

Title: Creating new homes through the regeneration of vacant and redundant buildings IA No: MHCLG-5042(1) RPC Reference No: RPC-MHCLG-5042(1) Lead department or agency: MHCLG Other departments or agencies:	Impact Assessment (IA)			
	Date: 23/12/2020			
	Stage: Development/Options			
	Source of intervention: Domestic			
	Type of measure: Secondary Legislation			
Contact for enquiries: Maria Darby 0303 444 1463				

Summary: Intervention and Options	RPC Opinion: Green
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Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status Qualifying provision
£79.6m	£79.6m	-£9.2m	

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

The government is committed to boosting regeneration and delivering the housing the country needs. To support post COVID-19 economic recovery and regeneration, the government continues to demonstrate its commitment to simplifying and speeding up the planning system to make effective use of land and deliver more homes through a raft of planning reforms including the introduction of new and amended permitted development rights.

What are the policy objectives and the intended effects?

The government has introduced a new national permitted development right to support demolition of certain vacant and redundant buildings built before 1990 to be rebuilt as residential, subject to local consideration of key planning matters under a prior approval process.

The aim of the right is to support regeneration through the redevelopment of vacant and redundant buildings that no longer effectively serve their original purpose, make effective use of previously developed sites, support housing delivery and increase housing density. It will support economic recovery through providing a simplified planning process which provides greater planning certainty to developers.

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

The Government is committed to increasing housing supply to meet the need for homes by making efficient use of land and avoiding building at low densities, especially in areas of high demand. One way this can be achieved is through creating new homes through the regeneration of vacant and redundant buildings.

Doing nothing would not provide the additional boost to the country's economic renewal or support the regeneration of our towns and cities. The greater planning certainty may bring additional development forward and reduce the number of buildings left empty.

Will the policy be reviewed?	No	If applicable, set review date:		
Does implementation go beyond minimum EU requirements?	N/A			
Is this measure likely to impact on international trade and investment?	No			
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: N/A		Non-traded: N/A	

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

Christopher Pincher Date:

23/12/20

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2020	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 26.7	High: 188.2	Best Estimate: 81.2

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

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

There are no monetised costs to business.

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

There may be some additional pressure on local infrastructure from new homes.

Where the new building includes additional storeys nearby neighbours may potentially suffer more shading impacting their amenity, although this will be limited by virtue of the maximum height of 18m.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0		2.7	26.7
High	0		18.9	188.2
Best Estimate	0		8.2	81.2

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

Businesses (developers) will benefit from reduced planning fees by no longer being required to submit a full planning application (£0.9m-£5.0m over 10 years). This range is primarily driven by variation in the uptake of the right and the stock of relevant eligible buildings. Business (owners of eligible buildings) will benefit from net land value uplift of £25.8m-£183.3m.

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

The PDR will support output in the construction industry during challenging times for the sector as a result of COVID-19. Businesses (developers) will also benefit from increased planning certainty and reduced planning requirements on eligible premises.

Communities will benefit from the additional homes, and the redevelopment of vacant sites that can lead to blight. Prior approval will allow for the consideration of the impact on neighbours from overlooking and loss of light. Further prior approvals provide for consideration of the impact on the new residents of the homes from the introduction of residential use in the area.

Key assumptions/sensitivities/risks	Discount rate	3.5
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The analysis is sensitive to some key modelling assumptions, including the uptake of the new PDR and how this varies over the appraisal period. The uptake is modelled using a similar trajectory to the building upwards PDR (RPC-CLG-4481 (1)). Another key assumption is on the increased certainty of planning applications from the new PDR, which is used to estimate the net Land Value Uplift from the gross Land Value Uplift. There is uncertainty in these modelling assumptions and the sensitivity analysis reflects this uncertainty. There is also considerable uncertainty due to COVID-19, particularly around the change in the number of vacant buildings over the appraisal period. Where possible, the assumptions are based on the best data available. In some cases, no data is available, and therefore it has been necessary to make illustrative assumptions to reflect a range of possible scenarios.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual – 2020 Prices, 2020 Base Year) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 0.0	Benefits: 9.4	Net: -9.4	

Evidence Base (for summary sheets)

Policy background/problem under consideration & rationale for intervention

Permitted development rights provide a more streamlined planning process with greater planning certainty, while at the same time allowing 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 quite minor, such rights have been increasingly used in recent years to support the provision of new homes and so help speed up the delivery of new housing through change of use of existing buildings and extending free standing purpose built residential blocks to create new homes.

The government's consultation *Planning Reform: Supporting the high street and increasing the delivery of new homes*¹ from October 2018 to January 2019 sought views on the scope of a permitted development right that would allow the demolition of commercial buildings and replacement build as residential, which would retain the ability to secure high quality development consistent with national policy.

In the response to the 2018 consultation the government committed to give further consideration to the scope of a permitted development right to demolish commercial buildings and redevelop as residential, and to consult further on the detail. Subsequently, the Secretary of State announced on 12 March 2020 in *'Planning for future'* that the proposed right would allow "vacant commercial buildings, industrial buildings and residential blocks to be demolished and replaced with well-designed new residential units which meet natural light standards". In his 30 June 2020 economy speech (Build, Build, Build) the Prime Minister announced a package of planning reform, of which the new right is part, to support the economy and to boost construction and housing delivery.

Policy objective

The government is committed to boosting regeneration, supporting our high streets and town centres and delivering the housing the country needs. The COVID-19 crisis has magnified the problems facing our town centres and high streets. To support recovery and regeneration, the government continues to demonstrate its commitment to simplifying and speeding up the planning system to make effective use of land, support high streets and town centres, and deliver more homes through a raft of planning reforms including the introduction of new and amended permitted development rights.

The aim of the right is to support regeneration through the redevelopment of vacant and redundant buildings that no longer effectively serve their original purpose, make effective use of previously developed sites, support housing delivery and boost housing density. It will support economic recovery through providing a simplified planning process which provides greater planning certainty.

Description of options considered

- a) Demolition of vacant and redundant buildings and replacement build as residential

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

¹ <https://www.gov.uk/government/consultations/planning-reform-supporting-the-high-street-and-increasing-the-delivery-of-new-homes>

The Government has introduced from 31 August 2020 a new national permitted development right to allow for the demolition of certain vacant and redundant buildings and rebuild as residential.

This sits alongside the raft of other planning measures brought forward to support economic recovery, regeneration and housing delivery. This includes new permitted development rights to extend buildings upwards to create new homes, and changes to the Use Classes Order to support the economic recovery of high streets and town centres.

The right will apply to England only.

b) Doing nothing

Such developments are encouraged through the National Planning Policy Framework (NPPF). To support national policy and further encourage this type of development in support of our economic recovery Ministers took the decision to introduce a new permitted development right to provide greater planning certainty. Doing nothing would not support the regeneration of vacant buildings and our wider economy, boost housing delivery or deliver on the government's decision to introduce the permitted development right.

