into the introduction of Class MA. In this previous impact assessment this average floor area is derived by calculating a weighted average of space standards for different unit sizes, and the unit splits from the UCL research on PDRs.

The average floorspace calculated using the EPC data is then divided by the average floor area per unit, giving an estimate of the number of units delivered per scheme. The key values are shown in Table 1.4.

Table 1.4: estimated floor area and units per scheme in the baseline

	Mean floor area in sqm	Units per scheme (up to 1,500sqm)
Office	375	8.3
Non-office	196	4.4

The estimated number of units delivered through Class MA is then calculated by multiplying the average number of units per scheme by the number of schemes. Following RPC-CLG-5094(1) it is assumed that there is a one-year lag between the grant of prior approval and the new units being delivered. This is shown in Table 1.5[13].

Table 1.5: estimated units delivered under Class MA in the counterfactual, split into office and non-office buildings.

[10] The categories in the EPC data do not exactly correspond to the Class E categories of 'office' and 'non-office', therefore we calculated a mean floor area based on the closest possible categories. We include 'B1 Offices and Workshop businesses' and 'A1/A2 Retail and Financial/Professional services'. We exclude 'A3/A4/A5 Restaurant and Cafes/Drinking Establishments and Hot Food takeaways', which is mainly made up of 'sui generis uses' but also contains some Class E.

[11] Research into the quality standard of homes delivered through change of use permitted development rights (publishing.service.gov.uk)

[12] RPC-CLG-5094(1) IA *[Available at: https://www.legislation.gov.uk/ukia/2021/93/pdfs/ukia_20210093_en.pdf]*

[13] Prior approvals figures for 2023/24 are so far only available for the first two quarters, meaning we cannot directly estimate net additions from Class MA in 2024/25 as we do for the following years. Therefore, we assume the 4.3% annual decline in net additions also applies between 2023/24 and 2024/25, so that the total declines by 4.3% every year of the appraisal period..

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Office	3,375	3,230	3,091	2,958	2,831	2,709	2,593	2,481	2,375	2,273
Non-office	297	284	272	260	249	238	228	218	209	200

Note that, in both the counterfactual and the policy options, we consider homes delivered under Class MA, and exclude units delivered under the legacy Class O PDR and other rights now subsumed into Class MA. Applications for the Class O 'Office to Residential' PDR, and other PDRs which are now subsumed into Class MA, were permitted up to 31 July 2021. Development must be completed within a period of 3 years starting with the prior approval date, and local planning authorities have 56 days to determine applications for prior approval. From this it follows that are likely to be net additional units under the previous PDRs until the end of September 2024.

Removing the floor space limit

i) Increase in schemes implemented under the policy option

The next stage is to estimate how many schemes will be implemented under the policy options. The difference between the policy option and counterfactual indicates the impact of the amendments to Class MA.

We use non-domestic Energy Performance Certificate data to estimate the properties brought into scope by removing the floorspace limit. The de-duplicated non-domestic EPC dataset covers around 54% of non-domestic buildings, and it is largely representative. This means the absolute number of properties brought into scope in the EPC dataset is an underestimate, but the proportional increase is likely to be accurate. Removing the floor space limit brings into scope class E buildings with more than 1,500sqm of floor area. We make a simplifying assumption that buildings above 1,500sqm of floor area are not converted in the counterfactual through the PDR; in practice larger properties may partially convert up to 1,500sqm of their floor area under the existing Class MA rules.

Because removing the floor space limit brings into scope a very wide range of building sizes, we group these buildings into buckets of 1500-3000sqm, 3000-5000sqm, and 5000+ sqm. Table 1.6 shows the number of eligible buildings brought into scope by size bucket, as a proportion of the buildings in scope in the counterfactual.

Table 1.6: buildings brought into scope by removing the floor space limit, by size bucket

	1,500-3,000sqm	3,000-5,000sqm	5,000+ sqm
Office	4.7%	2.0%	2.2%
Non-office	3.6%	1.2%	1.1%

There are two main factors that impact how many of the large properties brought into scope will be converted. On one hand the take-up rate could plausibly be higher than for smaller properties because of economies of scale making conversions of larger properties particularly profitable. On the other hand larger properties could have a lower take-up rate because they face structural challenges, such as difficulty meeting natural light requirements. All PDRs require "the provision of adequate natural light in all habitable rooms of the dwellinghouses" since 2020.

Large properties with deep floorplates would have a high likelihood of requiring structural work to put in atriums/lightwells etc. to be incorporated into the design of the development. Class MA does not allow for any external/structural work, so these conversions would require full planning

permission and would not benefit from the removal of the floor area limit. Tall narrow office blocks are less likely to require structural changes than buildings with deep floor plates, which are more common among non-office commercial uses such as shops and light industrial.

We have been unable to find data to numerically estimate the size of these effects, so we use high-level modelling assumptions. We apply larger downward adjustments for 5,000+ sqm buildings than for 3,000-5,000sqm buildings, because the difficulties are the most severe with the largest properties. We apply larger downward adjustments to non-office properties than to offices, because offices already account for providing natural light to workers.

These downward adjustments can be interpreted as a combination of two possible responses by developers to the structural difficulties of converting large properties:

- a reduction in the number of conversions being implemented through Class MA among very large properties.
- only partially converted[14], for example only converting one part of the building which has adequate natural light.

In our central estimate we assume that, for properties up to 3,000sqm, the 'economies of scale' and structural challenges' factors roughly cancel out, so compared with the baseline, the number of schemes implemented in this size bucket will be proportional to the number of buildings brought into scope. For buildings above 3,000sqm we adjust the number of schemes implemented downward to account for the natural light requirements and other issues with converting very large properties to dwellinghouses. We have been unable to find data to estimate these effects, so we have developed scenario-based modelling which has been internally checked with analytical and policy colleagues. Table 1.7 shows the downward adjustments applied to each size bucket and building type.

Table 1.7: downward adjustments to implemented schemes among very large buildings

	1,500-3,000sqm	3,000-5,000sqm	5,000+ sqm
Office	0%	-25%	-50%
Non-office	0%	-50%	-75%

There is significant uncertainty around these relationships, so we also introduce high and low impact scenarios where the larger properties brought into scope are respectively 20% more likely and less likely to be converted than in the central estimate. We calculate this in table 1.8.

Table 1.8: increase in PDR schemes implemented in 2024/25 when the floor space limit is removed, by size bucket

	1,500-3,000sqm	3,000-5,000sqm	5,000+ sqm	Total
Office - Low	14.6	4.5	3.4	22.5
Office - Central	18.2	5.7	4.2	28.1
Office - High	21.9	6.8	5.0	33.7
Non-office - Low	1.9	0.3	0.1	2.3
Non-office - Central	2.3	0.4	0.2	2.9
Non-office - High	2.8	0.5	0.2	3.5

ii) Increase in units delivered through the PDR

[14] As mentioned above, we apply the simplifying assumption that partial conversions do not occur. In practice, the size of these partial conversions is currently constrained by both the 1,500sqm floorspace limit and natural light requirements. Removing the floorspace limit allows the size of partial conversions to be larger (though still constrained by natural light requirements). However, these natural light requirements are likely to affect buildings with deep floorplates more.

Next we estimate the number of units that will be delivered through the PDR as a result of removing the floorspace limit. This is calculated separately for each size bucket as the number of implemented schemes multiplied by the average number of units delivered per scheme.

To estimate the units per scheme of the properties brought into scope we use the mean floor area of properties in each size bucket. The reason we use the mean instead of the 75th percentile, which we use elsewhere for properties up to 1,500 sqm, is because among large conversions, the natural light requirement and possibly other requirements are likely to start to become a constraining factor. We judge this counteracts the impact of economies of scale, so for properties over 1,500sqm, conversions are not likely to be substantially larger than the average building in this size range. As in the baseline, we assume the converted residential units to be an average of 45 sqm.

We find in the 1,500 to 3,000 sqm size category, the mean office building is 2,092 sqm and the mean non-office building is 2,061 sqm, both of which can accommodate 46 units. For properties between 3,000 and 5,000sqm the mean office building is 3,823 sqm and the mean non-office building is 3,821 sqm, both of which can accommodate 85 units. Finally, for properties over 5,000sqm the mean office building is 11,780 sqm and the mean non-office building is 9,960 sqm, which if fully converted could accommodate 262 and 221 units respectively. These values are summarised in table 1.9.

Table 1.9: Units per scheme for properties brought into scope by removing the floor space limit.	**1,500-3,000sqm**	**3,000-5,000sqm**	**5,000+ sqm**
Office	46	85	262
Non-office	46	85	221

Note: values in the table and accompanying text are rounded. Calculations are made using unrounded values.

Table 1.10 calculates the increase in units delivered through Class MA in 2025/26 as a result of removing the floorspace limit by multiplying the increase in schemes implemented from table 1.8 by the units per scheme from table 1.9, with a one-year lag for the time taken to carry out the conversion.

