

2015

Viability of office to residential conversions to meet Hart DC Housing supply



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5/21/2015

Brief

Stonegate Homes has been asked to assess the viability of meeting the Councils housing need through the conversion of disused office space into residential via the Prior Approval process (please see appendix 1 for a summary what the prior approval process entails).

Founded on a wealth of planning experience, Stonegate Homes are a diverse property investment and development company based in Surrey. We have bought and developed office to residential schemes throughout Surrey, Sussex and Hampshire and therefore we have in depth knowledge of the development potential of such schemes.

In preparing this document we have discussed the viability of the schemes with local commercial and residential agents based in Fleet who have an in depth knowledge of the current office to residential market.

We have also discussed the market demand for such conversions with auctioneers Allsops who have been involved in the sale of such properties for the past 24 months.

Introduction

Hart District has a population of approximately 92,200 people and is a predominately rural district within North Hampshire although around half the population live within the two largest towns - Fleet (population circa 32,000) and Yateley (population circa 21,000).



- Yateley lake – one of the many attractions of the area

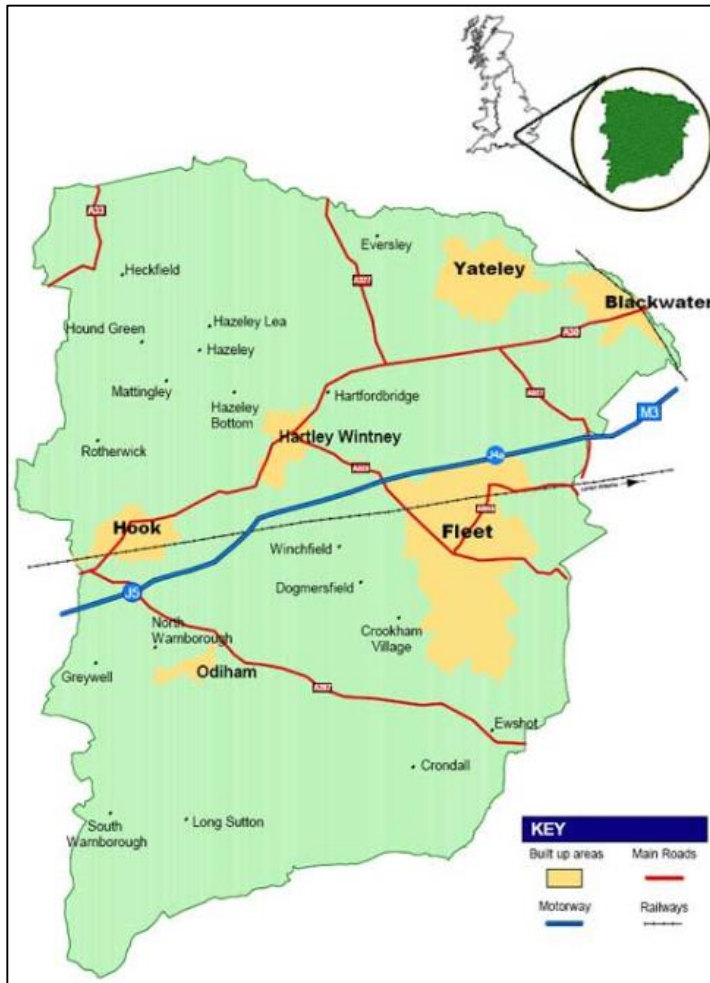
In 2014 Hart District was named as the most desirable place to live in the UK for the 4th year in a row. Hart, which is centred on the town of Fleet, boasts vast open spaces of heathland and woodland, as well as the county's largest freshwater lake which all serve to make the area an attractive location in which to live in. However, Hart residents pay a premium to live here as the average house price is nearly seven-and-a-half times the typical local annual income. Therefore additional housing is required to meet the local need and quickly.

According to the Objectively Assessed Housing Need (OAHN) Hart needs to provide approximately 370 houses per annum up to the period to 2023. This equates to approximately 3000 dwellings in this period.

In this document we will outline the future housing requirements for the district and the potential solutions for solving the area's housing issues.