Summary of preferred option with description of implementation plan

The Government has introduced from 31 August 2020 a new national permitted development right to allow for the demolition of certain vacant and redundant buildings and rebuild as residential.

The right applies to vacant and redundant free-standing buildings that fell within the B1(a) offices, B1 (b) research and development, B1 (c) industrial processes (light industrial) use classes, and free-standing purpose-built residential blocks of flats (C3 use class) on 12 March 2020, the date of *Planning for the future* as such buildings may already be found in residential areas. To ensure that the right applies to buildings that are vacant and redundant and are no longer suitable for modern use rather than between tenancies the right applies to buildings built before 1 January 1990, and which have been vacant for at least 6 full months prior to the date of the application for prior approval.

The right provides for the demolition of the existing building and to build a new residential building. The right allows for redevelopment within the footprint of buildings with a footprint of up to 1,000 square metres (sqm), and with a maximum height of 18 metres. To provide flexibility and make effective use of the airspace above existing buildings to create additional homes, the right also provides for the residential building to be up to two additional storeys higher to an overall maximum height of 18 metres. This can result in developments of up to 6,000 sqm.

A building with a high floor to ceiling height, such as a light industrial building, may provide for more than one residential storey within this original storey as long as the overall maximum height of the final building is no higher than 18 metres and each storey is no more than 3 metres.

The right allows for local consideration of specific planning matters through prior approval. This draws on those matters for prior approval in other rights, such as flooding, transport and highways, and noise. To consider the impacts of the new building on the area and neighbours it provides for consideration of the design and external appearance, and impacts on the amenity on neighbouring premises including in respect of overlooking, privacy and light. To improve the experience for new residents, the right also requires prior approval consideration in respect of the provision of adequate natural light in all habitable rooms, the impact of the introduction of

residential use in the area, and plans for landscaping including the planting and maintenance of shrubs and trees. As the right allows for demolition it further provides for consideration of the impacts on heritage and archaeology.

It is important that local consideration is given to the impacts of such development on sensitive areas. The right therefore does not apply in article 2 (3) land such as National Parks, Conservation Areas, the Broads, and Areas of Outstanding Natural Beauty, or sites of special scientific interest. The right does not apply if the building is a listed building or scheduled monument, or if the land on which the building is sited is within the curtilage of a listed building or scheduled monument. It also ensures necessary safeguards for example in respect of aerodromes, safety hazard areas, military explosive storage areas, and in the case of buildings that are extended upwards on air traffic and defence assets and on protected vistas in London.

All development, whether granted permission following a planning application or through a national permitted development right is legally required to comply with the Building Regulations 2010 (S.I. 2010/2214), as amended (“the Building Regulations”), including in respect of fire safety.

NB: Since the legislation was introduced, the Government has announced that in future all homes delivered through permitted development rights would be required to meet the nationally described space standards. This amendment was introduced in legislation laid on 11 November 2020 and will apply to applications for prior approval submitted on or after 6 April 2021. This impact assessment is based on the details of the right for demolition and rebuild as framed in the original legislation to introduce the right. A separate impact of analysis will be undertaken of the impact of introducing space standards on all permitted development rights that create new dwellinghouses.

The right came into force on 31 August 2020 as an amendment to the Town and Country Planning (General Permitted Development) (England) Order 2015, as amended (secondary legislation). The right applies to England only.

Monetised and non-monetised costs and benefits of each option

Monetised Benefits

The measure is expected to primarily result in additional housing supply through the demolition of vacant buildings and the replacement construction of housing. The number of office buildings, buildings used for research and development, and light industrial buildings that have also been vacant for 6 months or more, below 1,000 sqm, under 18m and older than 1990 (and therefore potentially in scope of this measure) is estimated at 22,200 to 26,300 as of today, though to note uncertainties outlined below.

Further, evidence of free standing residential blocks of flats that the measure also applies to suggests that the impact of the measure on these types of buildings is expected to be small because there are likely to be few buildings covered by the scope of this measure. Sensitivities are presented around these estimates focusing on key uncertainties in the analysis. Wider impacts are both positive and negative and are outlined in the section on non-monetised impacts.

The measure increases the certainty the market has to develop these sites for housing, where there is a clear rationale for increasing supply and therefore affordability. Currently, developers of these sites face imperfect information because they cannot be sure whether the site will secure planning permission and subsequently whether the site represents a viable opportunity to build new housing or otherwise. This certainty can only be gained by progressing the site through the planning system, which involves time and expense, therefore leading to some of these sites not coming forward, where developers are also balancing the risk that planning

might not be secured. The measure also reduces the transaction costs (e.g. time, process) of developing these sites thereby supporting their re-development. The measure addresses these market failures, and support increasing housing supply.

In order to estimate the potential scale of change an estimate is needed of the number of buildings within scope of the measure. The department does not directly hold this data, and therefore data sources used, and assumptions are outlined below.

Data used and assumptions made

B1(a) – B1(c) uses

An estimate of the number of B1(a)-(c) buildings was created by sourcing data from Sqwyre². Sqwyre hold data on office, retail, leisure, and industrial premises within England and Wales. These premises are defined into sub-categories, that do not directly match the B1 (a)-(c) use class definition. Therefore, a best estimate of the relevant sub-categories was conducted by MHCLG officials reviewing the sub-categories of premises available in the data and choosing those thought most likely to be in within B1(a)-(c) than other use classes. The categories chosen were Office – General, and Light Industrial. There were estimated to be 365k premises using this approach in England. R&D is not a category available on its own and was therefore not accounted for in the analysis but will in part be covered in Office – General and Light Industrial but also potentially spread in other categories not selected.

After obtaining the stock of B1(a) – (c) buildings estimate, it was then necessary to estimate the number of buildings eligible for the new PDR. There are four main criteria that needed to be applied to the 365k estimate, which are: vacant for 6 months or more, footprint below 1,000 sqm, built before 1990 and height of less than 18m. After factoring in these criteria, the estimated number of eligible B1 (a) – (c) buildings for this measure is 22,200 to 26,300. This range should be interpreted as a point in time estimate (as of now) of the number of buildings within scope of the measure. Over time, the stock of these vacant buildings will change, for example as more buildings become vacant and buildings are demolished using the PDR. Table 1 provides a summary of the number of eligible buildings. More detail of how this range was calculated is provided below.

Table 1: Summary of eligible B1(a) – (c) use buildings (rounded)

Criteria	Number of eligible buildings	Assumption
B1(a) – (c) uses	365k	Estimated using Sqwyre data
+Vacant for at least 6 months	40k	40k out of 365k vacant for 6 months or more
+Footprint below 1000sqm	37,000-39,200	92% (Ordnance Survey) - 98% (Sqwyre) applied
+Built before 1990	26,100-27,700	Scaled down by 29% (VOA)
+Under 18m	22,200-26,300	85%-95% (central 90%)-modelling assumption

An estimate of the number of premises above that have been vacant for 6 months or more was then required. Sqwyre hold data on the vacancy rates of the above premises which is used in the analysis and is derived by Sqwyre using information collected from local authorities. From this it is estimated that of the 365k premises above, 40k have been vacant for 6 months for more.