Table 1.10: increase in units delivered through Class MA in 2025-26 due to removing the floor space limit, by size bucket

	1,500-3,000sqm	**3,000-5,000sqm**	**5,000+ sqm**	**Total**
Office - Low	678	386	880	1944
Office - Central	848	483	1100	2430
Office - High	1017	579	1319	2916
Non-office - Low	86	26	31	142
Non-office - Central	107	33	38	178
Non-office - High	128	39	46	213

Table 1.11 then extends this across the 10-year appraisal period using the 4.3% annual decay rate as in the baseline.

Table 1.11: increase in units delivered through Class MA due to removing the floorspace limit

	2024-25	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**2030-31**	**2031-32**	**2032-33**	**2033-34**
Office - Low	0	1,944	1,861	1,781	1,704	1,631	1,561	1,494	1,429	1,368

Office - Central	0	2,430	2,326	2,226	2,130	2,039	1,951	1,867	1,787	1,710
Office - High	0	2,916	2,791	2,671	2,556	2,446	2,341	2,240	2,144	2,052
Non-office - Low	0	142	136	130	125	119	114	109	105	100
Non-office - Central	0	178	170	163	156	149	143	137	131	125
Non-office - High	0	213	204	195	187	179	171	164	157	150

iii) Net additional units from the policy option

The supply impact of increasing the floor area limit calculated in the previous step is an over-estimate of the true number of additional units delivered. This is because some of the units delivered through PDRs would otherwise have been delivered through the planning system in the counterfactual. Broadly, the additional units can be split into two categories:

1. Additional units. Delivered via PDR in the policy option, and not delivered at all in the baseline.
2. Displaced units. Delivered via PDR in the policy option, and delivered via full planning application in the baseline.

Of these two categories, only the first category (additional units) contributes to the supply impact of the policy. We estimate how much of the increase in units delivered through PDRs in the policy option is additional by adapting an additionality assumption from the 2021 IA on the introduction of Class MA.

Impact assessment RPC15-CLG-3032 (2) on PDRs for the change of use to offices, light industrial buildings, and launderettes[15] finds that:

- The probability of an Office to Residential scheme being refused permission in the planning system was **14%**
- **62%** of these current refusals were on the grounds of the principle of development, and **38%** were due to technical reasons
- PDRs establish the principle of development[16]

PDRs do not allow for consideration of whether a specific building should be allowed to change use, rather it only allows for consideration of impacts in respect of specific matters for prior approval. Therefore, if the 'non-refusal' rate for planning permission is **86%** (1 – 0.14); then the 'non-refusal' rate for the same permission under a PDR would be **94.7%** (1 – (0.14*0.38)). The change in the proportion of schemes not refused would move from 86% under the planning system to 94.7% under the PDR. This is an increase of **10.1%** ((0.14 * 0.62)/86). Therefore a 10.1% additionality rate captures that PDRs reduce the rate of refusal for schemes which in the counterfactual might have been refused under the planning system. This 10.1% additionality rate is based on the old office to residential right, so it is appropriate to use for office to residential conversions.

For non-office properties, the department does not have evidence on the extent to which the PDR reduces the likelihood of the scheme being refused, and after exploring available planning data it

[15] RPC15-CLG-3032 (2) *[Available at: https://www.legislation.gov.uk/ukia/2016/216/pdfs/ukia_20160216_en.pdf]*

[16] When a developer applies for prior approval for a development under a permitted development right, the principle of whether the development should be permitted is not for consideration. Rather it is subject to prior approval in respect of certain matters as specified in the legislation. The local planning authority may not therefore take a view on the principle of whether an individual building should change use, rather on the impacts and plans for mitigation of such impacts arising from that change of use in respect of transport, noise impacts on residents, flooding risk for residents or other matters as set out in the right.

has not been possible to obtain robust data to inform this assumption, such as planning applications for conversions of non-office Class E to residential. In the absence of this data, we follow impact assessment RPC-CLG-5094(1) on the introduction of Class MA and assume the additionality for Class E buildings (excluding offices) is 25% to 75% (central 50%).

We follow the DLUHC Appraisal Guide and the approach of IA RPC-CLG-5094(1) to reach our central estimate of additionality. The DLUHC Appraisal guide[17] notes that *for policies where there is strong evidence to suggest housing of this type is unlikely to be built by private developers in the absence of policy and very little crowding out of private development occurs in practice,* an additionality estimate of 50-75% is appropriate. Our understanding based on responses to the summer consultation is that commercial building types often face difficulty in getting permission on a planning application to convert to residential, and therefore a significant proportion of the units delivered would be additional. Local planning authorities often support the retention of shops, banks, restaurants/cafes etc. on high streets, which means a planning application for the change of use to residential may be refused permission where it does not comply with local policy. We follow the precedent of IA RPC-CLG-5094(1) in assuming that non-office Class E conversions are likely to fall towards the bottom of 50-75% range (central 50%). In our low and high scenario, we apply additionality estimates of 25% and 75% respectively. This reflects the considerable uncertainty of the additionality of non-office conversions to residential due to the lack of available data.

We apply our additionality estimates (for offices and non-offices) to the increase in units delivered through the PDR under the policy option. For office buildings 89.9% of them would have gone ahead under the planning system, and 10.1% of them are genuinely additional. For non-office buildings 50% (range 25% to 75%) of them would have gone ahead under the planning system, and 50% (range 25% to 75%) are genuinely additional because they otherwise would have been refused planning permission. Table 1.12 applies these additionality rates to the increase in units delivered through Class MA due to removing the floorspace limit in Table 1.11, to estimate net additional units.

Table 1.12: net additional units from removing the floor space limit

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Office - Low	0	196	188	180	172	165	158	151	144	138
Office - Central	0	245	235	225	215	206	197	189	180	173
Office - High	0	295	282	270	258	247	236	226	217	207
Non-office - Low	0	36	34	33	31	30	29	27	26	25
Non-office - Central	0	89	85	81	78	75	71	68	65	63
Non-office - High	0	160	153	147	140	134	128	123	118	113

Table 1.13 adds together the office and non-office net additional units to give a total supply impact of removing the floor space limit.

Table 1.13: combined net additional units from removing the floor space limit

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Low	0	232	222	212	203	195	186	178	171	163
Central	**0**	**334**	**320**	**306**	**293**	**280**	**268**	**257**	**246**	**235**
High	0	455	435	416	398	381	365	349	334	320

Note these totals are slightly different to the sum of the components due to rounding.

[17] DLUHC appraisal guide - GOV.UK (www.gov.uk)

Removing the vacancy requirement

i) Increase in schemes implemented under the policy option

The 2021 IA on the introduction of Class MA estimated the impact of introducing the vacancy requirement for office to residential conversions. We model the impact of removing it again by retaining assumptions from this earlier impact assessment, but reversing the direction of the impact. In doing so we assume that removing the vacancy requirement has a symmetrical impact with introducing it.

A study commissioned by the Greater London Authority (GLA) found that 40% of PDR schemes for office to residential conversions across London involved fully occupied buildings[18]. While this estimate only covers London and not the whole of England, this is our best estimate of the proportion of prior approvals that were granted for offices in fully occupied space, during the period before the vacancy requirement was in effect. As a simplifying assumption, we assume the buildings that were not fully occupied were vacant – from this it follows 60% of schemes are granted permission when the building is vacant, so they are unaffected by a vacancy requirement. The remaining 40% of schemes were granted prior approval while fully occupied, so they are potentially impacted.

The department does not hold data on how many of these schemes would still have been converted under the PDR in a scenario with a vacancy requirement. The proportion is expected to be high because there are very large potential returns associated with converting to residential. In the monetised benefits section of this Impact Assessment we estimate the average land value uplift per unit for Class E to residential conversions £87,204 in 2024-25, and this is likely to be substantially higher in certain high value areas. This creates a strong incentive to convert commercial properties to residential when the property is suitable.

Based on this we judge the three-month vacancy requirement is unlikely to be a strong enough disincentive to prevent the majority of suitable conversions from eventually taking place through the PDR, even if some of the conversions are delayed until the building next falls vacant[19]. Reflecting this, and also acknowledging the significant inherent uncertainty, we retain the modelling assumption from RCP-CLG-5094(1) that 70%-90% (central 80%) of the prior approvals in fully occupied buildings would still have come forward despite the vacancy requirement under the counterfactual.

Bringing these results together: when the vacancy requirement was introduced, here is how we estimate the schemes were affected:

60%	these schemes were granted permission when the building was vacant so they are unaffected
32% (range 28-36%)	these schemes would still convert under the PDR, but they would need to wait for the property to be vacant for three months. Calculated as 40% of schemes involving occupied buildings multiplied by 80% (range 70%-90%).
8% (range 4-12%):	these schemes for occupied buildings would not go ahead through the PDR. A subset of

[18] https://www.london.gov.uk/sites/default/files/london_office_policy_review_2017_final_17_06_07.pdf

[19] The impact assessment RCP-CLG-5094(1) finds the average occupancy for commercial buildings is 4.3 years, using data from Sqwyre. This indicates the average delayed site would be held back just over two years before becoming vacant.

	these would go ahead through the planning system and a subset would go ahead. Calculated as 40% of schemes involving occupied buildings multiplied by 20% (range 10%-30%).