Demographics

According to the recent Strategic Housing Market Assessment produced for the District, the strongest growth in population over the last decade has been amongst the older age groups. The older population (those aged 65+) make up around 15% of the population as a whole. There has also been a significant increase in the number of people in advanced old age (85+) in the housing market area, compared to the growth in the proportion of people in this age group in the South East and England.



The area has also experienced a decline in the younger working age groups (aged 25-29 and 30-44). This is in stark contrast to the growth in the younger group in the South East and England as a whole.

This indicates there is significant potential for demographic change in the next 30 years with a severe unbalance in favour of the over 65's. This could have serious consequences for the area unless this issue is addressed. A balance across all age groups needs to be achieved in order to create a viable community.

From this evidence it would appear that the high house prices and lack of suitable accommodation for first time buyers is forcing young local people to look elsewhere for suitable accommodation

Current housing stock

At present, the majority of homes in the market area have three or more bedrooms with the proportion of smaller (one and two bedroom) properties in Hart currently at 26%. In Hart, over the last 10 years, 76% of new dwellings have been houses.

In the market sector in Hart, the largest proportion of completions has been three bedroom houses, followed by 4 bedroom houses and then equal proportions of two and five bed homes. In the affordable sector, the largest proportion of completions have been two bedroom flats, followed by one bedroom flats and two bedroom houses.

Housing need

The Strategic Housing Market Assessment for the Districts of Hart, Rushmoor and Surrey Heath which was published in December 2014 has outlined the housing requirements for the District and the challenges facing Hart in the coming years.

The assessment outlined that approximately 370 units will be required per annum to meet the Districts housing needs up to 2023 with 35% to 40% of these units being affordable. This equates to approximately 3000 dwellings being required in this period.

Mix of Housing Required

The Strategic Housing Market Assessment for the District estimates of the size of market homes required from now to 2031 based on demographic trends indicate that the majority requirement is for two and three bedroom homes.

In terms of the sizes of affordable housing implied by demographic trends, around three-quarters of the requirement is for homes with one or two bedrooms with around a quarter of the requirement being for larger homes with three or more bedrooms.

It is also noted that the strongest growth in population over the last decade has been amongst the older age groups. Therefore some additional retirement properties in sustainable locations are likely to be required.

The area has experienced a decline in the younger working age groups (aged 25-29 and 30-44). This is in contrast to the growth in the younger group in the South East and England as a whole. Therefore more suitable units for first time buyers are needed to encourage young people to stay in the area and indeed encourage younger people to move to the area.

Are office to residential conversions the solution?

As you travel throughout the district it is evident from the number of advertisement boards present that there is an obvious surplus of office space within the district. Contrary to claims made by certain commentators, Prior Approval has not resulted in the loss of viable office buildings. Had they been viable as offices they would not be open to conversion. There is no doubt that the UK's working habits have changed irreversibly over the years and a great many of the offices developed in the 1970-90's are no longer fit for purpose.



The removal of redundant offices from the market creates the opportunity to renew the nation's office stock with the development of new office buildings better suited to modern technology and working practices. This development is good for business and good for the economy.

Benefits of the office to residential conversions

The key to solving the housing shortage and reducing the speed with which house prices rise is to increase the supply of new homes. The traditional planning route has become extremely restrictive and needs a massive overhaul. Since its introduction two years ago Prior Approval has enabled the creation of an estimated 15-20,000 residential units. This would have been unachievable in the same period via the traditional planning route.



- *Disused office blocks can easily be converted to apartments with good design*

The introduction of Prior Approval for the conversion of offices to residential was a very significant step in the right direction towards addressing the UK's housing shortage. The benefits of the process include:

- 56 day deadlines for determination of applications means that there none of the delays associated with the traditional planning route;
- developing brownfield sites and preventing unnecessary encroachment of development into green fields;
- reducing the surplus of vacant obsolete office space developed over the last thirty years;
- the infrastructure is already in place to serve the offices, thus making the transition to residential relatively easy;
- offices are generally located within sustainable locations with good public transport links, thus readily suitable for residential use;
- Many of these office buildings are physically ideal for conversion to residential use with much stronger foundations and supporting structures than would normally be required;
- Attractive to developers as there are no affordable housing or infrastructure contributions associated with the conversions.

The conversions also act as a valuable tool for economic growth and potentially the development of more modern office space suitable for today's working standards. The conversions are a sensible use of suitable buildings which make most use of unwanted office space by providing much needed housing in sustainable locations.

