

Title: Extending free standing blocks of flats upwards to create new homes IA No: RPC Reference No: RPC-CLG-4481 (1) Lead department or agency: MHCLG Other departments or agencies:	Impact Assessment (IA)
	Date: 26/06/2020
	Stage: Implementation
	Source of intervention: Domestic
	Type of measure: Secondary Legislation
	Contact for enquiries: Paul Martin 0303 444 1668
Summary: Intervention and Options	RPC Opinion: Green: Fit for purpose

Cost of Preferred (or more likely) Option (in 2016 prices)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status Qualifying provision
£440.5m	£440.5m	-£51.2m	

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

Government oversees and can change the rules of the planning system to help deliver its priorities. It has therefore decided to make it easier to extend certain buildings upwards to increase housing density. This makes more efficient use of space and brings forward additional housing to help support housing delivery. At the same time the Government is keen to ensure that new homes delivered through national permitted development rights provide adequate natural light in all habitable rooms.

What are the policy objectives and the intended effects?

The housing market will want to respond positively to the challenges of the Covid-19 pandemic. As part of the Government’s Covid-19 economic renewal package the Government is introducing further planning reforms to support housing delivery by introducing a new permitted development right to extend existing purpose-built freestanding blocks of flats upwards to create additional new homes. The extent of development permitted will be up to two additional storeys on existing blocks of 3 storeys or more. The extended building would be no greater than 30m in height.

The aim of this right is to support housing delivery and boost density – which can enable more efficient use of land and more sustainable places – by using the “airspace” above certain freestanding residential buildings to construct new dwelling houses.

The consultation “Planning Reform: Supporting the high street and increasing the delivery of new homes” tested our approach to building upwards. The Government response to the consultation welcomed the range and detail of responses to the questions on the introduction of a permitted development right for upward extensions of existing buildings to create new homes. It confirmed an intention to take forward a permitted development right to extend upwards certain existing buildings in commercial and residential use to deliver additional homes. In doing so we are seeking to respect the design of the existing streetscape, while ensuring the amenity of residents and existing neighbours is considered.

Further measures will improve new homes delivered through existing permitted development rights by requiring adequate natural light in all habitable rooms. This will also help to support the Government’s Covid-19 economic renewal package by helping ensure that new homes are suitable for people for people who may need to remain at or work from home. Such working arrangements are expected to continue in response to Covid-19.

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 building upwards, using the airspace above existing buildings.

National planning policy as set out in the National Planning Policy Framework (paragraph 118) supports opportunities to use existing airspace above existing buildings by extending buildings upwards. Developers currently need to apply to the local planning authority for planning permission in order to do so, which includes costs and can take time. This process also includes an element of uncertainty as planning permission can be refused. The Government has therefore decided to introduce a national grant of planning permission (a permitted development right) to allow such developments above purpose-built freestanding blocks of flats to encourage the delivery of more new homes in such a way than would otherwise be the case. This recognises the impact that the existing permitted development right to change use from office to residential has had in bringing forward development that might not otherwise have come forward through a planning application, including bringing new developers into the market who may not otherwise have carried out such developments.

At the same time, the government is making legislative changes to improve future homes delivered under existing permitted development rights by requiring adequate natural light in all habitable rooms.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** August /2025

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: CHRISTOPHER PINCHER

Date: 2 June 2020

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2016	PV Base Year 2017	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 220.1	High: 661.3	Best Estimate: 440.5

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

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

There are no monetised costs to business arising from building upwards.
There are no monetised costs to business arising from adequate natural light requirements.

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

Building upwards: Nearby neighbours may potentially suffer more shading or overlooking, impacting their amenity, though should be unlikely as policy is limited to free-standing blocks of at least 3 storeys extending by 2 storeys up to a maximum overall height of 30m.

Extra pressure on local infrastructure for residents if greater number of residents/dwellings.
Reduction in value of existing top floor flats for owners if another storey is built above it. Potential need for residents to decant to allow building works to the existing structure to meet current Building Regulations.

Natural light requirements: there may be costs to business of configuring the layout of units within the building structure to ensure new units have adequate natural light in all habitable rooms.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
	Low	Optional		
High	Optional		66.2	661.3
Best Estimate			44.1	440.5

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

Building upwards permitted development right allows businesses (primarily developers) to benefit from reduced planning fees by no longer being required to submit a full planning application (£0.03m to £0.30m per annum). This range is primarily driven by variation in the uptake of the right and the stock of suitable existing buildings. Business (building owners of eligible blocks) will benefit from net land value uplift of £530m. Individuals and other groups who own free standing blocks of flats which are in scope may also benefit through increased land value uplift of their roof space.

Due to the economic impacts of Covid-19 the above estimates and others in the document have been based on pre-pandemic evidence which may now be likely to be overestimates due to the changed economic environment. It is uncertain whether short- and medium-run impacts of the pandemic may make creation of additional dwellings in the sort of locations with these free-standing buildings more or less financially viable.

Other key non-monetised benefits by ‘main affected groups’

Building up permitted development right allows businesses (primarily developers) to benefit from increased planning certainty and reduced planning requirements on the premises that satisfy the policy. Local communities will enjoy more efficient use of space (same footprint, more homes) which may avoid building elsewhere which could result in negative impacts such as loss of amenity value from urban sprawl into green spaces. More dwellings help to ease overcrowding in existing homes with corresponding health and wellbeing benefits (for example where there are children in overcrowded accommodation). Residents see building maintenance costs spread over more units, reducing costs. Building owners can use opportunity to retrofit other parts of the building at the same time (e.g. save on cost of scaffolding).

Requiring adequate natural light in new homes has non-monetised benefits including: reduced lighting and heating costs, physical and mental health benefits, and improved amenity value of the home. These benefits are more important as increased numbers of people work from home post Covid-19..

Key assumptions/sensitivities/risks

Discount rate

3.5%

The structural suitability of buildings to be extended upwards is not modelled. However, an attempt to account for this has been made through looking at the portion of addresses created on existing residential land using the MHCLG Land Use Change statistics. The uptake is modelled using a trajectory similar to the uptake of the office-to-residential right. English Housing Survey analysis suggests an approximate proportion of low-rise buildings are “purpose built freestanding”. We expect to introduce a prior approval fee of £334 per new dwelling up to a maximum of 50 units, and then £100 per dwelling thereafter. Assumed new dwellings are of equal density to the existing dwellings below. Assumption that developers will either build one additional storey (lower bound estimate) or two storeys (upper bound) with the middle best estimate value being the mean average of the two bounds.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual – 2016 Prices, 2017 Base Year) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 0	Benefits: 51.2	Net: -51.2	
			-255.9

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. These rights are set out in legislation in the Town and Country Planning (General Permitted Development) (England) Order 2015, as amended (the GPDO). While traditionally quite minor, such rights have been increasingly used in recent years to support the provision of new homes by speeding up housing delivery through change of use of existing buildings such as commercial and agricultural buildings.

As part of the Government's Covid-19 economic renewal package changes are now being introduced in respect of:

- a) A new permitted development right to extend purpose built free standing blocks of flats upward to create new homes.
- b) Amending existing rights to require adequate natural light in all habitable rooms in new homes.
- c) Other minor and technical amendments to the legislation.

a) Building upwards

The National Planning Policy Framework (NPPF) sets out the government's national planning policies for England and how these are expected to be applied by local authorities when preparing local plans and considering applications for planning permission. The NPPF¹ (paragraph 118) supports extending commercial and residential buildings upwards where development would be consistent with the prevailing height and form of neighbouring properties and the overall street scene; are well-designed (including complying with any local design policies and standards); and can maintain safe access and egress for occupiers.