Next we apply these results in the opposite direction. If the vacancy requirement is currently reducing conversions through the PDR by 8% (range 4-12%), then removing the vacancy requirement would lead to an additional 8.7% (range 4.2% to 13.6%). This is calculated as 1 / (1-0.08) – 1 for the central estimate, and a similar approach for the range.

We apply this to the number of implemented schemes in the counterfactual to estimate the number of additional schemes implemented as a result of removing the vacancy requirement. We assume the proportional impact is the same for non-office Class E buildings as it is for offices.

Table 1.14: estimated increase in PDR schemes implemented through the Class MA PDR as a result of removing the vacancy requirement

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Office – Low	16	15	15	14	14	13	12	12	11	11
Office – Central	34	32	31	30	28	27	26	25	24	23
Office – High	53	51	48	46	44	42	41	39	37	36
Non-office – Low	3	3	2	2	2	2	2	2	2	2
Non-office – Central	6	5	5	5	5	5	4	4	4	4
Non-office – High	9	9	8	8	7	7	7	7	6	6

ii) Increase in units delivered through the PDR

The next step is to estimate the number of units which will be delivered through the PDR as a result of increasing removing the vacancy requirement. This is calculated as the number of implemented schemes multiplied by the average number of units delivered per scheme, for buildings up to 1,500 sqm.

We use the same number of units per scheme as we estimate for the baseline, because we have no evidence that the occupied properties converted as a result of the vacancy requirement being removed would be a different size to the properties converted in the baseline. In the baseline there are 8.3 units per scheme for office buildings, and 4.4 units per scheme for non-office properties (taken from table 1.4).

Table 1.15 calculates the increase in units delivered through Class MA as a result of increasing the vacancy requirement by multiplying the increase in schemes implemented from table 1.14 by the units per scheme from table 1.4.

Table 1.15: increase in units delivered through Class MA due to removing the vacancy requirement

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Office – Low	0	135	129	123	118	113	108	103	99	95
Office – Central	0	281	269	257	246	236	225	216	207	198
Office – High	0	440	422	403	386	369	354	338	324	310
Non-office – Low	0	12	11	11	10	10	9	9	9	8
Non-office – Central	0	25	24	23	22	21	20	19	18	17
Non-office – High	0	39	37	35	34	32	31	30	28	27

iii) Net additional units from the policy option

Similar to the case with removing the floor space limit, the increase in units delivered through Class MA due to removing the vacancy requirement can be split into additional units (which are not delivered in the baseline) and displaced units (which are delivered through the planning system in the baseline). We use the same additionality assumptions for removing the vacancy requirement as we used for removing the floor space limit: for office buildings, 10.1%, and for non-office properties, 50% in a range from 25%-75%. (For more detail on how these are derived see the floor space limit section.) Table 1.16 applies these additionality rates to the increase in units delivered through Class MA due to removing the vacancy requirement in Table 1.15, to estimate net additional units.

Table 1.16: net additional units from removing the vacancy requirement

	2024-25	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**2030-31**	**2031-32**	**2032-33**	**2033-34**
Office – Low	0	14	13	12	12	11	11	10	10	10
Office – Central	0	28	27	26	25	24	23	22	21	20
Office – High	0	44	43	41	39	37	36	34	33	31
Non-office – Low	0	3	3	3	3	2	2	2	2	2
Non-office – Central	0	12	12	11	11	10	10	9	9	9
Non-office – High	0	29	28	27	25	24	23	22	21	20

Table 1.17 adds together the office and non-office net additional units to give a total supply impact of removing the vacancy requirement.

Table 1.17: combined net additional units from removing the vacancy requirement

	2024-25	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**2030-31**	**2031-32**	**2032-33**	**2033-34**
Low	0	17	16	15	15	14	13	13	12	12
Central	**0**	**41**	**39**	**37**	**36**	**34**	**33**	**31**	**30**	**29**
High	0	74	70	67	64	62	59	56	54	52

Note these totals are slightly different to the sum of the components due to rounding.

Bringing it all together

Table 1.18 combines the net additional units for removing the floor space limit and for removing the vacancy requirement to give the overall supply impact of the amendments.

Table 1.18: total net additional units from removing the floor space limit and removing the vacancy requirement

	2024-25	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**2030-31**	**2031-32**	**2032-33**	**2033-34**
Low	0	248	238	228	218	208	199	191	183	175
Central	**0**	**375**	**359**	**343**	**329**	**315**	**301**	**288**	**276**	**264**
High	0	528	505	484	463	443	424	406	388	372

Note these totals are slightly different to the sum of the components due to rounding.

Approach to Monetised Direct Impacts

In this section, we set out the three monetised impacts associated with the PDR amendments: Land Value Uplift, changes in planning fees, and changes in labour costs. As set out in the previous section, when assessing direct impacts we only capture applications that would have otherwise occurred as full planning applications. That means, in this section, we do not capture any new applications that may be brought forward as a result of the PDR amendments. Land Value Uplift is applied only to additional units. Changes in planning fees and labour costs are applied to all prior approval applications. We uplift the number of implemented schemes from table 1.8 (for Removing the Floor Space Requirement) and table 1.14 (for Removing the Vacancy Requirement) to capture rejected prior approvals and approved prior approvals that go unimplemented.[20] Table 2.1 sets out a brief description of each impact and how it is calculated. The rest of this section provides more detail on each impact. Our calculations of impacts use 2019 prices and 2020 Present Values. In describing out approach to monetising impacts, we also report values in 2024 prices.

Table 2.1: Summary of Monetised Impacts

Impact	Brief Description of Impact	Calculation
Land Value Uplift	The value associated with the creation of additional residential land	Additional **Units**
Change in planning fees	The fee for a prior approval is lower than the fee for a full planning applications	All **Prior Approvals**
Change in labour costs	Preparing and submitting a prior approval is less complex and quicker than for a full planning applications, and is expected to reduce labour costs	All **Prior Approvals**

Land Value Uplift

Land Value Uplift (LVU) is the main monetised impact of the PDR amendments. It is a Green Book compliant appraisal methodology that can be used to estimate the benefits to society of creating new residential land. We apply the same approach to monetisation as in RCP-CLG-5094(1)[21]. LVU remains by far the largest monetised impact.

Our estimate of LVU is based on the latest Valuation Office Agency (VOA) land values[22] (produced in 2019). VOA use a residual valuation approach to estimate land value. Various development costs are deducted from the sale price of a development. The residual value is taken to be the land value:

$$Land\ value = House\ price - (Development\ costs + fees + profit)$$

Land values for each Local Authority in England are calculated by the VOA for five land types (Residential, Industrial, Agricultural, Office – edge of CBD and Office – out of town). LVU is calculated based on the difference (per hectare) between the land value of residential land and the land value of brownfield land.[23] LVU (per hectare) is then adjusted for the Local Authority's brownfield density (the number of dwellings per hectare of brownfield land) resulting in LVU per dwelling. A weighted average, using historic housebuilding completions, is calculated from all Local Authorities. This process yields an estimate of LVU of £67,996 per dwelling in 2019 prices (£84,445 in 2024 prices).

Landowners will be the primary beneficiary of the LVU. The reduced cost and increased certainty delivered by the PDR would lead to an increase in valuation of convertible Class E properties.

[20] We estimate that only 41% of applications go implemented. Historic data on Class MA approval indicates that 35% of prior approval applications are rejected. Of the remaining 65%, only 64% get implemented (according to UCL study).

[21] RPC-CLG-5094(1) IA *[Available at: https://www.legislation.gov.uk/ukia/2021/93/pdfs/ukia_20210093_en.pdf]*

[22] VOA Land Value Estimates *[Available at: https://www.gov.uk/government/publications/land-value-estimates-for-policy-appraisal-2019]*

[23] For the purposes of calculating LVU, the category defined as 'brownfield' is composed of a combination of the Industrial, Office – edge of CBD and Office – out of town. This provides a better proxy of the existing land use than any individual land type valued by the VOA.

Landowners would be able to sell their property to developers at near-residential value, extracting the LVU.

LVU is only applied to additional units (from table 1.13 and table 1.16). In the counterfactual, displaced units would still have changed use (with a full planning application). Consequently, displaced units do not result in any additional residential land and so there is no additional LVU.