How the office to residential conversions relate to the Hart districts housing needs

From assessing the evidence contained with the Council's Strategic Housing Market Assessment it is considered that new housing in the district needs to focus on three distinct groups. The office conversions would work favorably to addressing the housing shortage in all of these areas:

First time buyers



In the past 10 years Hart has experienced a decline in the younger working age groups (aged 25-29 and 30-44). This needs to be addressed. These office buildings are typically best converted into one and two bedroom flats, providing ideal homes for first time buyers, the same constituency at which the Government's new "Help to Buy" scheme is aimed.

Retirement properties



Hart experienced a significant increase in population over the last decade amongst the older age groups. The older population (those aged 65+) make up around 15% of the population as a whole, which exceeds the national standards.

The one and two bedroom conversions are perfectly suited to accommodate retirement properties for the high numbers of the elderly population in the area.

Affordable housing



It is incorrect to suggest that Prior Approval prohibits the creation of affordable homes as many housing associations are buying up such buildings for affordable homes.

As a company we have received significant interest from local housing associations in such schemes throughout Hampshire, Sussex and Surrey.

From the Strategic Housing Market Assessment figures it is considered that 1,200 new affordable units will to be provided up to 2023 with 900 of these needing to be in the form of 1/2 bed units. The office conversions are perfectly suited to meet these requirements.

Can the offices to residential conversions meet the districts housing targets?

In the immediate future, the answer is yes. To illustrate the potential of the conversions we have provided two case studies at appendices 2 and 3.

The current development potential at Ancell's Business Park (appendix 2) illustrates that the area has the potential for providing up to 370 units. This number can be achieved from developing only 7 of the 23 office sites within the business park. 300 units can be provided simply through conversions with an additional 70 units through extensions. This small area alone has the potential to meet the entire districts housing needs for 1 year.

There are other office blocks in the area which are under used and according to the local commercial agents more sites will become available in the future thus unlocking further development potential.

The second case study at Greenwell, Bartley Way Business Park, Hook (Appendix 3) illustrates the significant potential of just one office site which has the potential to provide up to 200 residential units through conversion and new build and also provide additional retail/ commercial floor space.

Furthermore, in Fleet alone, at the time of writing, there are an additional 25 vacant offices with a floor area of approximately 12,900 sqm. These offices have the potential to convert to approximately 220 x 2 bedroom apartments.

Further research needs to be carried out to ascertain the full potential for the office to residential conversion throughout the District, but in Fleet alone, there is currently provision for up to 600 units to be provided through the prior approval process.



- *Derelict site in Fleet with significant development potential*

In isolation it is unlikely that the office conversions would be able to meet the housing needs for the long term. However, there are also several other brownfield sites in the area which are capable of contributing significantly to the districts housing needs. The photo above shows a prime site within Fleet town which could make a significant contribution if developed correctly. This is one of a number of similar sites located throughout the district.

The Government has also introduced new permitted development rights for the conversion of warehouses to residential. Therefore the office conversions, in conjunction with the abundant brownfield sites located throughout the district, and the potential warehouse conversions, are a realistic option for addressing the Council's housing needs.

Main issues with the office to residential conversions

The main issue with the viability of the office to residential conversions relates to the impending 30th May 2016 deadline by which time these conversions need to be completed. However, it is anticipated that the Government will make an announcement shortly on whether or not this will be extended until 2019.

Local Authorities have taken a different view on whether or not the conversions need to be fully completed or substantially completed by the May 2016 deadline. Indeed Tunbridge Wells Borough Council have taken the approach that the conversion only needs to have commenced by the May 2016 deadline. Hart DC will have to take a view on this as this is the main threat to the viability of the office conversions addressing the Districts housing needs.

Residential auctioneers Allsop's have stated that whilst the market for the office blocks was very attractive initially as the conversions do not require affordable housing or infrastructure contributions, developers are now becoming more nervous as the completion date for such schemes is now only 12 months away – 30th May 2016. Realistically, many of the schemes recently permitted will struggle to complete by this deadline.

If the May 2016 deadline is not extended, the demand for such sites would fall considerably as full planning applications after this date would require affordable thresholds of up to 40% for any development over 15 units. The affordable provision, in conjunction with the large mitigation payments required for the Special Protection Area, would make the process economically unviable.