The government's consultation *Planning Reform: Supporting the high street and increasing the delivery of new homes*² from October 2018 to January 2019 proposed options for new permitted development rights to allow existing buildings to extend upwards to provide additional homes. The government's policy paper *Planning for the Future* (March 2020) states that it will introduce new permitted development rights for building upwards on existing buildings by summer 2020, including to extend residential blocks by up to two storeys.

b) Adequate natural light in all habitable rooms

Responding to concerns raised in the press about conversions without sufficient natural light, changes are being made to the existing permitted development rights for the change of use from offices, retail and betting shops etc, sui generis uses, and agricultural buildings to residential use to require that all new homes delivered through these permitted development rights must benefit from adequate natural light in all habitable rooms. This will also apply to new homes delivered by building upwards under a) above.

c) Minor and technical amendments

The effective operation of the legislation is kept under review and minor and technical amendments considered where necessary.

Policy objective

a) Building upwards

¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/810197/NPPF_Feb_2019_revised.pdf

² <https://www.gov.uk/government/consultations/planning-reform-supporting-the-high-street-and-increasing-the-delivery-of-new-homes>

The aim is to support housing delivery and economic renewal and boost density by extending upwards on existing purpose-built freestanding blocks of flats of at least 3 storeys or more to create new self-contained homes. This makes effective use of existing buildings, increases density and avoids the need to develop greenfield sites. We estimate that this measure could deliver up to 800 extra housing units per year.

b) Adequate natural light in all habitable rooms

The aim of the change to existing rights is to support the future development of quality homes that provide adequate natural light in all habitable rooms, regardless of tenure.

c) Minor and technical amendments

The aim of these changes is to support the effective operation of the legislation.

Description of options considered

a) Building upwards

Doing nothing would not deliver the government's decision to introduce the permitted development right. Such developments are encouraged through the NPPF. However, Ministers now want to introduce a permitted development right to support national policy and further encourage this type of development as part of the Government's Covid-19 economic renewal package.

The 2018 consultation *Planning Reform: Supporting the high street and increasing the delivery of new homes* set out three proposals for building up. For residential and certain commercial premises, it was proposed to allow building up either to the height of the highest roofline in a terrace or to the height of the prevailing roofline in the locality. A third proposal was to allow additional storeys to be built on top of existing purpose-built freestanding blocks of flats.

In light of the consultation responses, the government announced at Spring Statement (13 March 2019) that it would take forward a permitted development right to extend upwards certain existing buildings and that it would engage with interested parties on the design and technical details of a right. Since this date, discussions with interested parties from the development industry and the public sector have taken place to help design a right which would provide most certainty and encourage take up. That engagement together with the responses to the consultation has resulted in a decision to bring forward a permitted development right allowing an additional two storeys to be built on top of existing purpose-built freestanding blocks of flats. This was considered to be the preferred initial approach, prior to introducing broader similar rights to apply to commercial and other residential buildings in future, and was included in its policy paper *Planning for the Future* (March 2020).

b) Adequate natural light in all habitable rooms

The Government is making changes to certain existing permitted development rights to require adequate natural light in all habitable rooms. This will support the Government's Covid-19 economic renewal package by helping ensure new homes are suitable for home workers, as well as those having to remain at home. Doing nothing would not prevent new homes being developed without adequate natural light. This change can only be made via legislation.

c) Minor and technical amendments

Doing nothing would retain the existing legislation without the planned clarifications and additions. Making the changes will support the effective operation of the legislation.

Summary of preferred option with description of implementation plan

a) Building upwards

To further support housing delivery, boost density and support the Covid-19 economic renewal package, the government is introducing a new permitted development right to enable purpose-

built freestanding blocks of flats to extend upwards to create new self-contained homes. This will help make effective use of existing buildings, increase density and avoid the need to develop greenfield sites.

The right allows the construction of 2 additional storeys of new homes on existing free-standing, purpose-built blocks of flats of 3 storeys or more above ground level, up to a maximum height of 30 metres. The right applies to blocks built since 1 July 1948 (being those granted planning permission under the current planning system) and before 5 March 2018 when the intention to introduce a permitted development right to build upwards was first announced.

The right applies to purpose-built freestanding blocks of flats of 3 storeys or more. It would allow up to 2 additional storeys to be built on top of the principal part of the existing building. Adequate natural light is required to be provided in all habitable rooms. Each additional storey may be no more than 3.0m in height, and the height of the roof of the extended building would be no greater than 7m higher than the highest part of the existing roof of the building. The right would not apply to blocks built before 1948 or after 5 March 2018. The extended building may be no greater than 30m in height.

Allowing an additional 2 storeys on top of existing free-standing blocks of flats of 3 storeys or more is considered to provide most certainty for developers and local authorities, and so encourage take up, while protecting local amenity. These types of buildings will generally be the easiest residential buildings on which to add storeys as, for example, they are likely to already have separate internal means of access, such as separate lift shafts and staircases. They are therefore the most suitable to benefit from the permitted development right.

Nevertheless, this does not mean that they will necessarily be able to meet building and fire safety requirements. These are covered by the Building Regulations and will still need to be complied with if any proposals are taken forward, regardless of whether planning permission has been granted through a permitted development right or following a full planning application. All development is legally required to comply with the Building Regulations. Where additional dwellings are added to a building some aspects of the building as a whole are also required to be upgraded under Building Regulations.

The right is subject to gaining prior approval from the local planning authority who will consider certain matters relating to the proposal. In line with the existing permitted development rights for change of use to residential, these allow consideration of potential transport and highways impacts as well as contamination and flood risks. Prior approval is also needed on the external appearance of the proposal. The right does not apply in Conservation Areas, National Parks and the Broads, areas of outstanding natural beauty, sites of special scientific interest or to, or in the curtilage of a listed building or scheduled monument.

As the new right goes further than previous rights, in that it permits the building of new residential units, and so may have wider impacts, there will be additional requirements and prior approval considerations. These are a requirement for a construction management plan to help minimise the impact of the building works on neighbours; consideration of air traffic and defence impacts to ensure a taller building does not impact on air traffic navigation and other defence systems; and consideration of any impacts on protected vistas in London.

The right is also subject to a height limit. It allows the construction of 2 additional storeys of new homes, no higher than 7 metres, on existing free-standing, purpose-built blocks of flats of 3 storeys or more above ground level, up to a maximum height of 30 metres. The maximum height limit reflects sensitivities around local amenity, and also reflects what is considered to be most practical in terms of physical works.