² Sqwyre (2020) <https://sqwyre.com/>.

An estimate of the number of premises above that have a footprint below 1,000 sqm is then required. Sqwyre hold data on the floor area of registered premises, but not footprint of the buildings. This introduces uncertainty in the analysis because where registered premises are based in buildings of one storey and are the only registered business in the building this measure will be broadly comparable to building footprint, but not so when there are multiple storeys in a building with multiple premises. However, we would note that tall buildings are generally an outlier with most buildings being low rise or similar. For the purposes of this impact assessment, floor area has been used as a proxy for footprint due to a lack of alternative data to estimate the number of premises in scope.

To address this uncertainty, a validation check of these results has been conducted by estimating the footprint of buildings using Ordnance Survey data. Ordnance Survey data allows us to estimate the actual footprint of buildings, but not other variables important for the measure, such as vacancy rates. Using Ordnance Survey, the department has estimated that approximately 92% of office buildings have a footprint of below 1,000 sqm compared³ to 98% as observed in the Sqwyre data. Of the 40k buildings above identified in the Sqwyre data, 39,200 have a floor area of below 1,000 sqm using Sqwyre data. The range provided in Table 1 above uses the 92% assumption from Ordnance Survey and 98% from Sqwyre data (37,000 – 39,200).

An estimate of the number of buildings above was needed for buildings built before 1990. This data is not available from Sqwyre. However, the department requested this information from the VOA, and they provided data which shows 71% of office buildings are estimated to have been built before 1990. The estimate above of the 37,000 - 39,200 buildings eligible is therefore scaled down by 29% to arrive at a central estimate of 26,100 - 27,700 thousand buildings in B1 (a) – (c) uses eligible under the PDR.

The department does not have data on the proportion of this stock of commercial (B1(a) – B1(c)) buildings that are above 18 metres. However, as noted above, tall buildings are generally an outlier in the stock. In the absence of evidence on the height of these buildings, we have made a modelling assumption of between 5% and 15% (central 10%) of these buildings being over 18m. A range has been used to reflect the uncertainty of this modelling assumption, and this assumption has been sense tested internally due to the lack of data. This leads to an estimate of 22,200 – 26,300 B1 (a)-(c) buildings being in scope.

The analysis of B1(a)-(c) does include buildings that are in conservative areas, National Parks, the Broads, Areas of Outstanding Natural Beauty, or sites of special specific interest whilst they are exempt from the measure. However, their inclusion is expected to have a minimal impact on the conclusions. This is because planning permissions for such uses may have been restricted historically within these areas. For this reason, it was not deemed appropriate to make an adjustment for these buildings.

C3 uses

The C3 classification applies to free-standing residential blocks of flats. An estimate of the number of flats in blocks of these types was estimated using English Housing Survey (EHS). As of 2018 we estimate that there are 2.5m flats in low rise purpose built residential free standing blocks providing housing accommodation built before 1991, which is a reasonable estimate for those built before 1990. However, there will be a requirement that the entire block will have needed to be vacant for 6 months or more.

³ This estimate is based on the land use layer data used to produce the Land use in England, 2018 publication <https://www.gov.uk/government/statistics/land-use-in-england-2018>. If there is a building of multiple use, OS use a hierarchy when determining its singular use as recorded in the land use data.

As of 2018, English Housing Survey estimates show that 6.9% of (171k) low rise, purpose built flats were classified as vacant, though this includes short term vacancies and properties vacant because they are in between lets or sales. As of 2020, MHCLG council taxbase statistics⁴ estimates show that around 2% of the dwelling stock was classified as empty (substantially unfurnished and vacant). However, both EHS and council tax base statistic estimates are at dwelling level (for example, individual flats that are empty). It is therefore reasonable to assume that the number of residential free-standing blocks of flats where all flats within them are vacant and for more than 6 months is less than both the EHS estimate and the empty estimates from council tax base statistics (2%). Therefore, the impact of including these types of buildings in the measure is expected to be small, and affect a small margin of commercially viable and long-term empty buildings, where viability may also be increased by the ability to go up to two storeys higher (subject to an overall height limit of 18 metres) and likely affects a small number of buildings that are vacant because they are derelict and providing no current housing accommodation to any households. However, the likelihood of a freestanding residential block being completely vacant is very low due to the high opportunity cost of leaving such a building vacant for at least 6 months, therefore we expect there to be very few eligible C3 buildings.

There would be a reasonable expectation that while the right will incentivise development to come forward, the vast majority of flats of this type could progress through a planning application in the absence of the measure. We therefore expect the vast majority of buildings of C3 uses to go through the planning application route rather than the PDR as in most cases these will be approved. Since we expect a very low number of eligible C3 use buildings and we expect most residential buildings to progress through a planning application rather than using the new PDR, we assume in the modelling that no dwellings are estimated to come forward via C3 use buildings.

In estimating the above, the English Housing Survey definition of low rise housing has been used as a proxy for the requirements for buildings to be below 18 metres to fall in scope and for their footprint to be below 1,000 sqm⁵. This is primarily because the height impacts of the measure are likely to be correlated with smaller sites. However, as a validation check, the department has used Ordnance Survey data to estimate the number of residential buildings with a footprint above 1,000 sqm. Using this dataset, the department estimates that only 0.05% of buildings used for residential purposes are above 1,000 sqm. Therefore, as almost all residential buildings are below 1,000 sqm, the EHS definition of low rise housing is considered to be a reasonable proxy. In addition, it can be expected that high rise buildings (excluded from the estimates above) are those buildings more likely to have a footprint above 1,000 sqm.

Similarly, the low rise measure from English Housing Survey includes buildings with less than 6 storeys. Typically, the department assumes an average height of 3.2m per storey in Impact Assessments which would lead to an estimate of around 6 storeys (given the requirements of the measure for buildings to be below 18 metres). Therefore, the EHS classifications are considered a reasonable estimate of supporting the conclusions of the estimated number of residential buildings within scope (limited due to an expected limited number of buildings falling within scope and low rates of additionality).

Number of dwellings per new build

4

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/934169/Local_Authority_Council_Tax_base_England_2020.pdf

⁵ Definition (EHS 2018-19) Purpose built flat, low rise: a flat in a purpose built block less than six storeys high. Includes cases where there is only one flat with independent access in a building which is also used for non-domestic purposes.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/860076/2018-19_EHS_Headline_Report.pdf

The two main monetised benefits in this impact assessment are planning fee savings to developers and land value uplift. To estimate these, an estimate of the average number of units per new build residential building is required first. An assumption on the proportion of buildings that build less than 50 units and the proportion that build more than 50 units is also required to estimate planning fee savings as the fees vary depending on the number of units built.