If the deadline is not extended, Councils such as Hart will be danger of being left with large unusable office blocks which will fall into disrepair. Other options for residential development will need to be looked at in this instance, such as building in the countryside.

The other constraints to the viability of the office conversions are the significant contributions required in relation to the SANGS payments in order to mitigate the potential impact on the nearby Thames Basin Heath Special Protection Area. This may be a deterrent to some potential developers as the costs can be significant. However, it appears that developers are happy to pay these costs at present but only as there are no additional costs in terms of affordable housing or infrastructure.

The high parking requirements of the Council also restrict the numbers of additional units which can be built within the office sites. Whilst not a major deterrent for developers, it does restrict the final number of units achievable on any site.

Having regard to the above, provided that the May 2016 deadline is extended, it is considered that the office to residential conversions are capable of making a significant contribution to the housing requirements of the district for the next few years, but it is acknowledged that additional brownfield land will be needed to supplement the housing requirements in order to meet the demand housing up to 2031.

The alternative?

The alternative is to development on green field sites and encroach into the countryside.



Developing in the countryside

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redevelopment of redundant office space

We are aware of the ongoing discussions regarding a New Settlement in Winchfield. The introduction of 5,000 new homes would deplete a large area of unspoilt countryside in the area and destroy one of the key factors which make Hart such a sought after location to live in.

The negatives for developing in the countryside include:

- Once land has been converted to development, it is unlikely to ever be converted back to Greenfield use;
- Destruction of the natural habitat of some animal and plant species;
- Loss of agricultural land results in loss of production and loss of employment;
- Reduction of or complete loss of amenity or recreation value.

Using Greenfield sites is not sustainable- there is too much pressure on the rural-urban fringe and the use of Brownfield sites has to be a better option as the infrastructure already exists in urban areas- in Greenfield sites new drainage, electricity, roads etc. would all have to be produced. It seems ludicrous to encroach into the unspoilt countryside when there is a viable alternative option available.

Therefore the upcoming decision of the Government on whether or not to extend the Prior Approval deadline beyond May 2016 will have massive implications for the residents of Hart and the surrounding area.

Conclusion

The conversions of office to residential is an ideal way of addressing the districts housing needs by replacing obsolete office blocks with modern apartments and preventing unnecessary encroachment of development into green fields. The process is quick and there none of the delays associated with the traditional planning route.

The infrastructure is already in place to serve the offices and the sites are generally located within sustainable locations with good public transport links, thus making the transition to residential relatively easy.

From a construction point of view, many of these office buildings are physically ideal for conversion to residential use with much stronger foundations and supporting structures than would normally be required.

From a housing need perspective, the proposed conversions are ideally suited to meeting the requirements of first time buyers or providing affordable housing units. Alternatively the buildings are easily converted into retirement flats for the aging population of the District.

In preparing this document we have discussed the viability of the schemes with local commercial and residential agents who have in depth knowledge of the current office market to residential market. It is clear that there is a demand for these units particularly from younger couples, housing associations and indeed retirement home operators.

The alternative option of delivering housing requires developing a new village in the countryside. This will take time and therefore it will do little to address the immediate housing needs of the district. Moreover it will also result in loss of valuable habitats and countryside which can never be reversed. Meanwhile the office block and derelict brownfield sites will remain.

Having regard to the above, it is considered that the redundant office space in the district is capable of making a significant and viable contribution to Harts housing needs going forward. This will need to be supported by the reuse and redevelopment of brownfield sites but the information contained within this document outlines that the Districts housing needs can be met without encroachment into the countryside.

It is considered that the only negative at present to the Prior Approval process and its viability of providing housing to meet the needs of the district is the uncertainty over whether or not the May 2016 deadline will be extended. Therefore the Government has a very important decision to make.

APPENDIX 1

PRIOR NOTIFICATION PROCESS

The Town and Country General Permitted Development Order is effectively a national granting of planning permission which operates by giving deemed permission for certain developments, without the operator having to make a full application to the Local Planning Authority for planning permission.

Schedule 2 of the GPDO grants permission for classes of development described as 'permitted development'.