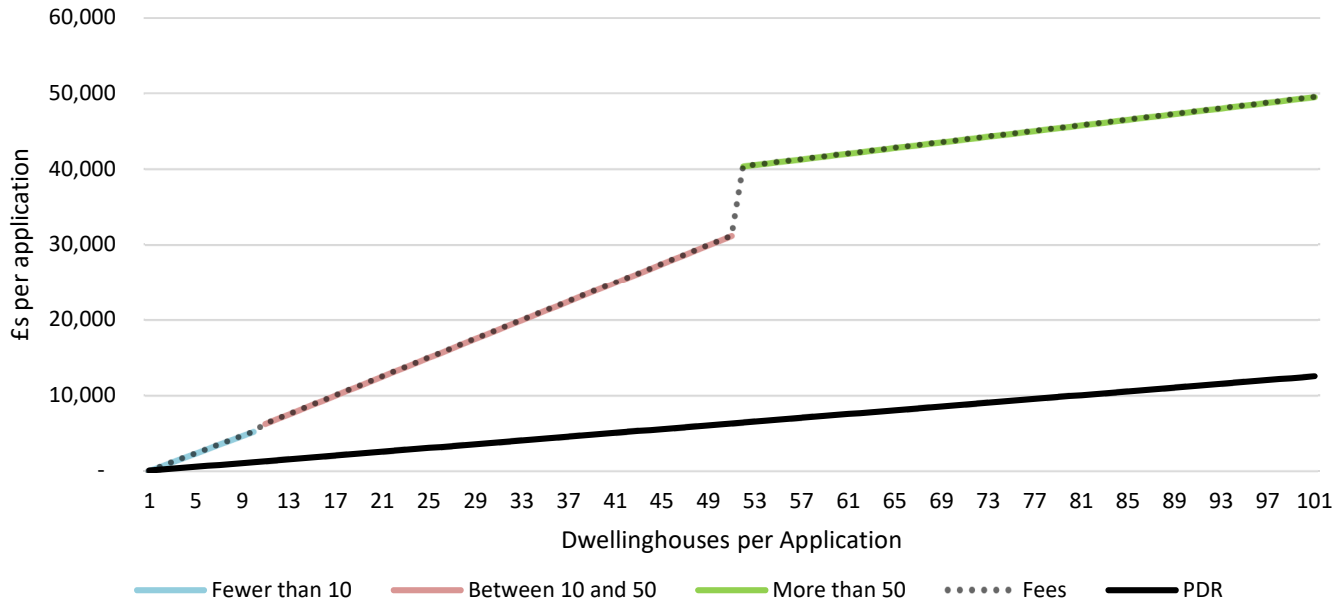
Planning Fee Savings

The change in planning-related fees are another direct monetised impact of the PDR amendments. The fees, last amended in December 2023, are summarised in *A guide to fees for Planning Applications in England*[24]. Developers require a prior approval to make use of the PDR. In 2024, the prior approval fee is £125[25] for each dwellinghouse in the application. The fee associated with a full planning application depends on the number of dwellinghouses in the planning application as set out in table 2.2 and figure 2.1.

Table 2.2: Planning Fees by Dwellinghouses per application (2024 prices)

Application Type	Number of Dwellinghouses per Application	Variable Component (per dwellinghouse)	Fixed Component (per application)
PDR	Any	£125	£0
Full planning application	Fewer than 10	£578	£0
Full planning application	Between 10 and 50	£624	£0
Full planning application	More than 50	£186	£30,860

Figure 2.1: Planning Fees by Dwellinghouses per application (2024 prices)



The average number of dwellinghouses per application vary with the prior use of the building (Offices and Non-Offices). For the Floor Space Limit policy, we also group large properties into three buckets (1,500 – 3,000 sqm; 3,000 – 5,000 sqm and 5,000+ sqm) as shown in table 1.9. Consequently, the planning fees also vary with the prior use and the policy option. The relevant fee savings for 2024-25 are detailed in table 2.2[26]. The fee savings are smaller for the Removing the Vacancy Requirement policy because the average property affected by this policy is smaller (relative to Removing the Floorspace Limit policy). The fee savings are the same regardless of

[24] Planning Application Fees *[Available at : https://ecab.planningportal.co.uk/uploads/english_application_fees.pdf]*

[25] The fee associated with "Change of Use of a building and any land within its curtilage from Commercial/Business/Service (Use Class E) to Dwellinghouses (Use Class C3)"

[26] Although the planning fees depend on the number of dwellinghouses per application, they are paid per application.

whether the prior approval is refused, granted and unimplemented, or granted and implemented. The fees in table 2.3 are applied to the number of schemes (from table 1.8 and table 1.14), uplifted to capture rejected prior approvals and approved prior approvals that go unimplemented.

Table 2.3: Planning Fees (£s per application in 2024 prices)

Policy	Use Class	Average Units per Scheme	Planning Fee (per scheme)	PDR Fee (per scheme)	Fee Saving (per scheme)
Removing Vacancy Requirement	Office	8.3	£5,202	£1,125	£4,077
Removing Vacancy Requirement	Non-Office	4.4	£2,890	£625	£2,265
Removing Floorspace Limit (1,500 – 3,000 sqm)	Office	46.5	£29,328	£5,875	£23,453
Removing Floorspace Limit (1,500 – 3,000 sqm)	Non-Office	45.8	£28,704	£5,750	£22,954
Removing Floorspace Limit (3,000 – 5,000 sqm)	Office	85.0	£46,670	£10,625	£36,045
Removing Floorspace Limit (3,000 – 5,000 sqm)	Non-Office	84.9	£46,670	£10,625	£36,045
Removing Floorspace Limit (5,000+ sqm)	Office	261.7	£79,592	£32,750	£46,842
Removing Floorspace Limit (5,000+ sqm)	Non-Office	221.3	£72,152	£27,750	£44,402

As set out in the updated legislation on Planning Fees from 2023[27], fees payable on or after 1st April 2025 will automatically increase annually by "the lower of – (a) the percentage increase in the consumer prices index, and (b) 10%". As we assume inflation will not exceed 10% in any forecast year, we assume fees will remain constant in real terms. In our calculations of the impacts, we convert from 2024 prices to 2019 prices using the GDP deflator.

Labour Cost Savings

In addition to planning fees, developers also face labour-related costs for preparing and submitting planning applications. We apply the same process to estimating time savings used in RCP-CLG-5094(1)[28]. The gross hourly wage for a worker completing planning applications is estimated to be £19.63 (in 2023 prices) using data from the Annual Survey of Hours and Earnings[29] (ASHE). We uprate the gross hourly wage by 30% for non-labour costs (yielding £25.52 in 2023 prices). We then apply the OBR's forecast[30] of nominal earnings growth from 2023 to 2024 to yield an uplifted hourly wage of £26.46 (£22.87 in 2019 prices).

We use the same estimates for time taken to prepare and submit a planning application as RCP-CLG-5094(1)[31]. The 2009 report, *Benchmarking the costs to applicants of submitting a planning application*[32] , finds that a change of use application takes "between a couple of days and a week of (applicant) time". Therefore, for the purpose of this Impact Assessment we assume that a change of use application takes 3.5 days (midpoint between 2 and 5 days). Assuming an average working day of 7.4 hours, this results in an estimate of 25.9 hours for a change of use with a full planning application. Prior approval applications are significantly less complex and less time-

[27] The Town and Country Planning (Fees for Applications, Deemed Applications, Requests and Site Visits) (England) (Amendment) Regulations 2023 *[Available at: https://www.legislation.gov.uk/uksi/2023/1197/regulation/15/made]*

[28] RPC-CLG-5094(1) IA *[Available at: https://www.legislation.gov.uk/ukia/2021/93/pdfs/ukia_20210093_en.pdf]*

[29] We use the category 'Construction project managers and related professionals' to estimate the gross hourly wage for a worker completing a planning application. The table PROV - Occupation SOC20 (4) Table 14.5a Hourly pay - Gross 2023 is used. [*Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation4digitsoc2010ashetable14*]

[30] Table from Chart 2.13: Average earnings *[Available at: at https://obr.uk/efo/economic-and-fiscal-outlook-november-2023/]*

[31] RPC-CLG-5094(1) IA *[Available at: https://www.legislation.gov.uk/ukia/2021/93/pdfs/ukia_20210093_en.pdf]*

[32] Department for Communities and Local Government (July 2009), Benchmarking the costs to applicants of submitting a planning application, *[Available at: https://webarchive.nationalarchives.gov.uk/ukgwa/20100519232001mp_/http://www.communities.gov.uk/documents/planningandbuilding/pdf/benchmarkingcostsapplication.pdf]*

consuming. We adopt a midpoint of 0.3 days required (based on a range of 0.1 to 0.5 days required). We assume the time taken to prepare and submit an application remains constant throughout the appraisal period. We also assume that the time taken to prepare and submit an application does not vary with the size of the scheme. While this is a simplifying assumption, it is proportionate as labour savings only make up roughly 0.1% of the overall impact of the PDR amendments. More sophisticated analysis would not meaningfully affect the monetised impacts of any of the options. To calculate the labour cost associated with preparing and submitting an individual planning application or prior approval, we multiply the uplifted nominal wage by the required number of hours. This yields the labour cost of a planning application and a prior approval shown in table 2.4. The labour cost savings are the same regardless of whether the schemes are ultimately additional or displaced from the planning system. The labour cost savings in table 2.4 are applied to the number of schemes (from table 1.8 and table 1.14), uplifted to capture rejected prior approvals and approved prior approvals that go unimplemented.