This measure will be introduced through planning regulations set out in secondary legislation. It will amend Schedule 2 of the General Permitted Development Order by inserting a new Part 20

Construction of new dwellinghouses, and Class A – New dwellinghouses on detached blocks of flats, which will grant a permitted development right to allow existing purpose-built detached blocks of flats, of 3 storeys or more, to extend upwards and create new self-contained dwellings.

b) Adequate natural light in all habitable rooms

All homes delivered under permitted development rights are required to meet building regulations. These require ventilation (which may be mechanical) rather than the provision of windows. However, the MHCLG Design Guide (October 2019) notes that well-designed homes should provide a good standard and quality of internal space, including sunlight, daylight and ventilation. The existing permitted development rights for the change of use from retail and betting shops etc (Part 3 Class M), sui generis (Part 3 Class N), office (Part 3 Class O), light industrial (Part 3 Class PA), and agricultural buildings (Part 3 Class Q) to residential will be amended to require that natural light is provided in all habitable rooms in new homes. A new prior approval will allow the local planning authority to consider the provision of adequate natural light in all habitable rooms. Habitable rooms are defined as any rooms used or intended to be used for sleeping or living which are not solely used for cooking purposes, but does not include enclosed spaces such as bath or toilet facilities, service rooms, corridors, laundry rooms, hallways, utility rooms or similar spaces. The way this is achieved (window, skylight, atrium) is not specified. The intended outcome of this change is to prevent new homes being delivered without adequate natural light in habitable rooms, and therefore benefit the residents of new homes delivered under existing permitted development rights. This is particularly beneficial where more people work from home as a result of the changes triggered by Covid-19.

c) Other minor amendments and clarifications

The regulations also include certain minor technical amendments and clarifications to the existing permitted development rights legislation. These:

- Clarify that an applicant and a local planning authority may agree to a longer period for determination of prior approval applications which are subject to a time period specified in Schedule 2 of the General Permitted Development Order, and for determination of prior approval applications which are subject to a time period of 8 weeks as no time period has been specified.
- Allow applications for prior approval for development permitted by Class A.1(g) of Part 1 of Schedule 2 to the General Permitted Development Order, being larger single storey rear extensions, to be subject to a prior approval fee, where required. This fee is set out in the Town and Country Planning (Fees for Applications, Deemed Applications, Requests and Site Visits) (England) Regulations 2012, as amended.
- Clarify that for the purposes of Class B of Part 1 of Schedule 2 to the General Permitted Development Order a rear or side extension includes a rear or side extension, sometimes referred to as an “outrigger” whether it forms part of the original house or whether part of the original house or a subsequent enlargement.
- Amends the Advertising Regulations by re-inserting the definition of “telephone kiosk” into the interpretation paragraph.
- Amends the Compensation Regulations by adding the new Class A of Part 20 of Schedule 2 to the General Permitted Development Order into the list of permitted development rights for which compensation on withdrawal of the right is limited in various ways provided in the Compensation Regulations.

These are minor and technical amendments and have not been monetised.

These changes are being brought forward through secondary legislation as an amendment to the Town and Country Planning (General Permitted Development) (England) Order 2015, as amended. The changes will apply to England only.

Monetised and non-monetised costs and benefits of each option

Monetised Benefits

a) Building upwards

Number of dwellings in freestanding blocks of flats

While upward extensions 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. However, through discussions with the housebuilding industry, we know that such schemes are quite specialised and uncommon, and therefore would account for a relatively small number of new homes. The cost of such schemes may be high due in part to the complicated engineering solutions and constrained site access to work on existing buildings compared to a new build starting at ground level. It may also in such cases be necessary to decant the existing residents of the building to alternative accommodation while any major structural works are undertaken.

The intention of the policy is to encourage such development by minimising any potential planning barriers and providing more planning certainty that such schemes can go ahead.

There are two ways to consider the potential number of homes that may be developed under the new right. The first is to look at the number of freestanding buildings, their number of storeys, the floor space of the buildings, and then estimate how many additional flats can be generated from two additional storeys of the same floor space. Comprehensive good quality data does not exist on the number of buildings and so this approach is not possible. The second method is to use data on the number of dwellings in the distribution of number of storeys in height they are located. It is then feasible to use a ratio approach and the assumption of constant density to identify how many flats can be built above these existing structures. For example, suppose a two storey building has 10 units, then to add one additional storey would add 5 units. This data is available and is the approach used in the modelling of this right.

Our current estimates are that there is feasible airspace for 81k new homes which could in theory benefit from this new right, of which 8k are actually likely to come forward over the next ten years.

The outline of the modelling follows some key steps:

1. Adjust existing flat data for conservation areas, freestanding requirement, and age limit.
2. Estimate total new dwellings created above existing flats
3. Take the total created stock figure and adjust for feasibility.
4. Estimate the uptake of the feasible total that comes forward over the next ten years.
5. Scale the uptaken dwellings according to proxied growth rates and estimate annual monetary savings to business.
6. Estimate LVU gain relative to counterfactual

The method for this modelling is set out below in enhanced detail.

Monetised values have been discounted in line with the Green Book where appropriate.

(Note: numbers may not sum due to rounding)

- Data for the number and type of buildings that could be impacted is not available so dwellings by storey is used instead. The English Housing Survey (EHS) has information on the number of flats in the UK by number of storeys. For example, in England, there are 1.7m flats in 3 storey buildings, 670k in four storey buildings, and so on³.
- This measure is estimated to apply to flats between 3 and 8 storeys high. A maximum of 8 storeys is chosen such that vertical extension is within the 30m overall height constraint assuming a typical storey is 3.2m tall⁴.

³ Data supplied internally – 2014-15

⁴ Point 2.5: https://www.london.gov.uk/sites/default/files/52_tall_buildings_statement_2018.pdf

- There are 2.8m flats in buildings of 3 storeys or more, up to 8 storeys (1.2m in London and 1.7m outside London) as per Table 1.

Table 1: Dwelling distribution by storey height

Dwelling type	Existing Height Estimate (metres)	Number of floors above ground	Total Flats (Purpose Built and Converted)		
			Not London	London	Total
Flat	9.6	3	1,252,022	429,515	1,681,537
	12.8	4	284,722	386,825	671,547
	16	5	61,004	170,689	231,693
	19.2	6	39,334	79,391	118,725
	22.4	7	14,720	51,584	66,304
	25.6	8	5,353	34,009	39,362
Total			1,657,155	1,152,013	2,809,168

- A portion is removed to account for conservation areas where the permitted development right will not apply. Research suggests 3% of dwellings are in conservation areas outside of London and 16% in London⁵.
- There are 2.6m flats in buildings of three storeys or more outside conservation areas (1.0m in London and 1.6m outside London) as per Table 2.

Table 2: Dwelling distribution by storey height, conservation area adjustment

Dwelling type	Existing Height Estimate (metres)	Number of floors above ground	Flats (Non-Conservation Areas)		
			Not London	London	Total
Flat	9.6	3	1,220,642	359,839	1,580,481
	12.8	4	277,586	324,074	601,660
	16	5	59,475	143,000	202,475
	19.2	6	38,348	66,512	104,860
	22.4	7	14,351	43,216	57,567
	25.6	8	5,219	28,492	33,711
Total			1,615,622	965,133	2,580,754

- Analysis of the English Housing Survey tells us that a proportion of these flats are not purpose built and are converted flats (e.g. in an ex-house or following change of use from a commercial or other use.) We adjust in line with the EHS analysis to remove converted flats using purpose built as a proxy for them also being freestanding. The adjustment follows the proportions listed in Table 3.