However, there is a degree of uncertainty on the number of new dwellings created from developers that use the new PDR. The first step to estimating the number of flats created using the new PDR is to estimate the average floor area of the existing commercial buildings. Whilst we don't hold data on the average floor area for buildings of B1 (a) – (c) uses, we have an estimate of the average floor area of a commercial building using Energy Performance of Buildings Registers data⁶, which is 726sqm. We also do not hold data on the average number of storeys of commercial (B1 (a) – (c)) buildings, therefore in the absence of this evidence we make a modelling assumption of 4 storeys per building. Without any data on this, the assumption was sense checked with colleagues internally, and we have applied a range of +/- 20% either side as a sensitivity check.

According to data from the EHS⁷, for residential buildings, the weighted average number of storeys is 3 for buildings that are 6 storeys or less. Given there is some uncertainty in the number of storeys of new build, we also provide sensitivity around the 3 storey assumption, with +/- 20% either side. As mentioned, no buildings will be allowed to be taller than 18m, which assuming around 3.2m per storey, would mean that no buildings greater than around 6 storeys would be permitted using the PDR route. To estimate the gross internal area per storey, an adjustment is made which reduces the developable space for flats by 20%⁸. If we assume the same floor area per floor for the new build residential building as the previous commercial building, we can then estimate the total gross internal floor area of a new build residential building by multiplying the average floor area per storey by the number of storeys, which results in a range of 290sqm to 653sqm (central 436sqm). To obtain the number of flats per new building, this average floor area per new build is divided by the average floor area of a flat.

To estimate the average number of flats per new residential building, an assumption on the average size of a flat is also required. According to the EHS, the average size of purpose built flat built post 2002 is 60 sqm⁹. To reflect a possible range of dwelling sizes, three illustrative scenarios have again been modelled with a central estimate of 60sqm, and taking +/- 20% either side. In practice, some flats may be smaller or larger than this range, but this was deemed a reasonable estimate for the mean flat size and we expect most flats to fall within this range.

Finally, dividing the average floor area per new build by the average floor area of a flat gives an estimated number of flats per building, which is estimated to be 6-9 (central 7). There are likely to be some buildings that have flats that fall outside of this range, but this is thought to be reasonable estimate of the mean. We do not hold data on the proportion of new build purpose built blocks of flats that have greater than 50 units. In the absence of evidence on this, we have used internal EHS data on the distribution of storeys and the estimated average number of flats per storey to model three indicative scenarios for the proportion of buildings with greater than 50 units, which are 5%-10% (central 7.5%).

Uptake of the new PDR

⁶ <https://www.gov.uk/government/collections/energy-performance-of-buildings-certificates>

⁷ Data supplied internally – 2014/15. We do not expect that the distribution of storeys has changed significantly in recent years.

⁸ In line with VOA methodology, which assumes that sites have a net developable area equal to 80% of the gross area
<https://www.gov.uk/government/publications/land-value-estimates-for-policy-appraisal-2019/land-value-estimates-for-policy-appraisal-2019-guidelines-for-use>

⁹

To estimate planning fee savings and LVU, it is also necessary to estimate uptake of the new PDR. While demolitions and rebuilds are supported by existing policy and already come forward through the existing planning system, we do not hold or collect data on how many developments of this kind occur annually or otherwise for the building use types in scope of this measure. Our modelling of uptake therefore reflects dwellings that are delivered using the new PDR including those that would have been demolished and rebuilt using planning applications previously.

We do not hold data on the likely uptake of the new PDR. Instead we have made modelled illustrative scenarios in line with the scale of other permitted development rights of 5% to 15% (central 10%) over the appraisal period. This uptake is broadly consistent with the impacts assessments for building upwards (RPC-CLG-4481 (1)) and for the office to residential PDR, as we expect overall uptake to be similar. There are significant barriers to entry to demolishing and rebuilding, and we expect only construction specialists with the necessary skills and capital to make use of this PDR. This assumption is subject to significant uncertainty, however, especially given the impacts of COVID-19. In terms of profile of uptake, we expect this PDR to follow a similar pattern to the building upwards PDR in which uptake is expected to be low during the first couple of years of the policy. This is due to the complexity of this kind of development in terms of engineering and construction. We also expect the uptake to peak around half way through the appraisal period as the most viable sites are demolished, and then start to level off for the remaining years. We have used the uptake trajectory below to test the lower and upper bounds of the potential impact of the new PDR which are presented in Table 2 below:

Table 2: Uptake assumptions of the demolish to rebuild PDR

Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
Low	0.00%	0.25%	0.25%	0.50%	1.00%	1.00%	0.50%	0.50%	0.50%	0.50%	5%
Central	0.00%	0.50%	1.00%	1.50%	1.50%	1.50%	1.00%	1.00%	1.00%	1.00%	10%
High	0.50%	1.00%	1.50%	2.00%	2.00%	2.00%	1.50%	1.50%	1.50%	1.50%	15%

The uptake assumptions in Table 2 are then applied to the stock of buildings in scope for each year of the appraisal.

Whilst the adoption of the new PDR is likely to deplete the stock of vacant buildings, this stock is also likely to grow as more buildings come into scope over time. Estimating the number of new vacant buildings over time is very difficult due to a lack of data and particular uncertainty due to COVID-19. In the absence of data, we make an illustrative assumption on the increase in the stock of vacant buildings over the appraisal period of 0.5% to 1.5% growth (central 1%) per annum to reflect the fact that additional buildings to the current stock will become vacant over time. It was not deemed appropriate to estimate how this may change over the appraisal period especially as the changes are expected to be small, therefore the growth rate of vacant buildings in scope is assumed to remain constant. Furthermore, we do not want to induce spurious accuracy into our modelling by trying to predict how vacancy rates may change in the future. However, we recognise that there may be a short term increase in vacancies due to the impact of COVID-19. The low growth rates take into account that some vacant buildings in scope may at some point no longer be eligible for the PDR if they become re-occupied.

Take-up may also be impacted by the scope of the right which constrains development to within the footprint of the existing building. Those seeking to demolish and redevelop a site may

continue to submit a planning application in order to maximise the potential within the curtilage of the whole site, for example by allowing for a building with a larger footprint or the construction of more than one building.

The number of buildings and dwellings that are estimated to use the new PDR is set out in the Table 3 below.

Table 3: Uptake of buildings and dwellings that use the demolish to rebuild PDR

Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
Low											
Buildings	0	56	56	112	224	223	111	111	111	111	1,115
Dwellings	0	337	338	678	1,356	1,350	671	671	671	671	6,745
Central											
Buildings	0	122	246	368	367	365	242	242	242	242	2,435
Dwellings	0	887	1,783	2,674	2,661	2,647	1,756	1,755	1,755	1,755	17,673
High											
Buildings	131	265	400	533	530	528	394	393	393	393	3,962
Dwellings	1,192	2,408	3,630	4,838	4,813	4,787	3,571	3,571	3,570	3,569	35,948

Our best estimate therefore, is that around 18k dwellings use the new PDR over ten years.