Table 2.4: Forecast of Labour Cost of Planning Applications and Prior Approvals (rounded £s per application)

Year	Labour Cost (2024 prices)	Labour Cost (2019 prices)
Planning Application	£685	£592
Prior Approval	£59	£51
Labour Cost Savings	£627	£542

Transition Costs

In addition to the three monetised impacts described above, we also expect there to be transition costs related to the PDR amendments. Developers face a one-off familiarisation costs associated with reading, understanding and communicating internally the amendments to the PDR.

The changes are small, deregulatory amendments to an existing PDR, consisting of tweaks to two paragraphs. Consequently, we expect this to be a quick process. We allow 10 minutes for reading and 20 minutes to disseminate this information for one person in each relevant organisation.

As above, we estimate the gross hourly wage for a worker completing planning applications is estimated to be £19.63 (in 2023 prices) using data from the Annual Survey of Hours and Earnings (ASHE).[33] We uprate the gross hourly wage by 30% for non-labour costs (yielding £25.52 in 2023 prices). We then apply OBR's forecast of nominal earnings growth[34] from 2023 to 2024 to reach an hourly wage of £26.46 (£22.87 in 2019 prices).

For the developer category, we use ONS estimates[35] for the number of businesses in the Development of Building Projects category (SIC 4110). To reflect the fact that the policy only applies in England, we adjust these estimates down by 10% (90% of the businesses in this category are in England). This yields 41,236 businesses in the Development of building projects category (SIC4110). Multiplying the 0.5 hours by £22.87 (the uplifted hourly wage in 2019 prices) and by the number of businesses in scope yields the familiarisation costs in table 2.5.

Table 2.5: Familiarisation Costs by businesses size (rounded £s in 2019 prices)

Business Size	Number of Businesses	Familiarisation Cost

[33] We use the category 'Construction project managers and related professionals' to estimate the gross hourly wage for a worker completing a planning application. The table PROV - Occupation SOC20 (4) Table 14.5a Hourly pay - Gross 2023 is used. [*Available at:* https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation4digitsoc2010ashetable14

[34] Table from Chart 2.13: Average earnings [*Available at: https://obr.uk/efo/economic-and-fiscal-outlook-november-2023/]*

[35] ONS Business Population Estimates *[Available at: https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/ukbusinessactivitysizeandlocation]*

Micro (1 to 9 employees)	39,658	£445,617
Small (10 to 49 employees)	1,509	£16,956
Medium (50 to 249 employees)	50	£561562
Large (250 or more employees)	19	£213
All employers	**41,236**	**£463,349**

Monetised Direct Impacts

In this section, we present monetised impacts for two options related to amending the floor space limit and one option for removing the vacancy requirement. For the preferred options (removing the floor space limit and removing the vacancy requirement), we provide a more detailed breakdown of the impacts across different scenarios. We report values in 2019 prices and discount to 2020.

Removing Floor Space Requirement

We use estimates of the number of additional units delivered in each floor space category (1,500-3,000 sqm; 3,000-5,000 sqm and 5,000 sqm +), from table 1.8 and table 1.10 above, to monetise the impacts of the two options. The preferred option, which involves completely removing the floor space limit, brings more properties into scope. As a result, it yields more additional units and higher monetised impacts the other options. Table 3.1 presents the discounted benefits through the appraisal period for the central scenario of both options and table 3.2 presents the associated Net Present Value (NPV). The NPV of the preferred floor space option, £140.7m, is 135% higher than the NPV of increasing the floorspace limit to 3,000 sqm (£60.0m).

Table 3.1: Direct Impacts of Amending Floor Space Limit – (discounted £ms in 2019 prices, 2020 PV)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Increasing floorspace limit to 3,000 sqm	0.9	8.8	8.1	7.5	7.0	6.4	5.9	5.5	5.1	4.7
Removing Floor Space Option (**preferred**)	1.7	20.7	19.1	17.7	16.4	15.1	14.0	12.9	12.0	11.1

Table 3.2: NPV of Amending Floor Space Limit – (discounted £m in 2019 prices, 2020 PV)

Option	NPV
Increasing floorspace limit to 3,000 sqm	60.0
Removing Floor Space Option (preferred)	**140.7**

We provide more detail on the impacts of the preferred floor space option. As shown in table 3.3, by far the biggest impact of removing the floor space option is Land Value Uplift (this is also true for the other options). The NPV is composed of 91.4% LVU, 8.5% reduced fees and 0.2% reduced labour cost. The impacts are significantly lower in the first year because we assume there is a one-year lag between applications and units, as set out in the supply impacts section. Consequently, no additional units are delivered in the first year and no LVU is realised.

Table 3.3: Impacts from Removing Floor Space Limit – Central (discounted £ms in 2019 prices, 2020 PV)[36]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Land Value Uplift	-	19.1	17.7	16.4	15.1	14.0	12.9	12.0	11.1	10.2
Fee Savings	1.6	1.5	1.4	1.3	1.2	1.1	1.0	1.0	0.9	0.8
Labour Cost Savings[37]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**1.7**	**20.7**	**19.1**	**17.7**	**16.4**	**15.1**	**14.0**	**12.9**	**12.0**	**11.1**

Table 3.4 shows the low and high scenario for removing the floor space requirement. The low and high scenarios, based on table 1.8 and table 1.12 above, are monetised using the same values

[36] Components may not sum to total as a result of rounding.

[37] Labour Cost Savings are non-zero but very small and round down to 0.0.

as the central option. That is, the scenarios differ only in terms of the number of schemes and applications, as set out above. The NPV in the low scenario is £99.0m, 30% below the central scenario. The NPV in the high scenario is £1898.3m, 35% above the central scenario.

Table 3.4: Impacts from Removing Floor Space Limit (discounted £ms in 2019 prices, 2020 PV)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Low	1.3	14.5	13.4	12.4	11.5	10.6	9.8	9.1	8.4	7.8
Central	**1.7**	**20.7**	**19.1**	**17.7**	**16.4**	**15.1**	**14.0**	**12.9**	**12.0**	**11.1**
High	2.0	27.9	25.8	23.8	22.1	20.4	18.9	17.4	16.1	14.9

Removing Vacancy Requirement

We use estimates of the additional units delivered from removing the vacancy requirement, from table 1.14 and table 1.16, to monetise the impacts of this change. Table 3.5 presents the monetised impacts of removing the vacancy requirement. The NPV of this amendment is £17.9m; 87.2% from LVU, 11.0% from reduced fees and 1.8% from reduced labour costs. While still by far the biggest impact, LVU is slightly less dominant for removing the vacancy requirement than for removing the floor space limit. This follows from the average number of units delivered per application being lower for removing the vacancy requirement than removing the floor space limit (as these applications are less targeted on properties with large floor area). As units per application are lower, application-related impacts (reduced fees and labour costs) make up a larger proportion of impacts than unit-related impacts (LVU), relative to removing the floor space limit.

Table 3.5: Impacts from Removing Vacancy Req. – Central (discounted £ms in 2019 prices, 2020 PV) [38]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Land Value Uplift	-	2.3	2.2	2.0	1.8	1.7	1.6	1.5	1.3	1.2
Fee Savings	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Labour Cost Savings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.3**	**2.6**	**2.4**	**2.2**	**2.1**	**1.9**	**1.8**	**1.6**	**1.5**	**1.4**

Table 3.6 shows the monetised impacts of removing the floor space requirement in the low and high scenario, based on Table 14 and Table 16. The NPV in the low scenario is £8.6m, 58% lower than the central NPV. The NPV in the high scenario is £36.6 m, 78% higher than the central NPV. The range between the low scenario and high scenario is larger for this policy than for removing the floor space limit. The wider range in monetised impacts follows from the wider range in units delivered from removing the vacancy requirement.

Table 3.6: Impacts from Removing Vacancy Requirement – (discounted £ms in 2019 prices, 2020 PV)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Low	0.2	1.1	1.0	0.9	0.9	0.8	0.7	0.7	0.6	0.6
Central	**0.3**	**2.6**	**2.4**	**2.2**	**2.1**	**1.9**	**1.8**	**1.6**	**1.5**	**1.4**
High	0.5	4.7	4.3	4.0	3.7	3.4	3.2	2.9	2.7	2.5

[38] Components may not sum to total as a result of rounding.

Combined Impact

To produce our overall estimate of the impact of the two PDR amendments (in table 3.7), we combine the monetised impacts of removing the floor space limit (from table 3.4) with the monetised impacts of removing the vacancy requirement (from table 3.6) and the one-off familiarisation cost (from table 2.5). Removing the floor space limit is the main source of the impact. The monetised impact of removing the vacancy requirement is roughly one eighth of the monetised impact of removing the floor space limit. The one-off familiarisation costs in 2024-25 offset some of the impact from reduced fees and labour costs in that year. Table 3.8 presents the NPV in each scenario.