Table 3: Purpose built "Freestanding" % by storey group

London 3-5	78.2%	Not London 3-5	76.3%
London 6+	96.6%	Not London 6+	95.4%

⁵ http://www.eci.ox.ac.uk/research/energy/downloads/40house/background_doc_K.pdf

Table 4: Dwelling distribution by storey height, purpose built "Freestanding" adjustment

Dwelling type	Existing Height Estimate (metres)	Number of floors above ground	Flats Purpose Built "Freestanding" Adjustment		
			Not London	London	Total
Flat	9.6	3	930,980	281,243	1,212,224
	12.8	4	211,714	253,290	465,004
	16	5	45,361	111,766	157,127
	19.2	6	36,597	64,281	100,878
	22.4	7	13,696	41,766	55,462
	25.6	8	4,981	27,536	32,517
Total			1,243,329	779,883	2,023,212

- The number of developable flats is now 2.0m (0.8m in London and 1.2m outside London) as listed in Table 4.
- Next, we adjust for the age of the flats. Since the permitted development right is applicable to buildings built after 1st July 1948, the English Housing Survey is used to remove flats older than this.
- The EHS⁶ says 76.1% of flats were built after 1945 (this is the closest EHS category). There are 1.5m flats remaining. See Table 5.

Table 5: Dwelling distribution adjusted for age, and new stock potential

Dwelling type	Existing Height Estimate (metres)	Number of floors above ground	Total Age Adjusted	Upper Bound New Flats (2 Storeys)	Estimated New Height (<30m)	Lower Bound New Flats (1 Storey)	Estimated New Height (<30m)
Flat	9.6	3	873,541	582,361	16	291,180	12.8
	12.8	4	335,087	167,543	19.2	83,772	16
	16	5	113,228	45,291	22.4	22,646	19.2
	19.2	6	72,694	24,231	25.6	12,116	22.4
	22.4	7	39,967	11,419	28.8	5,710	25.6
	25.6	8	23,432	N/A	N/A	2,929	28.8
Total			1,457,948	830,845		418,352	

- Now it is necessary to estimate the range of total developable stock.
- There is a potential range of development for sites that undergo extension with developers either building up a full two additional storeys to maximise the permitted right, or a minimum of development where developers only add one additional storey to the building.
- To estimate the upper developable bound, it is assumed that the housing capacity of the buildings can be increased by **two** floors.
- For example, there are 874k eligible flats of exactly three storeys from which we can gain two thirds more flats. This means there is permitted development right potential for **at most** 582k homes on top of purpose built blocks of flats of exactly 3 storeys ($874k \times (2/3) = 582k$).
- Eight storey buildings cannot have two storeys as this would breach the 30m limit.
- For the lower bound, it is assumed they do not maximise airspace and only build **one** additional storey. This means there is permitted development right potential for **at least** 291k homes on top of purpose built blocks of flats of exactly 3 storeys ($874k \times (1/3) = 291k$).
- Calculations are repeated for flats located at other storey levels, adjusting for the pre-existing number of storeys in the ratio calculation. These are summed in Table 6 below to show the range of potential new dwellings that could be created.

⁶ EHS Stock Condition Chapter 4 Annex Tables: <https://www.gov.uk/government/statistics/english-housing-survey-2017-stock-condition>

Table 6: Estimated stock of new dwellings

	Potential New Stock
Lower Bound (1 storey)	418k
Upper Bound (2 storey)	831k

The next step is to convert the total estimated stock figures to a realistic estimate of development *likely* to come forward. Ideally, data would be available for the number of buildings, the potential profit versus cost of development, and a survey of building structural suitability. We do not have access to such data.

We have instead attempted to take account of where the right may be used through looking at the portion of addresses created on existing residential land. Using MHCLG Land Use Change statistics, which state 13% of new addresses in the last three years were created on existing residential sites, proxies the magnitude and locations of development (e.g. $418k \times 13\% = 54k$)⁷. This is used in this case as a best proxy for where we are likely to see building up take place and we use a +/- half range to account for uncertainty. Likely delivery captures both feasibility and market capacity for new dwellings. See Table 7.

Table 7: Estimated dwellings likely to be created

Likely Delivery Assumption	6.5%	13%	19.5%
Lower Bound (1 storey)	27k	54k	82k
<i>Best Estimate</i>	41k	81k	122k
Upper Bound (2 storey)	54k	108k	162k

It is unlikely all development will be just 1 storey, while it is also unlikely to all be 2 storeys. Hence, the two estimates are averaged to find a reasonable best estimate middle ground. This gives a middle stock estimate of around 81k dwellings ($(54k + 108k) / 2$) which are considered suitable for building upon. It is then assumed that 10% of this stock will come forward over ten years (8k). This is reasonable given the absolute number of dwellings created via other types of permitted development right and the fact building upwards is a more challenging proposition.

In order to account for uncertainty with uptake and delivery, a +/- half range is used with low uptake (5%) and high uptake (15%) as the alternative scenarios. We have combined the ranges for simplicity with low uptake (5%) and the lowest average feasible stock proportion 6.5% (41k) acting as the worst-case scenario. Meanwhile, the high uptake (15%) and highest feasible average stock proportion 19.5% (122k) is the best-case scenario.

The uptake best estimate (8k) is staggered for each of the ten years based on the uptake growth rates of the office-to-residential permitted development right. This demonstrates rapid growth (57.7% and 38.4%), followed by a sharp drop (-34.9%) as easier sites are depleted, and then steady upward growth with 4.1% followed by the ten-year average GDP⁸ growth rate there onwards (1.2%). Historically, house building is highly correlated with economic performance. It is assumed zero dwellings occur in the first year due to the complexity of the engineering and construction requirements of this kind of development.

Table 8: Modelled growth rate using office-to-residential permitted development right and average GDP growth

Office to Resi Growth Rate	2014/15*	2015/16	2016/17	2017/18	2018/19
	0.0%	57.7%	38.4%	-34.9%	4.1%

*2014/15 data for office-to-residential is not stated separately and was calculated by looking at the change in total 'change of use' statistics once office-to-residential began being reported separately

⁷ Table P301: Residential Address Change: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-land-use-change-statistics>

⁸ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyp/pn2>

Planning Fee Savings

It is intended to introduce a prior approval fee for this permitted development right, which will be set at £334 per new dwelling up to 50 units, and a fixed fee of £16,525 plus £100 for each dwellinghouse in excess of 50. The dwellinghouse fee of £334 is the halfway point between £206 per application 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. It is assumed that due to the nature of development, all sites will create less than 50 new units and so the £100 per unit over 50 units is excluded from these calculations.

Table 9: Net Present Value Calculations – Best Estimate

Permitted Development Right	Yearly Stock Delivery	Created Dwellings	Total Prior Approval Fees	Discount Factor	Adjusted Fees	Growth Rate
Year 1 (2020)	0.00%	0	£0	1.00	£0	N/A
Year 2	0.73%	590	£197,170	0.97	£190,503	0.0%
Year 3	1.15%	931	£311,010	0.93	£290,331	57.7%
Year 4	1.59%	1289	£430,500	0.90	£388,287	38.4%
Year 5	1.03%	839	£280,234	0.87	£244,208	-34.9%
Year 6	1.08%	874	£291,802	0.84	£245,690	4.1%
Year 7	1.09%	884	£295,171	0.81	£240,122	1.2%
Year 8	1.10%	894	£298,579	0.79	£234,680	1.2%
Year 9	1.11%	904	£302,026	0.76	£229,362	1.2%
Year 10	1.13%	915	£305,513	0.73	£224,165	1.2%
Total	10%	8120		NPV	£2,287,347	

Table 9 describes the best estimate scenario with uptake at 10% and the stock value the middle figure of 81k. Over the ten years, the right should generate £2.3m of prior approval fees. The equivalent fees for identical delivery charged at full planning application rates (£462 per dwelling) is £3.2m. The take up trajectory is shown in the chart below.