For the low estimate, the low uptake assumption is applied to the low building stock estimate 22,200. Likewise the Central and High estimates are based on both the uptake assumptions in Table 2 as well as the building stock estimates described above. The analysis also accounts for the fact that the stock of vacant buildings will change over time due to vacant buildings being demolished and rebuilt using the new PDR as well as new vacant buildings that are added to the stock of vacant buildings over the appraisal period.

Planning Fee Savings

A prior approval fee per dwelling is set at £334 per new dwelling. This is the halfway point between £206 per dwelling for a prior approval with building works, and £462 per dwelling for a full planning application. This is then calculated over a ten-year period by multiplying the delivery by the fee and adjusting for time value of money with a discount factor. The annual discount rate used is 3.5% as outlined in the Green Book. The benefits are the savings of prior approval in comparison to the identical dwelling delivery charged at full planning application fees. The prior approval fees are set out below.

Applicants will make fee and administration savings from not having to submit a full planning application. Where a full planning application is no longer required there will be a saving to the applicant from the reduced fee and preparatory / administrative work avoided even where prior approval is required. This is consistent with RPC13-FT-CLG-1809(2) and RPC14-FT-CLG-147(3). In no circumstances will a prior approval be more burdensome than the full application process it replaces. The extent of the savings will depend on the original cost of preparing and submitting the application, and the cost of any new prior approval requirements. There will be a fee per dwelling house to be delivered. The rates will be less than those for planning applications for new dwellings, reflecting the lighter touch planning process: £334 per new dwelling up to a maximum of 50 units, and a fixed fee of £16,525 plus £100 for each dwelling in excess of this, compared with £462 per dwelling up to 50 units and a fixed fee of £22,859 plus £138 per dwelling under a planning application. There is therefore expected to be an overall net saving to businesses from planning fees and associated reduced burden for local authorities in respect of resource required to support planning applications and decisions.

For the buildings that have less than 50 units, the planning fees savings is simply calculated by the number of new units from the new PDR (in Table 3) multiplied by the reduced cost of a planning application per unit (£462-£334=£128). For buildings that have greater than 50 units, a modelling assumption is made that these buildings contain an average of 75 units. This is simply the midpoint between 50 and a reasonable upper limit on additional units (100) given the height and footprint restrictions. In practice, some of the larger buildings with more than 50 units will have slightly less or slightly more than 75 units. However, it wasn't deemed proportionate to model such variations in this impact assessment. Furthermore, there is a lack of data on the distribution of the number of units per new build flat. The savings from larger buildings is calculated by multiplying the number of buildings (greater than 50 units) that use the new PDR by the planning fee savings of buildings with 75 units (£48,459-£35,725=£12,734).

The estimated savings to developers from reduced planning fees is presented in Table 4 below.

Table 4: Discounted planning fee savings to developers (£k)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
Low	0	50	49	94	182	175	84	81	78	76	869
Central	0	137	267	387	372	357	229	221	214	207	2,391
High	194	378	551	709	682	655	472	456	441	426	4,963

Land Value Uplift

Land value uplift (LVU) is a Green Book compliant appraisal methodology to account for benefits of creation of new residential land to society.

The proposal is deregulatory: providing greater planning certainty and reducing the planning burden and costs on business (developers), may result in additional development than would otherwise have come forward under a planning application, and give rise to land value uplift. Land value uplift can also be viewed as a measure of the increase in welfare that arises from the more efficient use of land. Total LVU has been estimated but it is not possible to quantify this on a per block basis since there is a lack of information on the stock of UK buildings. Land value uplift is calculated by:

Net private value of new housing = residential land value – existing land use value

Obtaining planning permission adds uncertainty and can lead to delays compared to obtaining prior approval. Secondary legislation will remove the requirement on developers to submit a full planning application for demolition of certain vacant and redundant buildings and replacement build as residential, by introducing a new national permitted development right for such development. As with the permitted development right for the change of use from office to residential, the greater planning certainty afforded by the right and the simplified planning process will result in some additional development that might not otherwise have come forward under a planning application.

Increased planning certainty will help to contribute to additional housing supply being released, by releasing sites that would have otherwise not come forward through the planning system. Typically, the welfare gain for additional housing can be estimated by comparing the value of land in its previous use compared to the value of land if used for housing, as supported by HMT Green Book. Where buildings have been long term vacant, there will generally be a gain in welfare from using the land for something more productive i.e. housing. Land value uplift is captured by landowners and freeholders even where buildings are not re-developed because the value of their asset will rise accordingly, which provides an incentive to sell or re-develop

vacant sites given the measure will provide increased certainty of the returns from doing so. The level of additional housing generated will also be supported by allowing sites to be developed at an additional 2 storeys, subject to an overall height limit of 18 metres.

The level of additional housing depends on the interaction with previous PDRs to allow office buildings to convert into residential. As a result of this measure, landowners and freeholders will have increased choice with how to re-develop vacant buildings, either using existing rights to convert the existing building into housing or re-develop the site with new, purpose built housing. Both landowners and freeholders will be incentivised to maximise the land value uplift of the site, i.e. weighing up the relative additional costs of new development (which will also incur demolition costs) compared to the costs of conversion, whilst purpose built new development may result in higher sales values. The relative balance of these factors as well as risk will affect how many vacant buildings are converted or sites re-developed. When estimating additional housing supply, consideration also needs to be given to the relative demand for office space and the prospect for some vacant buildings to be re-let as offices.

The number of dwellings created through the new PDR (summarised in Table 3) is then multiplied by the appropriate Land Value Uplift figure per dwelling by region which is calculated using data supplied from the Valuation Office Agency¹⁰ (VOA). The breakdown of the proportion of eligible buildings in each region is held by the department and is based on the data from Sqwre, which is then used to estimate the number of buildings and dwellings affected by region. There is significant regional variation in the LVU per dwelling for brownfield sites, with London and the South East commanding much higher value of LVU per dwelling than other regions in England.

As found with the existing right for the change of use from office to residential, there is potential for the grant of prior approval to be used by developers as a negotiating tool for further dialogue with the local planning authority on alternative planning applications for redevelopment of the whole site.

Table 5: Gross Land Value Uplift for B1(a) to B1(c) uses (£)

	Low (6,745 dwellings)	Central (17,673 dwellings)	High (35,948 dwellings)
Gross Land Value Uplift	£429,782,142	£1,126,103,430	£2,290,649,021

The Gross Land Value Uplift figures presented in Table 5 represent the LVU of developers that use the new PDR. The gross LVU is calculated using the uptake assumptions in Table 2, which is the uptake of the dwellings built using the new PDR. Analysis conducted for the office-to-residential permitted development right IA (RPC15-CLG-3032 (2)) takes planning data for brownfield sites and uses the probability of rejection under full applications versus via PDR at the prior approval stage to generate the estimated increase in certainty. This approach is also taken in the building upwards IAs (RPC-CLG-4481 (1) and RPC-CLG-5006 (1)). It is estimated that the introduction of a permitted development right increases the certainty of planning application approval on suitable sites by between 6%¹¹ and 8%¹². This was found to be the best estimate that can be used to identify the difference in LVU of the counterfactual and the policy change, given that we do not hold data on planning application approvals for the demolition of buildings of B1(a) to B1(c) uses. We have applied a range of increased certainty of planning application approval to reflect the uncertainty of this assumption for this new PDR. These

¹⁰ <https://www.gov.uk/government/publications/land-value-estimates-for-policy-appraisal-2019>

¹¹ https://www.legislation.gov.uk/ukia/2016/216/pdfs/ukia_20160216_en.pdf

¹² https://www.legislation.gov.uk/ukia/2020/43/pdfs/ukia_20200043_en.pdf

estimates are applied to the gross LVU of demolish and rebuild to remove the counterfactual element leaving the raw net increase in LVU generated directly by the permitted development right. See Table 6.