Table 3.7: Total Impacts from Removing Floor Space Limit, Removing Vacancy Requirement and Familiarisation Costs – (discounted £ms in 2019 prices, 2020 PV)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Low	1.0	15.6	14.4	13.4	12.4	11.4	10.6	9.8	9.0	8.4
Central	**1.5**	**23.3**	**21.6**	**19.9**	**18.4**	**17.0**	**15.8**	**14.6**	**13.5**	**12.5**
High	2.1	32.6	30.1	27.8	25.7	23.8	22.0	20.4	18.8	17.4

Table 3.8: Net Present Value of Removing Floor Space Limit, Removing Vacancy Requirement and Familiarisation Costs – (discounted £ms in 2019 prices, 2020 PV)

Scenario	NPV	Difference from Central
Low	106.0	33%
Central	**158.1**	**-**
High	220.7	40%

Non-monetised Impacts

In the previous sections, we have monetised the direct impact on supply of removing the floor space limit and the vacancy requirement, through increasing the likelihood of applications to convert to dwellinghouses being accepted, where these applications can be made through the PDR instead of the planning system. In this section we describe indirect and wider impacts. As set out above, the supply impacts of the PDR amendments are expected to be small so we anticipate the non-monetised impacts will also be small.

Non-monetised benefits

There is a possibility of the PDR amendments inducing a behaviour change among developers, with completely new application coming forward which would not have been made through the planning system in the counterfactual. Currently there is considerable uncertainty over whether developments of large commercial sites for housing will secure planning permission. Certainty can only be gained by progressing the site through the planning system, which involves time and expense. As a result of this uncertainty and higher likelihood of refusal, some sites may not come forward. In comparison, expanding the PDR may reduce the uncertainty and the likelihood of refusal, so more of these sites come forward. Some of these new applications would be accepted and implemented, leading to additional dwellings. We do not model the number of additional homes which might be brought forward from this behaviour change or monetise the associated impact, because we expect the number of these additional applications to be low, and because of a lack of data to on which to base the estimates. We expect the number of additional applications coming forward to be low because the savings in fees and labour costs (brought about by the PDR) are small relative to the Land Value Uplift. Landlords can already benefit from LVU under a full planning application. A relatively small reduction in fees and labour costs is unlikely to induce a large number of people to make use of the PDR.

Removing the vacancy requirement may result in some cost savings to landlords who previously faced costs associated with lost rent where the building had to be vacant for 3 months immediately prior to the PDR being utilised. However, the savings are highly uncertain so we do not attempt to monetise them. In the counterfactual, where the vacancy requirement was in place, developers may have been able to conduct some preparatory work while the property was vacant. In the policy option, developers are less likely to be able to conduct preparatory work while the building is occupied by a tenant. As a result, the time savings may be less than 3 months.

The additional units delivered by this policy, though small relative to the annual total Net Additional Dwellings (234,400 in 2022-23), may have localised impacts on house prices and housing availability. By increasing housing delivery, more people will be able to access housing than would otherwise be the case, helping to reduce overcrowding and homelessness, and contributing to lower equilibrium housing costs in the local area. In addition, these homes must meet the nationally described space standards[39] and natural light requirements[40], ensuring they are good quality units.

There may be some 'hope value' captured by owners of properties brought into scope by the PDR amendments even where buildings are not re-developed, due to a higher likelihood of being given permission to convert to residential properties. This benefit has not been monetised in this impact assessment. We expect most of the increase in the value of properties to be captured by the additional units (that is, buildings that change use to dwellinghouses in the policy option but not

[39] "Permitted development" homes to meet space standards [*Available at: https://www.gov.uk/government/news/permitted-development-homes-to-meet-space-standards*]

[40] The Town and Country Planning (General Permitted Development) (England) Order 2015 (as amended) *[Available at : https://www.legislation.gov.uk/uksi/2015/596/article/3]*

the counterfactual). The value uplift is therefore mostly captured by the monetised Land Value Uplift.

Local businesses may benefit from an increase in the local population. New residents may shop locally and use local services, increasing footfall and demand for their products. More housing may also lead to other positive externalities. For example, long term vacant sites are a source of blight to existing businesses and households located nearby, and re-developing these sites may bring an amenity benefit. This benefit would likely be capitalised into property values. Most of the additional units are expected to come from a small number of very large properties converting to dwellinghouses, so a lot of these positive externalities are expected to be geographically concentrated around a small number of large developments.

Non-monetised costs

Responses to the public consultation expressed concern that removing the vacancy requirement would lead to viable businesses being evicted or otherwise displaced, in order for the property to be converted to dwellinghouses. We have estimated the potential scale of this in the SaMBA, and we find that it is a genuine impact, but the scale is likely to be small, with only a small number of businesses impacted in this way.

A large loss of commercial properties in a local area could have a negative impact on existing residents, both through reducing their amenity value and through the welfare loss of reduced access to shops, offices, and other property types. However, based on this analysis we expect to see only a small number of additional properties converted to residential. On this basis we judge the negative externality on residents from loss of commercial buildings to be minor.

It is also possible that because additional conversions would result in fewer remaining commercial premises, this reduced supply could cause an increase in rents for the remaining commercial sites, increasing costs for the businesses which are tenants in the sites. Based on the SaMBA we expect the number of additional conversions will be small enough that the impact on rents will be negligible – however there may be a non-negligible impact for specific local areas where a large conversion goes ahead. In general, this kind of increased cost from rents is not a net cost or benefit but rather a transfer. In this case, the potential cost to tenants of increased rents is offset by a counterbalancing benefit to owners who would receive the increased rents.

By removing the need for a planning application for some types of development, local authorities will lose the opportunity to consider such development in the context of their local plans. Local authorities and communities will be less able to effectively manage the high street or town centre. This comes with both costs and benefits; on one hand it reduces the power of local interests to shape their community through the planning system, but on the other hand by removing this power it supports greater delivery of homes, with all the social benefits associated with this. It should be noted that there is a prior approval in respect of the impact on the local provision of the loss of a registered nursery or health centre, which gives local authorities some control over key infrastructure.

There is scope for some small negative externalities which would otherwise have been considered through the planning system, such as increased congestion from new housing. We generally expect any effects of this type to be small, because of the small number of expected additional units. Most of the additional units are expected to come from a small number of very large properties converting, so there is a risk that there would be larger negative externalities concentrated in a small geographical area around these developments.

There may be greater costs for the local authority arising from any additional pressure on local infrastructure and public services if there is a greater number of residents. Class MA does not

require section 106 developer contributions, which may result in funding gaps for the local authority to fill. Council Tax applied to all dwellings would help mitigate this.

Sites would also not be required to provide a contribution to affordable housing, unlike many developments through the planning system. Nevertheless, PDRs for change of use to dwellinghouses have led to an increase in the number of homes delivered than there otherwise would have been, helping to relieve pressure on the housing market overall.

In general, land should be used in its most productive use, and if housing generates a higher return than Class E then there will generally be a net gain to society from changing the use of land into housing, subject to the other impacts described above. The opportunity cost of using the land for housing is its previous use, and this opportunity cost is already monetised because the Land Value Uplift is calculated net of the previous use value.

During the consultation, we also sought views and evidence on the impacts of the amendments on people who share a protected characteristic. This has provided an opportunity for us to consider any concerns voiced by respondents about potential impacts. Having considered obligations under the Equalities Act 2010 our view is that the amendments to the Class MA PDR are unlikely to negatively impact on those with protected characteristics in a way that directly or indirectly prejudices those groups. The amended PDR is intended to have a positive effect on all groups, including those sharing protected characteristics, through the delivery of additional homes to buy or to rent, and the expansion of residential use in the high street. Where any concerns have been raised, including in relation to disproportionate impacts on those who share a protected characteristic, they have been considered through a Public Sector Equality Duty analysis.

Risks and assumptions

There is a significant degree of uncertainty in the analysis due to the limited evidence available to the department for certain modelling assumptions. To mitigate the uncertainty in our central scenario, we have constructed low and high scenarios by varying key assumptions. Table 4.1 summarises the key assumptions made in this analysis. A more detailed description and justification of each assumption is provided in the text. Table 4.2 presents key risks and describes how they are mitigated in our analysis.