Dwelling Delivery Best Estimate

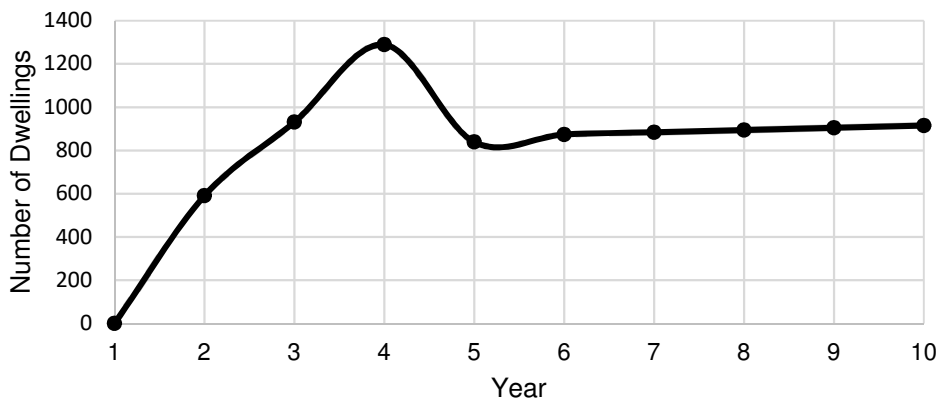


Table 10: Net Present Value Calculations – Lower Bound

Permitted Development Right	Yearly Stock Delivery	Created Dwellings	Total Prior Approval Fees	Discount Factor	Adjusted Fees	Growth Rate
Year 1 (2020)	0.00%	0	£0	1.00	£0	N/A
Year 2	0.36%	148	£49,293	0.97	£47,626	0.0%
Year 3	0.57%	233	£77,752	0.93	£72,583	57.7%
Year 4	0.79%	322	£107,625	0.90	£97,072	38.4%
Year 5	0.52%	210	£70,058	0.87	£61,052	-34.9%
Year 6	0.54%	218	£72,951	0.84	£61,422	4.1%
Year 7	0.54%	221	£73,793	0.81	£60,030	1.2%
Year 8	0.55%	223	£74,645	0.79	£58,670	1.2%
Year 9	0.56%	226	£75,507	0.76	£57,341	1.2%
Year 10	0.56%	229	£76,378	0.73	£56,041	1.2%
Total	5%	2030		NPV	£571,837	

The lower bound calculations in Table 10 indicate with a low uptake of 5% and a low stock value of 41k, over ten years, around £570k of prior approval fees will be generated. The equivalent full planning application fee scenario is £790k.

Table 11: Net Present Value Calculations – Upper Bound

Permitted Development Right	Yearly Stock Delivery	Created Dwellings	Total Prior Approval Fees	Discount Factor	Adjusted Fees	Growth Rate
Year 1 (2020)	0.00%	0	£0	1.00	£0	N/A
Year 2	1.09%	1328	£443,633	0.97	£428,631	0.0%
Year 3	1.72%	2095	£699,772	0.93	£653,245	57.7%
Year 4	2.38%	2900	£968,626	0.90	£873,645	38.4%
Year 5	1.55%	1888	£630,526	0.87	£549,467	-34.9%
Year 6	1.61%	1966	£656,555	0.84	£552,802	4.1%
Year 7	1.63%	1988	£664,135	0.81	£540,274	1.2%
Year 8	1.65%	2011	£671,803	0.79	£528,031	1.2%
Year 9	1.67%	2035	£679,559	0.76	£516,065	1.2%
Year 10	1.69%	2058	£687,405	0.73	£504,370	1.2%
Total	15%	18270		NPV	£5,146,531	

For the upper bound scenario in Table 11, uptake is expected to peak at 15% and with the total stock figure at 122k, over ten years this generates £5.1m of prior approval fees. The equivalent delivery charged at full planning application rates is worth £7.1m.

Table 12: Monetised benefits to business

	Constant Prices			Discounted Prices		
	Avg. Annual PDR Prior Approval Fee Total	Avg. Annual Full Planning Application Fee Total	Avg. Annual Savings	NPV PDR Prior Approval Total Fees	NPV Full Planning Application Total Fees	NPV Total Savings
Lower Bound	£67,800	£93,783	-£25,983	£571,837	£790,984	-£219,147
<i>Best Estimate</i>	£271,201	£375,134	-£103,933	£2,287,347	£3,163,935	-£876,588
Upper Bound	£610,202	£844,051	-£233,850	£5,146,531	£7,118,855	-£1,972,323

Table 12 sets out the average annual saving for businesses (developers) unadjusted for inflation, as well as the total savings over ten years discounted at 3.5% per annum in line with the Green Book. The best estimate indicates that per year, a total of £104k will be saved by businesses and over ten years, the net present value of total savings is £880k.

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.

Land value uplift will bring benefits to freeholders of eligible and feasible buildings even if they do not act on the right simply because the building will gain the in-principle permission for building upwards development. The LVU from the right exists for two storeys even if they only extend one storey. 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:

$$\text{Net private value of new housing} = \text{residential land value} - \text{existing land use value}$$

Since the right permits two additional storeys, the LVU is based on the potential for owners to build up to this maximum extension limit regardless of if they actually do. For this, we assume all new dwelling estimates are taken from the upper bound, i.e. they involve a full two storey extension. In the best estimate case, the best upper bound estimate (108k) of new flats is multiplied by the national average LVU per dwelling on brownfield sites of £60,848 using VOA data⁹. Unadjusted for build out rate and time value of money, the best estimate of gross total land value uplift building upwards generates is around £6.6bn as shown in Table 13.

Table 13: Estimated gross LVU from range of feasible stock estimates

Feasible Estimated Upper Bound Stock	Lower - 54k	Best - 108k	Upper - 162k
Gross Land Value Uplift	£3,286,093,209	£6,572,186,417	£9,858,279,626

However, this assumes the counterfactual is that no upward building occurs, not the fact it still comes forward but under a planning application. 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 permitted development right at the prior approval stage to generate the estimated increase in certainty. It is estimated that the introduction of a permitted development right increases the certainty of planning application approval on suitable sites from approx. 86% to 94%, a gain of 8%¹⁰. This was found to be the best estimate can be used to identify the difference in LVU of the counterfactual and the policy change. It is assumed the net LVU benefit that the permitted development right gains relative to the counterfactual by allowing development that previously would have been rejected is, therefore, 8%. This best estimate is applied to the gross LVU of upward development to remove the counterfactual element leaving the raw net increase in LVU generated directly by the permitted development right. See Table 14.

Table 14: Net LVU from range of feasible stock estimates

Feasible Estimated Upper Bound Stock	Lower - 54k	Best - 108k	Upper - 162k
Net Land Value Uplift	£262,887,457	£525,774,913	£788,662,370

The best estimate of LVU from creation of the permitted development right is around £530m.

The office-to-residential probability analysis was conducted on the basis that most sites will be gaining at least 10 units. It is impossible to know whether this will be the case for the permitted development right, but it is conceivable that 10 units is a good estimate for some developments (e.g. 2 storeys, 5 flats per storey) and so the 8% is considered the best possible estimate given available data.