Table 6: Net Land Value Uplift for B1(a) to B1(c) uses (£)

	Low	Central	High
Net Land Value Uplift	£25,786,928	£78,827,240	£183,251,922

Monetised Costs

There are no monetised costs in this impact assessment. In the counterfactual, developers are able to demolish and rebuild using a planning application. The implementation of a PDR does not alter those building costs other than the reduction in planning fees set out in the monetised benefits. It is not possible to monetise other costs such as externalities, construction noise, etc due to lack of data. Instead these are qualitatively assessed in the non-monetised costs section.

Business Impact Target Assessment Calculations

The above costings will not match the Full Economic Assessment cover sheets. This is because the above workings are then recalculated at 2019 prices with a 2020 base year and then appraised over a ten year period in line with recommended BIT appraisal practice.

The savings in each scenario (low, central and high) are recalculated in nominal terms without discounting. This is set out in the Table 7.

Table 7: Summary of undiscounted savings from planning fees (£k)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Low	0	52	52	104	209	208	103	103	103	103
Central	0	142	286	429	427	425	282	282	281	281
High	194	391	590	786	782	778	580	580	580	580

The LVU is then added to the benefits from planning fee savings and the flow of direct benefits are inputted into the Business Impact Target Assessment Calculator. The flow of benefits is set out in Table 8.

Table 8: Nominal benefit cashflows over the appraisal period (£ million)

Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
Annual Benefit 1 – Best	78.8	0	0	0	0	0	0	0	0	0	78.8
Low	25.8	0	0	0	0	0	0	0	0	0	25.8
High	183.3	0	0	0	0	0	0	0	0	0	183.3
Annual Benefit 2 – Best	0.00	0.14	0.29	0.43	0.43	0.42	0.28	0.28	0.28	0.28	2.8
Low	0.00	0.05	0.05	0.10	0.21	0.21	0.10	0.10	0.10	0.10	1.0

High	0.19	0.39	0.59	0.79	0.78	0.78	0.58	0.58	0.58	0.58	5.8
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The calculator then applies a deflator and discount rate to adjust to 2019 prices and a 2020 base year in line with BIT assessment practice.

COVID-19 Impacts

Many of the precise impact of COVID-19 on the housebuilding industry are unknown at this stage, especially in the medium and long term. However, the most recent evidence suggests a severe short term negative impact on the housebuilding industry. The most recent data suggests that there was a 62% decrease in the number of dwellings completed from April to June 2020 compared to the previous quarter.¹³ Furthermore, between April and June 2020, there was a 52% decrease in the number of dwellings started. These drops have been attributed to the COVID-19 lockdown measures. Take up of the new PDR is expected to be low in the first few years of the appraisal period anyway, by which point the housebuilding industry may be recovering from the economic downturn.

The above analysis is based on factual data and assumptions from the pre-COVID period and the latest information available since the pandemic hit. It is not possible to outline the effects of the COVID-19 induced recession on the PDR modelling with any great certainty, and attempting to do so may cause more confusion through providing uncertain analysis. There may be short- or medium-term changes to relative values of residential land in locations where this PDR may apply, but it is not clear what direction or magnitude of change this would have for the benefits. As there are extremely low volumes of this type of development, it would make any estimates even more volatile. While providing numerical estimates of the post-COVID landscape is not feasible, the theoretical impacts can be explored.

A recession historically reduces house prices. This has potential to lower the sale price of new units and reduce some of the incentive for demolish and rebuild to occur since land value uplift is less than before. A reduction in house prices causes a corresponding reduction in land values since the profit of developing the land is less than before, and so too is the price that can be charged for it. This helps to offset some of the loss in LVU enjoyed by a developer and so while the incentive to build may be less than in the counterfactual, the loss is disproportionately smaller than the impact on house prices (that is land prices absorb some of the negative price shock). In addition, current levels of overcrowding and high demand for housing units in urban areas is likely to remain, if latent, during the recession. Since this PDR is most likely to operate in urban regions where B1(a) – (c) buildings are typically located, this will help to maintain appetite for demolishing and rebuilding. That said, it is unclear whether COVID-19 may lead to a longer-term reduction in relative demand for urban properties and flats, which could potentially further lessen the attractiveness of the PDR.

There is most likely to be loss of development at the margins, where the viability of site development is closer to the tipping point of becoming unviable. A reduction in the price for which new units can be sold may cause the development to fall unviable and no longer come forward. While this may occur, it is mostly marginal sites that will suffer from this.

The analysis suggests that very few units are delivered after one year due to time for familiarisation and acquiring suitable sites, and it is in the fifth year after implementation that delivery reaches a peak. Most forecasters estimate a return to growth by then and likely a buoyant housing market. The one year delay in our modelling reflects the preparation which the

13
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/922911/Housing_Supply_Indicators_Release_June_2020.pdf

industry must undertake in advance of delivering units, for example seeking prior approval and arranging finance. It is possible that some of these activities will still take place despite the depressed housing market. On the other hand, it is possible that these will be delayed further and so we see little delivery in the second year in which the PDR is introduced also.

We also expect COVID-19 to have a significant impact on vacancy rates, in particular of B1 (a) – (c) buildings. In the short term, the vacancy rates of buildings may be expected to increase due to a structural decrease in demand for office spaces related to the economic downturn and social distancing measures. The extent to which there is a more permanent reduction in demand for office spaces is yet to be realised, and is therefore subject to a significant degree of uncertainty.

Non-Monetised Benefits

The measure will support output in the construction industry at a challenging time for the sector, as part of the economic response to the downturn. ONS GDP (2020) shows that in the period March to May 2020, construction contracted 29.8% compared to the three months prior and relative to a decline of 19.1% in the whole economy¹⁴. The latest GDP data from the ONS¹⁵ suggests that as of September 2020, the construction sector is still 7.3% lower than in February 2020. Supporting output in the construction sector will also support wider jobs in the industry and it is for these reasons the government's current policy is to look to accelerate construction and infrastructure projects, which this measure does.

There is potential for scarring effects in the economy as outlined in scenarios in the OBR's most recent coronavirus scenarios¹⁶. The measure could support limiting scarring effects in this part of the construction industry both in terms of overall output in housing and for those employed within the construction labour market, where scarring would occur if some of the workforce permanently left the sector as a result of sustained unemployment.