Table 4.1: Key Assumptions

Section of IA	Area	Assumption
Supply Impacts	Additionality of Office Schemes	As with RCP-CLG-5094(1), we assume 10.1% of Office Schemes are additional
Supply Impacts	Additionality of Non-Office Schemes	50% (Low: 25%, High: 75%) of Non-Office Schemes are additional
Supply Impacts	Non-Office Category	We assume that various Non-Offices uses are sufficiently similar that they can be grouped together into one category
Supply Impacts	EPC data for floor area	The calculations for the number of properties brought into scope by removing the floor space limit are calculated using EPC data. The EPC dataset provides 54% coverage of all properties. We assume that this dataset is representative of all properties.
Supply Impacts	Size of buildings that convert in the counterfactual	We assume that properties above 1,500sqm do not convert under Class MA in the counterfactual because of the floorspace limit. In practice, properties above 1,500sqm may partially convert (up to 1,500sqm of their floor area) under the existing Class MA rules.
Supply Impacts	Size Assumptions for Office and Non-Office Schemes	For buildings under 1,500sqm, we estimate the average floor area of properties being converted using the 75th percentile for the buildings in Class E under 1,500sqm in the non-domestic Energy Performance Certificate microdata. For buildings over 1,500sqm which are brought into scope, we estimate the average floor area using the mean floor area for

		buildings in Class E in the EPC dataset. We calculate separately for 1,500 to 3,000sqm; 3,000 to 5,000sqm; and 5,000sqm+. In both cases we assume the converted residential units to be an average of 45 sqm, an assumption retained from RCP-CLG-5094(1).
Supply Impacts	Downwards adjustment to implemented schemes for very large buildings	Given the challenges to conversion of very large schemes (for example, due to natural light), we apply downwards adjustments (relative to properties in 1,500-3,000 sqm). For properties between 3,000 and 5,000 sqm, we apply a 25% reduction for Offices and a 50% reduction for non-offices. For properties greater than 5,000 sqm, we apply a 50% reduction for Offices and a 75% for Non-Offices
Supply Impacts	Prior Approval success rate	We assume that 65% of applications are successful (either Prior Approval not required or granted) and 35% are refused. This is based on the last two years of data for the existing Class MA PDR.
Supply Impacts	Prior approval implementation rate	We assume that 64% of schemes that are granted a prior approval are implemented (that is, the change of use actually takes place).
Supply Impacts	Decline in baseline prior approvals	We assume that prior approvals decline by 4.3% each year (based on the average annual rate of decline using the net additions figures for the old 'office to residential' right from 2015-16 through to 2022-23).
Supply Impacts	Lag between prior approval and units	We apply a simplifying assumption that there is 1 year between a prior approval application and the change of use taking place.
Supply Impacts	Leases of existing tenants	We apply the simplifying assumption that leases do not lead to delays in (or prevent) in change of use (simplifying assumption). While some properties have long leases, and so cannot immediately be displaced, we assume this also applies (and hence is implicitly taken into account) in the historical data.
Monetised Impacts	Change in Land Values	We assume land values (and hence Land Value Uplift) grows in line with the GDP deflator.
Monetised Impacts	Time taken to prepare and submit a full planning application	As with RCP-CLG-5094(1), we assume it takes 3.5 days to prepare and submit a full planning application.
Monetised Impacts	Time taken to prepare and submit a prior approval	As with RCP-CLG-5094(1), we assume it takes 0.5 days to prepare and submit a prior approval.
Monetised Impacts	Familiarisation time	We assume that, given the simplicity and deregulatory nature of the PDR amendments, each organisation only requires 0.5 hours of familiarisation time.

Table 4.2: Key Risks

Risk description	Impact	Mitigation of risk
Impacts on town centres and community assets	A large loss of commercial properties in a local area could have a negative impact on existing residents, both through reducing their amenity value and through the welfare loss of reduced access to shops, offices, and other property types.	• Most properties can already make use of the existing PDR. Using EPC data, we estimate that 95% of Class E buildings have a floorspace of less than 1,500 sqm. As a result, the impact of the PDR amendments is very small relative to the total stock of properties. • By making it easier for properties to convert to residential, footfall may increase in town centres, benefiting local businesses. This offsets some of the downside risk. • Some mitigation is provided by the restrictions on the type of buildings that can make use of the PDR. Only Class E property types are eligible to make use of this PDR. Small isolated shops selling essential goods (where no other facility is within a 1,000 metre radius) are classified as Class F2 (not Class E) and therefore are not eligible. There is

		also a prior approval in respect of registered nurseries and health centres also helps mitigate the risks of communities losing key infrastructure.
Impact on quality of homes delivered	Homes delivered under the PDR may result in low quality and unattractive residential development	• Each home must meet the Nationally Described Space Standards. In addition, the right allows for prior approval in respect of the provision of adequate natural light in all habitable rooms. Together these measures will help to ensure the delivery of quality homes.

Impact on small and micro businesses

Amending the PDR will have impacts on three categories of business: housebuilders/developers, owners of properties in scope and tenants of properties in scope. We consider the impact of the amendments to the PDR on each category of small and micro business. As with RCP-CLG-5094(1)[41], the amendments are deregulatory and expected to be beneficial for small and micro businesses. Consequently, small and micro businesses are not excluded.

Housebuilders/Developers

For the developer category, we use ONS estimates[42] for the number of businesses in the Development of Building Projects category (SIC 4110). To reflect the fact that the policy only applies in England, we adjust these estimates down by 10% (90% of the businesses in this category are in England). Our estimates, in table 5.1, show that housebuilders/developers are over 96% micro businesses and nearly 4% small businesses. This is a higher concentration of small and micro businesses than in other industries.

Table 5.1: Employers in Development of building projects category (SIC 4110)

Business Size	Number of Businesses
Micro (1-9)	39,658 (96.2%)
Small (10-49)	1,509 (3.7%)
Medium and Large (50+)	18 (0.0%)

We expect the beneficial impacts of the deregulatory amendments to the PDR to disproportionately fall on small and micro businesses who are particularly affected by the complexity and cost of submitting full planning applications. As a result, excluding small and micro businesses would not be desirable. Relative to other forms of housebuilding, there is some evidence to suggest that small and micro businesses develop a proportionately larger share of smaller sites and flats. In terms of new builds, small and micro builders play a small (and shrinking) role. In *State of Play: Challenges and Opportunities facing SME Home Builders (2020)*, the Home Builders Federation found that small developers delivered around 40% of new homes in 1988 compared to around 10% in 2020.[43] However, DLUHC analysis of Glenigan data suggests that small builders build out the majority of smaller sites and that approximately 70% of apartments are built by small builders (defined here as 1-300 units per annum), compared to approximately 25% of houses. The figures are not directly comparable with the Home Builders Federation report because a different definition of small housebuilders is used[44], nonetheless it still indicates that small housebuilders play a larger role in building apartments than larger housebuilders. This evidence indicates small builders may potentially disproportionately benefit from the amendments to the PDR, given that use of the PDR is likely to be on small sites and involve conversions to apartments.

In addition, small and micro businesses are particularly affected by the time and labour costs associated with full planning applications. Lichfields identified three central reasons for the fall in SME housebuilding in recent decades: (1) increases in time taken to achieve planning permission, (2) planning-related costs have increased, (3) the high costs and uncertainty of success have increased the risks.[45] In a survey of small housebuilders, the NHBC identified that the planning

[41] RPC-CLG-5094(1) IA *[Available at: https://www.legislation.gov.uk/ukia/2021/93/pdfs/ukia_20210093_en.pdf]*

[42] ONS Business Population Estimates *[Available at: https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/ukbusinessactivitysizeandlocation]*

[43] Home Builders Federation (2020) *[Available at: https://www.hbf.co.uk/documents/10555/HBF_Report_-State_of_Play_FINAL_V2.pdf]*

[44] DLUHC analysis of Glenigan data defines small developers as those building 1-300 units a year. The Home Builders Federation typically define small developers as those that build 1-100 units a year.

[45] Lichfields *[Available at: https://lichfields.uk/media/8198/small-builders-big-burdens_how-changes-in-planning-have-impacted-on-sme-house-builders.pdf]*

process was “the main or second most significant business challenge for more than two-thirds of small house builders and developers”.[46] While these issues affect all housebuilders, small and micro housebuilders are likely to be particularly sensitive to them. Volume housebuilders, have the economies of scale and capital to better deal with an uncertain planning process. By increasing the number of projects that can make use of the PDR, the amendments will alleviate some of the challenges faced by small and micro housebuilders. In the consultation responses, developers and planners referenced the greater certainty, reduced complexity and reduced cost associated with the PDR relative to a full planning application. Some respondents specifically referenced that the risks associated with a full planning application disincentivised small developers.

On the other hand, small and micro businesses will be disproportionately affected by familiarisation costs. As small and micro businesses have fewer employees, the 30 minutes of familiarisation time (described above) will take a larger share of total company time than for a larger organisation. Nonetheless, these familiarisation costs are expected to be small in proportion to the deregulatory benefits of the amendments to the PDR to small and micro businesses. In addition, they are intrinsically tied to the deregulatory benefits. That is, small and micro businesses need to familiarise themselves with the legislation in order to benefit from it.

Landlords

For small and micro businesses that own their property, the PDR amendments provide an opportunity to extract Land Value Uplift (LVU) by converting their property into the residential use class. While all landlords in scope stand to benefit from LVU, small and micro businesses that own their own property may be more sensitive to the costs of development (as they have fewer resources) than larger landlords. By reducing the costs of development, the PDR amendments may disproportionately benefit small and micro businesses.

As set out in the previous section, we estimate that a change of use to residential will bring about £84,445 (in 2024 prices) per dwelling created. However, there is very limited data on the number of small and micro businesses that do own their property. In 2019, EG[47] analysed 3,200 retail premises across 22 of the UK’s biggest high streets (drawing on data from Radius Data Exchange, Land Registry, Scottish Assessors Association and Experian). This analysis found that 5.3% of high street properties were owned by the retail and leisure occupiers and 7.5% were owned by private individuals. Not all retail and leisure occupiers or private individuals will be small and micro businesses. However, these percentages are indicative of the proportion of retail properties owned by small and micro businesses who therefore may benefit from the PDR amendments. Table 5.2 shows the proportion of high street buildings by owner type. While high streets are not representative of all Class E buildings, this is the only available data source and provides some sense on the distribution of property ownership.