⁹ MHCLG Viability Model

¹⁰ https://www.legislation.gov.uk/ukia/2016/216/pdfs/ukia_20160216_en.pdf

It is conceivable that building upwards may suffer more rejections in principle via full planning applications due to its complex nature and a range of non-monetised costs explained below that could be grounds for rejection. The permitted development right, therefore, may set the precedent for allowing upward extension in principle and so the net LVU gain may actually be higher than 8%.

These LVU estimates are based upon the local authority level residential and brownfield land existing use values calculated into a national average. Brownfield land has been chosen as the existing use value to account for the amenity value that the existing roof may bring to residents of the development, and the value of the space above the roof for nearby residents (i.e. natural light and views that may be obstructed). We consider this proportionate, and probably conservative to the value generated by the permitted development right. The primary alternative would be to allow no existing use value for the roof space, which we do not consider adequate for the reasons above. The values are also likely to be conservative since the permitted development right is most likely to be used in London where the value of land value uplift is much higher than the national average.

b) Adequate light in all habitable rooms

There are no monetised benefits from requiring adequate natural light in all habitable rooms in new homes under the rights.

Monetised Costs

a) Building up

There are no monetised costs for building up. In the counterfactual, developers are able to build above existing blocks 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.

b) Adequate natural light in all habitable rooms

We do not have any data/evidence to facilitate monetised analysis for this measure and so theoretical costs of requiring adequate natural light can be found under the non-monetised costs section. Data on the number of housing units delivered via PDRs without access to natural light in habitable rooms is not routinely collected, however there have been isolated cases highlighted in the press.¹¹ We would expect to hear of more such units anecdotally if they were more prevalent. These units may be so rare as such units are not marketable and so developers make every effort to provide natural light regardless. For these reasons we have not included a monetised cost.

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 2016 prices with a 2017 base year and then appraised over a ten year period in line with recommended BIT appraisal practice.

a) Building upwards

The savings of each scenario (low, best and high) are recalculated in nominal terms without discounting. This is set out in the Table 15.

¹¹ <https://www.homesandproperty.co.uk/property-news/permitted-development-officetoresidential-developer-wins-right-to-build-windowless-studios-in-a132061.html>
<https://www.theguardian.com/cities/2019/dec/19/it-feels-almost-like-prison-the-developers-building-homes-with-no-natural-light>

Table 15: Summary of undiscounted fees and savings

	Low			Best			High		
	PDR	Full	Saving	PDR	Full	Saving	PDR	Full	Saving
Year 1	£0	£0	£0	£0	£0	£0	£0	£0	£0
Year 2	£49,293	£68,183	£18,891	£197,170	£272,732	£75,562	£443,633	£613,648	£170,015
Year 3	£77,752	£107,550	£29,797	£311,010	£430,199	£119,189	£699,772	£967,949	£268,176
Year 4	£107,625	£148,871	£41,246	£430,500	£595,483	£164,982	£968,626	£1,339,836	£371,210
Year 5	£70,058	£96,907	£26,849	£280,234	£387,629	£107,395	£630,526	£872,165	£241,639
Year 6	£72,951	£100,908	£27,957	£291,802	£403,631	£111,828	£656,555	£908,169	£251,614
Year 7	£73,793	£102,073	£28,280	£295,171	£408,291	£113,120	£664,135	£918,654	£254,519
Year 8	£74,645	£103,251	£28,606	£298,579	£413,005	£114,426	£671,803	£929,260	£257,457
Year 9	£75,507	£104,443	£28,937	£302,026	£417,773	£115,747	£679,559	£939,989	£260,430
Year 10	£76,378	£105,649	£29,271	£305,513	£422,596	£117,083	£687,405	£950,842	£263,437

The LVU uplift is then added to Year 1 benefits and the flow of direct benefits are inputted into the Business Impact Target Assessment Calculator. The flow of benefits is set out in Table 16.

Table 16: Nominal cashflows over appraisal period (£ million)

Year	1	2	3	4	5	6	7	8	9	10	Total
Annual Benefit 1 - Best	0	0.076	0.119	0.165	0.107	0.112	0.113	0.114	0.116	0.117	1.0
Low	0	0.019	0.030	0.041	0.027	0.028	0.028	0.029	0.029	0.029	0.3
High	0	0.170	0.268	0.371	0.242	0.252	0.255	0.257	0.260	0.263	2.3
Annual Benefit 2 - Best	526.8										525.8
Low	263.9										262.9
High	789.7										788.7

The calculator then applies a deflator and discount rate to adjust to 2016 prices and a 2017 base year in line with BIT assessment practice.

The BIT Calculator present value output is shown in Tables 17 and 18.

Table 17: Present value totals (£ million)

Present Value Total Benefit	2020 Prices & Base Year	2016 Prices	2017 Base Year
Best Estimate	526.7	488.4	440.5
Low	263.1	244.0	220.1
High	790.6	733.2	661.3

Table 18: Net direct costs to business per year (£ million)

	Annualised	2016 Prices	2017 Base Year
Direct Business Costs	0	0	0
Direct Business Benefits	61.2	56.7	51.2
Net Direct Cost to Business	-61.2	-56.7	-51.2

These figures are then used to complete the Full Economic Assessment.

Covid-19 Impacts

The precise impacts of covid-19 on the housebuilding industry at this stage are unknown. The above analysis is based on factual data and assumptions from the pre-covid period. 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 upward building 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 with particular focus on London, this will help to maintain appetite for building upwards. 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. Based on the fact this PDR will be utilised mostly in London to ease housing pressures, London enjoys a stronger level of land value uplift than the rest of the country and so the marginal viability effects will be lower. Coupled with the fact London has a high number of developable blocks of flats, the bulk of building upward PDR units may remain viable.

Our modelling assumes that very few units are delivered after one year due to time for familiarisation and acquiring suitable sites, and it is in the fourth 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 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, in which case our central delivery estimate is still relevant. 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.

Through the land value mechanism we expect delivery through this PDR to be negatively impacted via covid-19. There are other factors which could impact delivery such as a reduction in supply through social distancing measures. Then there are more unknown interactions: for example in a time of depressed house prices it might be more desirable to purchase free standing blocks of flats in order to obtain the asset of roofspace to build upon in the future.

Non-Monetised Benefits

a) Building upwards

Businesses (developers) will benefit from increased planning certainty and reduced planning requirements on the premises that satisfy the policy. This allows for developers to better align their risk profiles and bring forward development that may otherwise have been delayed or abandoned. Savings include staff costs of formulating applications, development potential research costs, costs of professional services needed to shape schemes that will negotiate stringent planning regulations, and costs of post-submission alterations or information requests. The increased planning certainty will lead to a reduction in the need to appeal against refusal of permission, bringing further savings in some cases.

The Planning Inspectorate will benefit from processing fewer appeals against refused planning applications that will be granted via prior approval if they meet the policy criteria. The Planning Inspectorate does not charge a fee to determine appeals providing a marginal cost saving to the Inspectorate.

Increased housing development appropriate for consumers has impacts on rent and ownership by reducing the marginal cost of housing through increased supply. It is difficult to quantify this effect since isolating the effect of the permitted development right amongst wider reforms and the wider housing market is challenging. It is highly likely that those developers likely to undertake PDRs would be contributing 'additional' supply, rather than displacing other housing developments, owing to the unique approach to building up that would be required.