The measure will increase the certainty the market has to develop these sites for housing, where there is a clear rationale for increasing supply and therefore affordability. Currently, developers of these sites face imperfect information because they cannot be sure whether the site will secure planning permission and subsequently whether the site represents a viable opportunity to build new housing or otherwise. This certainty can only be gained by progressing the site through the planning system, which involves time and expense, therefore leading to some of these sites not coming forward, where developers are also balancing the risk that planning might not be secured. The measure will also reduce the transaction costs (e.g. time, process) of developing these sites thereby supporting their re-development. The measure will address these market failures, and support increasing housing supply.

There is scope for externalities to be realised from the development of additional housing. Where sites are on the tail end of distribution of vacancy, i.e. having been long term vacant they may be a source of blight to existing businesses and households located nearby to the site. The re-development of these type of sites may therefore bring an amenity benefit to existing households and businesses located nearby to the site being developed, with the benefit likely capitalised into property values.

Where sites are re-developed, there may also be a net welfare gain relative to conversions because the housing will be purpose built, and the associated benefits of that brings e.g. more

¹⁴ ONS (2020) <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2020>

¹⁵ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/september2020#the-construction-sector-remains-73-lower-than-the-level-in-february-2020-before-the-main-impacts-of-the-coronavirus-were-seen>

¹⁶ OBR (2020) Coronavirus analysis <https://obr.uk/coronavirus-analysis/>

suitable layouts, amenity benefit of the building, and maximising the efficient use of space. It was not possible to monetise this benefit in the impact assessment.

Non-Monetised Costs

As noted above, the increase in land value (land value uplift) is a benefit to businesses and also drives land to be used for more productive uses. However, costs fall on different groups of people resulting in distributional outcomes. By allowing office, R&D buildings, and light industrial the right to more easily convert into more productivity uses the incentive to do so for landowners and freeholders is higher. Where land is re-developed into housing as a result of this measure, the associated reduction of this type of office and industrial space may result in the rents of such properties increasing. However, we would expect this impact to be small for two reasons. The first is the requirement for the building to have been vacant for 6 months or more meaning that such spaces are not generally a good supply of business space, and therefore the reduction in supply by this measure is limited given it is targeted at buildings not being used. There is however scope for the measure to incentivise leaving some buildings vacant that might otherwise be used for office space so that they can fall in scope of the measure which would lead to more of an impact on supply of office space. The second is any changes in rents would represent transfers from one party to another, putting aside distributional outcomes. The key point is that land should be used in its most productive use, and if housing generates a higher return than office, use for R&D, and light industrial then there will generally be a net gain to society from changing the use of the land into housing, subject to the other impacts described below.

There is some scope for some small negative externalities typically considered through the planning system, such as increased congestion from new housing or overshadowing of existing properties. We generally expect any effects of this type to be small because the measure provides limits on the extent that new housing that can be produced (through height and footprint restrictions) and therefore localised congestion from new households should similarly be small (and the individuals in those households have moved from elsewhere, resulting in any net decrease in congestion from where they have moved from).

Overshadowing effects can also be mitigated by local considerations through matters for prior approval. Overshadowing effects will also be mitigated by the limit imposed that buildings can go two storeys higher than the current height of the building and subject to an overall 18 metre height limit.

The local planning authority can consider construction management plans in respect of the period of demolition and construction. However, this will provide a more limited constraint on mitigating externalities than a full planning application, a potential cost of the measure. This is also because sites will not contribute through section 106 to mitigate against externalities, which might typically be secured through the planning system. Sites will also not be required to provide a contribution to affordable housing, which generally offers higher value to society than an equally equivalent home for open market sale only. The government, through its separate Affordable Homes programme, continues to support the delivery of affordable housing. Community Infrastructure Levy may be payable where additional floorspace is created and a charging schedule is in place. Through Planning for the Future, it has consulted on applying the proposed Infrastructure Levy to permitted development, and further announcements will be made in due course.

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. A lack of section 106 developer contributions may leave funding gaps for the local authority to fill. The New Homes Bonus and Council Tax applied to all dwellings would help mitigate this, and CIL may be payable, for example where additional storeys are added. The size and height limit and other

considerations of taking forward such development means that the scale and therefore the impact of individual developments will be limited.

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

We do not hold data on current practice of demolitions of commercial or residential buildings, but given the complexity of such development, take up of the right is anticipated to be very low. However, existing permitted development rights for change of use (including from office to residential use) have led to an increase in developments being taken forward. This is partly because permitted development rights can encourage new players to the market who are attracted by the certainty of gaining permission. Take up by new entrants in this case may be limited by the cost and the scale of the building operations necessary for such development. It can therefore be assumed that this right will lead to an increase in the number of demolitions and rebuilds of buildings to create new homes.

Risks and assumptions

A key assumption is the increased certainty of planning applications as a result of the new PDR. In the absence of planning application data on the buildings in scope, we have modelled a range of 6%-8% increased certainty of planning application which is consistent with previous PDR impact assessments. For the purpose of this impact assessment, it was deemed appropriate to apply this assumption to this PDR. However, there is some uncertainty here, as we cannot sense check this assumption using data. This range reflects a variety of possible scenarios and provides a suitable range for analysis given the uncertainty.

Another key assumption concerns take up of the new PDR as a proportion of the buildings that are eligible. We do not hold any data on this, other than previous take up assumptions of other PDRs. However, this demolish and rebuild PDR is different to other PDRs (in particular office to residential) in that demolition is a much bigger task in terms of construction, and requires specialist construction professionals. We have included a range for the take up scenarios to reflect the uncertainty of this assumption.

The uptake is modelled using a trajectory similar to the uptake of the office-to-residential permitted development right being cautious of the fact that demolish and rebuild is a more niche right that is likely to be used less often than the office-to-residential right. In order to account for uncertainty in the uptake assumption, a range that produces a reasonable distribution of delivery is used. Actual uptake may therefore be higher or lower than our best estimates. Therefore it is not possible to anticipate exactly how many homes would be created under the right, and this is even more uncertain due to the COVID-19 pandemic.

At this stage, it is unclear on the size of the new purpose built residential blocks of flats that will be built using the new PDR. Whilst we can use estimates of floor area of existing commercial buildings, the new buildings are likely to be built to different specifications, for example some may decide to build upwards too. Furthermore, there is some uncertainty about the size of the new units. We have presented ranges around our central scenarios for the assumptions that are used to estimate the average size of new dwellings, but these are subject to uncertainty.

There are no similar rights that can be used as a proxy as all existing permitted development rights that create new homes are through changes of use of existing buildings. These types of developments are much more straightforward as the buildings structure is already in place, and only internal works may be carried out in the majority of cases.

For the purposes of modelling LVU, we have assumed the existing use value was the average value of brownfield sites. In reality it may be closer to less than the brownfield estimate as the old building is redundant and vacant. In some cases, there may also be negative amenity

impacts of these types of redundant buildings. The brownfield value has been used to produce a more conservative figure of LVU.