Table 5.2: EG analysis of Proportion of High Street Retail Buildings by Owner Type

Owner Type	Proportion
UK Real Estate Investment Trusts and Property Companies	21.4%
Overseas investors	17.3%
Public Sector	16.6%
Traditional estates, church and charity organisations	13.3%
Institutions (insurance, banking and pension funds)	8.9%
Private individuals	7.5%
Investment management schemes	5.8%
Retail and leisure occupiers	5.3%
Other	3.9%

[46] NHBC *[Available at: https://www.nhbc.co.uk/binaries/content/assets/nhbc/foundation/small-house-builders-and-developers.pdf*

[47] EGI *[Available at : https://www.egi.co.uk/news/who-owns-the-high-street/#:~:text=Traditional%20property%20companies%20and%20REITs,with%2017.3%25%20for%20overseas%20owners]*

Tenants

Small and micro businesses occupying Class E buildings may be indirectly affected by the removal of the three-month vacancy requirement. Landlords, seeking to unlock the higher value associated with residential land, may choose to either convert vacant properties or displace existing businesses.

Financially, landlords may prefer to convert properties that are currently vacant (where they are earning no rent) rather than displace a viable business (where they are earning rent). Several consultation responses from developers and planning consultants reference the conversion of unoccupied and redundant buildings, as opposed to displacing existing tenants. The Local Data Company report that the High Street vacancy rate is 13.9% (up 2.3% points on the average between 2013 and 2019).[48] This suggests there is a significant pool of vacant properties that could be converted, before existing tenants may be displaced. Removing the floor space limit brings more of these properties into scope. 66% of Private Sector Organisations (including developers and planning consultants) supported removing the vacancy requirement in the consultation.

However, 75% of non-Private Sector Organisations opposed the changes at consultation (this falls to 57% opposition when Private Sector Organisations are included). One frequently cited concern relates to the risk of important commercial spaces and local businesses being lost, particularly in town centre locations, as existing tenants may be displaced.

We use Department for Business and Trade's (DBT) Business Population Estimates[49] (BPE) for 2023 to estimate the number and proportion of small and micro businesses that are tenants. We then combine our forecasts with these proportions to reach an estimate of the number of small and micro businesses that may be displaced.

The British Population Estimates are produced for both England and the UK. However, more granular detail is provided at UK-level. Businesses in England make up 87% of UK businesses, 89% of employment and 91% of turnover. To reflect the fact that the policy only applies in England, we adjust the UK-based industry-specific figures in line with this to reach an England-level estimate for each relevant industry.

The Office category is defined using the following industry sections: (1) Professional, Scientific and Technical Activities; (2) Administrative and Support Service Activities; (3) Other Service Activities; (4) Information and Communication; (5) Real Estate Activities; and (6) Financial and Insurance Activities. Collectively, these six categories make up 37% of all businesses and 35% of employees. Although this composite Office category does not exactly match tenants in scope, it is likely to be a better proxy than the distribution of all industries (which includes heavy industry businesses that may be structured very differently). Relative to the average of all business (with employees), the Office category has a slightly higher proportion of micro businesses and a slightly lower proportion of small businesses. The values for the composite Office category are shown in Table 5.3.

Table 5.3: Employers in Composite Office Category

	Number of Businesses	Number of Employees[50]	Turnover[51] (£ millions)

[48] [Available at: https://www.localdatacompany.com/blog/shopping-centres-then-and-now]

[49] [Available at : https://www.gov.uk/government/statistics/business-population-estimates-2023] Note: Our analysis of different industries focuses on employers (businesses with no employees are excluded). This is because, for some industries (the housebuilding industry), data is only available for employers. While these businesses only make up 26% of the 5,555,130 businesses recorded in the BPE, they are responsible for 83.7% of employment and 92.6% of turnover.

[50] From BPE: The number of employees refers to the number of people working within the business under a contract of employment in return for a wage or salary. A business can be classed as having no employees if all the business is conducted by people classed as being working proprietors

[51] Turnover is not disclosed for all industries in the Office Composite category.

Micro (1-9)	396,846 (84.7%)	1,369,000 (19.3%)	NA
Small (10-49)	58,383 (12.5%)	1,144,000 (16.1%)	NA
Medium and Large (50+)	13,444 (2.9%)	4,589,000 (64.6%)	NA

The Non-Office category is defined using the following industry divisions: (1) Retail trade, except of motor vehicles and motorcycles; (2) Food and beverage service activities; and (3) Wholesale trade, except of motor vehicles and motorcycles. Collectively, these three categories make up 23% of all businesses, 26% of employees and 32% of turnover. Relative to the average of all business (with employees), the Non-Office category has a slightly higher proportion of small businesses and a slightly lower proportion of small businesses. The values for the composite Office category are shown in Table 5.4.

Table 5.4: Employers in Composite Non-Office Category

	Number of Businesses	Number of Employees[52]	Turnover (£ millions)
Micro (1-9)	222,468 (78.3%)	939,000 (17.8%)	145,381 (12.0%)
Small (10-49)	54,894 (19.3%)	1,046,000 (19.8%)	231,992 (19.2%)
Medium and Large (50+)	6,705 (2.4%)	3,294,00 (62.4%)	833,426 (68.8%)

The actual number of tenants affected is likely to be very small. In the central scenario, we estimate that in 2024-25 there would be an additional 3 Office sites and 3 Non-Office sites that begin[53] changing use to residential as a result of removing the vacancy requirement (by applying the average units per scheme to the number of schemes. We only report additional units here. Units that have been displaced from the planning system may result in removal of small and micro business tenants, but this would also have happened in the counterfactual. We estimate the number of small and micro businesses by applying the proportion of businesses in these categories from Tables 5.3 and 5.4 to the estimate of the number of affected sites in 2024-25 (shown in Table 5.5) and then rounding. As the number of applications decreases through the appraisal period, we expect these numbers of affected businesses to decrease further.

Even assuming that all of the forecast changes of use involve the displacement of tenants (instead of vacant properties), the number of affected tenants is very small, as shown in Table 5.5. While a handful of tenants across the country may be displaced, this is unlikely to lead to significant harm to local economies. Given the estimated total number of displaced tenants is so small, there is considerable uncertainty about whether the type of displaced businesses will follow the distributions in Tables 5.3 and 5.4. It should also be noted that small isolated shops selling essential goods (where no other facility is within a 1,000 metre radius) are classified as Class F2 (not Class E) and so are not eligible to make use of the PDR. This mitigates against the loss of community assets to isolated communities. The prior approval in respect of registered nurseries and health centres also helps mitigate the risks of communities losing key infrastructure.

Table 5.5: Potential Displaced Tenants in 2024-25

	Potential Office Businesses Displaced	Potential Non-Office Businesses Displaced
Micro (1-9)	3	2
Small (10-49)	0	1

[52] From BPE: The number of employees refers to the number of people working within the business under a contract of employment in return for a wage or salary. A business can be classed as having no employees if all the business is conducted by people classed as being working proprietors.

[53] As set out above, we assume a one-year delay before these are completed, so 0 units are completed are in 2024-25.

Medium and Large (50+)	0	0

Some tenants may still be indirectly affected by the amendments to the PDR, even if they are not displaced. Landlords of properties in scope now face a higher opportunity cost if they opt not to change use of their property. Consequently, they may seek to increase rent on their tenants. While this is a transfer (from tenants to landlords), higher rents may reduce the viability of existing businesses. However, there are reasons to be sceptical about the size of the increase in rent. The pool of vacant properties, outlined above, suggests tenants could relocate if faced with higher rents. This spare capacity in the market also suggests that supply of space exceeds demand. If a landlord attempted to increase rent further, they are unlikely to find a tenant willing to pay the higher rent, when there are already unfilled properties at the lower (current) rents.

A brief qualitative summary of the potential trade implications of measure.

These measures are unlikely to negatively impact on trade or investment. We expect that the majority of any new businesses and development stimulated by the right will be UK businesses. However, we do not hold data to support this assumption.

Monitoring and Evaluation

Amendments to the Class MA PDR brought forward in the SI aim to support the supply of housing and reduce high street vacancy, by providing a simpler and quicker route to planning permission.

DLUHC continually monitors and collects prior approval application and housing delivery statistics on PDR for the change of use to residential. For example, in 2022-23, 1,126 applications for Class MA prior approval were made and 451 new homes were delivered. The impact and effectiveness of these measures will be monitored by DLUHC to understand their impacts on the number of new dwellings delivered and changes will be considered to ensure that the intended outcomes and benefits are achieved.

Moreover, article 7A of the GPDO requires the Secretary of State to carry out a review of the legislation at intervals not exceeding five years. The last review of the GPDO was published 29/10/2021 and is available at legislation.gov.uk.

The prior approval data is available here: https://www.gov.uk/government/statistical-data-sets/live-tables-on-planning-application-statistics

The net additional dwellings data is available here: https://www.gov.uk/government/collections/net-supply-of-housing