Densification is important for improving the efficient use of land particularly within urban areas. By building more homes on the same existing footprint, there is greater housing supply at little cost to available land supplies. This prevents building elsewhere which may entail potential negative impact such as the loss of amenity value from urban sprawl into greenspace or encroachment into the greenbelt.

Furthermore, additional dwellings (housing supply) help to ease the pressure on overcrowding with corresponding health, wellbeing and (where there are children in overcrowded accommodation) lifetime earnings impacts.

Local authorities benefit from the reduced planning process required for premises that meet the policy criteria. They will benefit from administrative savings that can be invested elsewhere to provide other services.

There is greater potential to spread building maintenance costs over more units and to use building upwards as an opportunity to simultaneously retrofit other parts of the building (e.g. save on cost of scaffolding). This is a benefit enjoyed by the freeholder and – where servicing costs are shared with the occupiers – may benefit all those in the building in terms of improved building quality (if other improvements undertaken at the same time) and/or lower maintenance charges.

b) Adequate natural light in all habitable rooms

Currently there is no mechanism for consideration of natural light in homes delivered through permitted development rights. Introducing a requirement for adequate natural light will ensure the delivery of quality units which have adequate natural light in all habitable rooms. Daylight is known to have wellbeing and health benefits. There is ample evidence of the benefits from access to natural light, for example in the MHCLG design guide (2019). By preventing units without a natural light source, fewer residents will reside in an unhealthy environment. There are also financial benefits through the provision of natural light through a reduction in heating and lighting costs. These changes are more significant in light of the substantial increase in home working.

Non-Monetised Costs

a) Building upwards

There will likely be externalities imposed on the local community. It is hard to assess these in advance since it will vary on a case-by-case basis. However, examples could include greater shadows cast over nearby neighbours affecting their amenity, or perhaps higher traffic density caused by more people living in the proximity. Though the externalities should be small as the policy is limited to freestanding blocks and only two storeys meaning the increase in dwellings per block is likely to be relatively small. Smaller buildings would have a greater proportional disruption from the addition of two floors, however it is reasonable to expect that we wouldn't see this extreme scenario too often. Smaller buildings are less likely to have the structural integrity necessary to support upward development, the cost of improving foundations would often be prohibitive, and there may be grounds for refusal under prior approval in respect of the impact on the amenity of the existing building and neighbouring premises including overlooking, privacy and the loss of light

There may be greater costs for the local authority arising from extra pressure on local infrastructure and public services if there is a greater number of residents. However where a local authority has a charging schedule in place it may secure Community Infrastructure Levy contributions on development of additional floorspace and Council Tax is applied to all dwellings so would help mitigate this.

Other costs to the local authorities include familiarisation costs although these will be time-limited and small, and possible greater pressure on regulatory regimes and their budgets (e.g. environmental health officers regarding noise).

In addition, reduced planning fees reduce the local authorities' planning fee revenues. However, the lower prior approval fee is considered to be commensurate with the simplified prior approval requirements. In addition, the right is likely to bring forward development that might not otherwise have come forward and therefore offset fee reductions by earning a greater number of prior approval fees. Current levels of building up are not recorded but are not thought to be significant.

There is potential for local authorities to be perceived as having lost some control with their ability to consider the costs and benefits of developments. Some authorities may opt to use their Article 4 regulatory powers to limit the development. This carries one-off costs such as publicising and consulting on Article 4 directions, and cost of creating an evidence base to justify the use of directions.

There may be reductions in the value of existing dwellings in the building, particularly top floor dwellings/penthouses if new dwellings are built above them, resulting in a loss of their 'exclusivity' and they may suffer from increased noise from residents above. This will be a cost that offsets some of the LVU gained. Of course in this circumstance a new penthouse would be built on top and we would expect the current penthouse owner to take part in negotiations over the works and as part of any development package may agree to "swap" the existing penthouse for the new one to be created by the development.

Construction works may carry short term costs for residents living below such as noise, dust and access disruption, and possible disruption from relocation while the works are carried out.

Additional building safety implications to the freeholder may arise because of extra safety measures such as fire safety - exit staircases, extending dry rise mains etc which will apply to the whole building, not just the new storeys being added. Although these are likely to be small relative to profits generated by enacting the right, and have their own benefits in terms of safety.

Homes delivered under the PDR will not be required to make social housing contributions. If the delivery of homes through the right displaces homes which would have been delivered through the planning system, then it might reduce or delay the delivery of affordable housing. Our expectation though is that this policy does not cause displacement of units that would have otherwise happened, and that Local Planning Authorities would permission as many units regardless of the right being implemented. In addition, the right applies to social landlords equally, who might be able to deliver more homes under the right.

b) Adequate natural light in all habitable rooms

Changing the scope of rights currently enjoyed by adding a requirement in respect of adequate natural light is a regulatory measure. The requirement will apply to new applications for prior approval in respect of the permitted development rights for the change of use from agricultural buildings, offices, retail etc, light industrial, and sui generis uses and will apply to new applications received by the local authority from 1 August 2020 when the legislation comes into force. Those granted prior approval prior to that date and applications received prior to this date but not determined will not be bound by the requirement. This will provide time for developers to review their proposal and help to minimise any costs.

Development under these permitted development rights will not in future be permitted where adequate natural light is not provided in all habitable rooms. There is limited anecdotal evidence from press reports that some units without adequate natural light have been delivered under such rights. The infrequency of such reports suggest that there are only a limited number of such cases however, there is no national data on which to estimate any national impact due to the requirement for adequate natural light.

Some rights, such as retail, sui generis, or agricultural to residential already allow for building works reasonably necessary to change use, and therefore could install windows or other source of natural light as necessary as part of the development and therefore still deliver the same number of units as planned but at greater cost to the developer. Others, such as office to residential conversions may see a planning application submitted at additional cost to install additional sources of natural light.

There may be a very few cases where requiring the provision of adequate natural light in all habitable rooms may mean that some buildings are not suitable for conversion, for example due to the depth of the floorplate. Alternatively and more likely, units without windows or other sources of natural light may be amalgamated into an adjacent windowed unit to create a single larger unit or a lightwell created. This means developers may in these rare cases deliver fewer units but are potentially able to sell the remaining larger units for a higher price helping to offset any lost revenue.

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

a) Building upwards

We do not hold data on current practice of building into airspace over freestanding blocks, but given the complexity of such development take up of the right could be anticipated to be 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 upwards extensions of buildings to create new homes, so we have attempted to estimate potential uptake.

b) Adequate natural light in all habitable rooms

Given the low numbers of isolated cases flagged in the press, we expect the number of units without adequate natural light currently produced to be minimal relative to overall permitted development right unit delivery. There is no national data on which to estimate any national impact due to the requirement for adequate natural light.

Risks and assumptions

a) Building upwards

It is not possible to anticipate exactly how many new homes would be created under the right, and this is even more uncertain due to the covid-19 pandemic.

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.

The structural suitability of buildings for building upwards is unknown and not modelled. Data on the number of structurally suitable buildings in the UK is not available. Instead, an attempt to account for this has been made through looking at the portion of addresses created on existing residential land using the MHCLG Land Use Change statistics. This indicates the approximate magnitude of new housing delivery on existing residential sites and is the best proxy available to indicate where the right may be used. A sizeable range is used to account for the uncertainty.

Taller buildings which include residential use are subject to tighter controls in relation to fire safety measures and access. These requirements are regulated through separate regimes such as the Building Regulations and are independent of the planning system. The costs of these requirements could affect the profitability and viability of some upward extensions. For some buildings, the construction of additional storeys under this right may require substantial structural works.