The building must be vacant for at least six months in order to benefit from the right. Where there is more than one owner of the building, they will need to make a legal agreement to demolish the building. As the building is vacant there will be no leaseholders,

Direct costs and benefits to business calculations (following BIT methodology) (2019 Prices, 2020 Base Year)

Businesses (developers) will enjoy an annual equivalent benefit of £9.2m per year. This constitutes the savings that arise through the reduced permitted development right prior approval fee and the net total LVU that is created upon legislating the permitted development right.

Given the bespoke nature of planning proposals – we expect applicants to consult regulations in every case – applicants need to find the detailed guidance for each planning application. Consequently, applicants incur the costs of searching for regulations in the counterfactual. We do not therefore expect there to be familiarisation costs for searching for new regulations as these costs are also incurred in the counterfactual. This is consistent with the approach taken in the Impact Assessment Reducing planning regulations to support housing, high streets and growth (RPC14-FT-CLG-2147(2)). It is also consistent with the Impact Assessments concerning extending free standing blocks of flats upwards (RPC-CLG-4481 (1))

Wider Impacts

By increasing housing delivery in this way, more people will be able to access housing than would otherwise be the case helping to reduce homelessness and overcrowding and potentially easing house price inflation.

Government policy is that planning policies and decisions should promote an effective use of land in meeting the need for homes, making as much use as possible of previously-developed or 'brownfield' land. This densification prevents sprawl onto greenbelt areas which provide amenity value. However, this may lead to some loss of light or the risk of overlooking for people living close to the new building although this will be limited by the 18m height restriction and consideration of the prior approval.

Small and Micro Business Assessment SaMBA

As noted above, the downturn in the construction sector has been particularly severe and steeper than the general fall in economic activity. Following the 2008 recession, the number of SME housebuilders declined and has not recovered since¹⁷. This is generally because smaller housebuilders have less resilient cashflows than large ones, who account for most of the production of new housing in England. The measure will support Government's intentions to avoid a similar contraction and permanent loss in SME builders that was seen during the 2008 recession. This is because smaller sites, such as those in scope of this measure, are disproportionately more likely to be built out by smaller builders, and therefore they are more likely to benefit from this measure. These are likely to be direct impacts from the measure and are expected to be positive.

In respect of general SME businesses, they may be disproportionately affected by the loss of office space. These are likely to be in-direct, knock on impacts from the measure than direct impacts described above. We expect that, smaller businesses are more likely to be tenants of

¹⁷ https://www.hbf.co.uk/documents/6879/HBF_SME_Report_2017_Web.pdf

smaller office buildings (and those therefore falling within scope of this of measure) seeing as larger businesses will have more employees and therefore demand more office space. However, we expect of the loss of office space to be mostly insignificant because offices will be vacant and redundant and therefore there is likely to be very little displacement. The Longitudinal Small Business Survey (2020) shows that, whilst SME employers are relatively diverse across different sectors, most are likely to use office space. 80% of SME employers use a separate premises to home as their business premises, though varying across the size of SMEs. For example, 23% of micro businesses (1-9 employees) work from a domestic residential address compared to 1% of medium businesses (50-249 employees)¹⁸. As larger SMEs are more likely to use a premises separate to their home for their businesses they are more likely to be affected by this measure, though only marginally more than micro businesses.

The loss of supply of office space may subsequently lead to an increase in rents, as more tenants compete for space becoming scarcer. As described previously, we expect there to be very low displacement, and therefore the impacts on rents are likely to be small. Furthermore, there are a number of interactions, including that whilst the supply of office space may decrease, there may a fall in demand for such space, particularly in the short term, related to the current downturn and social distancing measures. Neither the supply nor demand of office space is fixed. In the longer term, if office space became scarce to the point that the returns from building offices was higher than housing in particular areas, then the market would be more likely to build offices than housing. This would be a signal of markets operating efficiently and using land for its most productive use.

Where additional costs to SME businesses are more likely would result from any incentive created for freeholders to end the leases of tenants than renew, because the returns to a freeholder or landowner are higher by leaving the building vacant for 6 months and re-developing the site. Where this happens, small businesses would also face disruption otherwise not incurred as leases come to an end and they face transaction costs of searching and finding new premises. For buildings already vacant, there are no additional costs of this type (as there are no tenants in the premises), but additional costs would be incurred when the measure incentivises the building to become vacant. We do not expect this to be a significant issue as in most cases freeholders wouldn't be making productive use of their asset in this scenario and therefore there are high opportunity costs to leaving the building vacant for 6 months.

Impacts on Local Authorities

Local planning authorities will benefit from no longer needing to determine a full planning application for the demolition of buildings and redevelopment as residential within scope of the right. This reduction in work is offset by the reduction in the fee: £334 per new dwelling up to a maximum of 50 units, and a fixed fee of £16,525 plus £100 for each dwelling in excess of this, compared with £462 per dwelling up to 50 units and a fixed fee of £22,859 plus £138 per dwelling under a planning application. There may be some additional pressure on local infrastructure, through the development of homes without any section 106 contributions.

Costs and benefits to communities

The right will support communities through the delivery of additional housing. Our best estimate is that 18k dwellings are built using the new PDR over the next 10 years.

The community may benefit from the demolition of local redundant and vacant buildings and the impact these have on the amenity on the area, and their replacement with better designed, modern residential buildings. As the right allows for demolition it will further provides for consideration of the impacts on heritage and archaeology.

¹⁸https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/889656/LSBS_2019_employers.pdf

To improve the experience for new residents, the right requires prior approval consideration in respect of the provision of adequate natural light in all habitable rooms, the impact of the introduction of residential use in the area, and plans for landscaping including the planting and maintenance of shrubs and trees.

Lower level buildings may be able to extend upwards by up to two storeys to a maximum total building height of 18 m. Neighbouring residents may be impacted by overlooking or loss of light from the higher or redesigned building. This risk is mitigated by local consideration through matters for prior approval.

A brief qualitative summary of the potential trade implications of measure. This should include an assessment of whether the measure is likely to impact on trade or investment

This measure is unlikely to negatively impact on trade or investment. By increasing housebuilding, any impacts would be expected to be positive. 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 & Evaluation

This measure will be monitored as part of the Government's package of planning reforms to support economic recovery, with changes made accordingly to ensure the intended outcomes. The Government set out in its *Planning for the future* white paper, proposals to transform the planning system to make it simpler, quicker and more accessible, and more certain for developers. The consultation <https://www.gov.uk/government/consultations/planning-for-the-future> ran for 12 weeks, closing 29 October. The Government will now require time to analyse responses to the consultation, before responding. Against this background of economic recovery and wider planning reform, a specific review clause for this measure has therefore not been included.

However MHCLG has added this new right to the set of local planning authority data requirements and will therefore collect data on the take-up of the right and the volume of homes delivered by local planning authority in order to monitor delivery.