A key assumption of the modelling is that the new dwellings will be of the same density as the existing flats below. While this is a reasonable assumption, there may be some variation in the mix of flat size and capacity of the new dwellings depending on changes in the market since the original flats were built. Furthermore, it is assumed that developers either build up one storey (lower bound estimate) or the full two storeys (upper bound). To get a middle best estimate, the average of these two extremities is taken.

The monetised savings will vary depending on the prior approval fee charged under the right. Currently, it is assumed that the fee, once introduced, will be £334 per new dwelling up to a maximum of 50 units, and then a fixed rate £16,525 plus £100 per dwelling above that figure. This is the halfway point between £206 per application for a prior approval with building works, and £462 per dwelling for a full planning application.

An attempt was made to estimate the number of buildings affected by the right using experimental LIDAR (Light Detection and Ranging) research data to estimate suitable freestanding blocks. However, the reliability of this data was low and the dataset had many irregularities or missing data. It was decided that the estimates that could be drawn from the analysis were likely to be invalid and the current method was pursued instead.

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 building up 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,

particularly in view of the likelihood that many such proposals will not be straightforward from an engineering perspective.

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 but the brownfield value has been used to produce a more conservative figure of LVU and to capture the fact some roof space may already be in use (i.e. aerials) or carry utility for some people.

Finally, English Housing Survey (EHS) analysis suggested an approximate proportion of buildings that are purpose built from which we assume they are most likely to also be freestanding. This excludes non-freestanding blocks of flats as well as converted flats (i.e. flats in an ex-house or created via an existing permitted development right) that the right excludes.

b) Adequate natural light in all habitable rooms

Requiring adequate natural light may mean that some buildings, particularly offices with a deep floorplate, may no longer be suitable for conversion. It is not known how many buildings will therefore no longer change use under the rights, however, we expect this to be a minimal number. We think the most likely outcome is that the few units that previously would have been windowless will amalgamate into a neighbouring windowed unit or further works could be undertaken to introduce a lightwell or skylight. Therefore, the requirements may lead to the reconfiguration of unit layout within the building. This means the building is still developed, with fewer but larger units.

Direct costs and benefits to business calculations (following BIT methodology) (2016 Prices, 2017 Base Year)

a) Building upwards

Businesses (developers) will enjoy an annual equivalent benefit of £51.2m 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)).

Wider Impacts

a) Building upwards

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.

Freehold owners of eligible blocks of flats will benefit from any land value uplifts to their properties due to having planning permission through the permitted development right even if they do not actually extend upwards.

Existing tenants may have building maintenance costs reduced as the building operator/owner may split maintenance costs over a greater number of dwellings.

Users of local infrastructure may endure increased traffic because of more residents in a given local area. Similarly, there will be increased access constraints to public services due to higher densities.

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 may lead to some loss of light or the risk of overlooking for people living close to the building being extended upwards.

At the same time, leaseholders will be affected through any increases in the value of those blocks of flats which meet the criteria of, and so can benefit from, the right, where it is viable to do so. In such cases, it may become more expensive for leaseholders to enfranchise, i.e. buy the freehold of the block.

[NB Joint freeholders are not considered small businesses in relation to SaMBA]

The policy is also likely to impact on telecommunications providers who may have to move their existing infrastructure located on the top of blocks of flats. Existing digital signals may also be impacted by an increase in height of buildings in an area, requiring new sites to be acquired for antenna and other infrastructure. Where building owners have contractual agreements with telecommunication providers to rent roof space for telecommunication equipment, building owners will have to revisit the contract to account for moving or adjusting such equipment on the building as part of the development process. As with all new development telecommunications providers will have to keep under review their lines of sight for telecommunication signals.

b) Adequate natural light in all habitable rooms

The changes will support the delivery of quality homes, regardless of tenure, to the wider benefit of the community. The changes will also benefit the health and wellbeing of future residents of the new homes created following the changes which may have marginal impacts on population health and productivity. The reason we anticipate these benefits to be small in aggregate is that there are very few units currently delivered without access to natural light.

Small and Micro Business Assessment SaMBA

a) Building upwards

Previous permitted development rights suggest this measure should assist small businesses due to the additional certainty it provides. There is a natural restriction on the size of development that can be delivered by the permitted development right with small sites more likely to undergo work by small developers. Small builders often struggle to compete with the large housing developers who are better able to access land for development and navigate the planning system due to their experience and resources available to them. The existing permitted development rights which create new homes, in particular the right that allows offices to change to residential use, boosted the number of small businesses in this area by encouraging new small scale developers into the market who would not otherwise have been able to enter. In addition, smaller developers with less resource to secure planning permission may disproportionately benefit from the reduced costs and hurdles by not needing to go through that route.

It is impossible to know how many small businesses will benefit from this measure since the office-to-residential right led to the creation of a mini-industry with many new smaller firms entering the market. Not enough data exists on the number of small firms currently active in the upward extension building sector, but based on the effects of the office-to-residential right we would expect an increase in the number of small developers.

There is therefore potential for this new right to also bring new smaller and medium sized businesses into the market arising from a reduction in burden, as the right is deregulatory and

provides a greater degree of planning certainty compared to a planning application. Therefore, the risk of aborted planning costs due to refusals of planning permission are decreased.

Building new homes on top of existing buildings is however a specialised market in comparison to simply changing use of an existing building to residential. The Ministry of Housing, Communities and Local Government intends to issue a circular letter regarding the building and fire safety requirements, including restrictions on the use of combustible materials, for the whole building when additional residential storeys are added. This will be available to businesses on the gov.uk website at <https://www.gov.uk/government/collections/building-regulations-divisional-circular-letters>

Small businesses have not been excluded as this is a deregulatory measure designed to reduce burdens on firms and should disproportionately benefit them.

Impact on landlords: some landlords are small businesses. Where they, or other small businesses, own the freehold, it is expected they would benefit from the opportunity of the PDR where applicable. Where landlords and small businesses own the leasehold for some (or all) of the units in a block the freeholder will have to comply with the terms of any lease and the prior approval process provides for leaseholders to comment on the amenity impact of the development for consideration by the local planning authority on whether to grant prior approval,

b) Adequate natural light in all habitable rooms

The inclusion of natural light requirements in permitted development rights should not reduce the disproportionate benefit of the rights to small businesses. The requirement applies to the specified rights equally and do not alter the underlying reasons that favour their use by small developers: that the average size of each whole development remains small.

Impacts on Local Authorities

a) Building upwards

The government is to introduce a fee to enable local planning authorities to charge for the consideration of prior approval applications under the right.

The prior approval fee per dwellinghouse will be lower than that for a full planning application. This will reflect the fact that there are less matters for the local planning authority to consider through the prior approval process in comparison to a full planning application, requiring less work for local authorities in assessing such proposals.

b) Adequate natural light in all habitable rooms

Local planning authorities will in future have to consider an additional prior approval as to whether there is adequate natural light in all habitable rooms.

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

a) Building up

These measures are 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.

b) Adequate natural light in all habitable rooms

There is no impact on trade from this change.

Monitoring & Evaluation

MHCLG continually monitors and collects statistics on permitted development rights. The impact and effectiveness of this measure will be monitored by MHCLG and changes will be considered to ensure that the intended outcomes and benefits are achieved.