On the 30th May 2013 the GPDO was amended and part 3 of the schedule now includes Class J, which relates to the Change of Use to a use falling within Class C from a use falling within Class B1(a).

Development permitted by the above Class is conditional on the applicant making a Prior Approval application to the Local Authority. In determining the application, the Local Planning Authority can only consider the highway, flooding and contamination issues in respect of the Change of Use.

The Principle of development cannot be considered as the development is permitted by the GPDO.

The Local Planning Authority has 56 days from the date of receipt to advise the applicant as to whether Prior Approval is required, or whether the application for prior approval has been granted or refused.

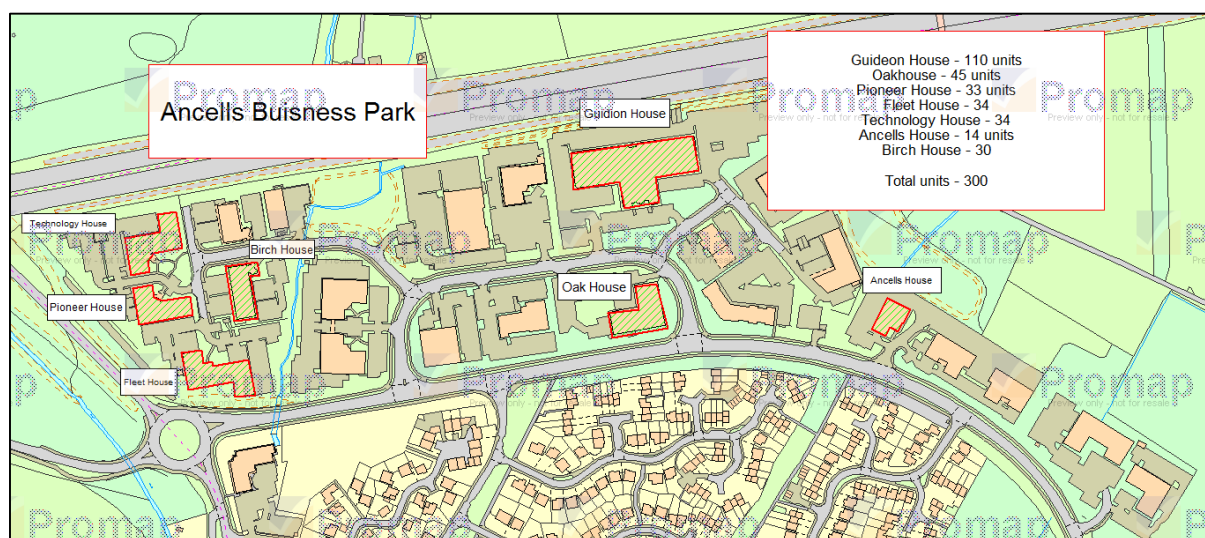
The Local Authority must publicise the application or consult interested parties giving 21 days for comments.

If the change of use is likely to result in a material increase or a material change in the character of traffic locally the Council will consult the highway authority for a view.

Similarly, where the prior approval application relates to areas at risk of flood or at risk of contamination the Environment Agency and/ or the Environmental Health Department will be consulted.

If Prior Approval is not required the applicant can proceed once it receives written notice to this effect, or once the 56 day period has expired. If prior approval is required, the Local Planning Authority has the ability to either approve or refuse the proposed change of use on the basis of highway, flooding or contamination only.

APPENDIX 2 - Case study 1: Ancells Business Park, Fleet.



Ancells Business Park is located approximately 3 km from Fleet town centre. The site is located just over 1km from Fleet Railway Station. Fleet Railway station provides a direct train service into London Waterloo, and this service provides a peak weekday average frequency of every 15 minutes and takes 45 - 50 minutes. In the other direction, Fleet station provides a direct train service to Basingstoke, with a peak weekday average frequency of every 20 minutes and takes 12 – 20 minutes.

The business park comprises 23 individual office blocks. At present 4 of these office blocks are empty but many of the offices are only partially occupied and are for sale or to let.

At present permission has been granted for the conversion of Ancells House and Oakhouse under the prior approval procedure which will provide a total of 59 apartments. There is also a live application for the conversion of Pioneer House into an additional 33 apartments.

As per the above map there is a potential for an additional 210 units within the remaining units which are currently for sale.

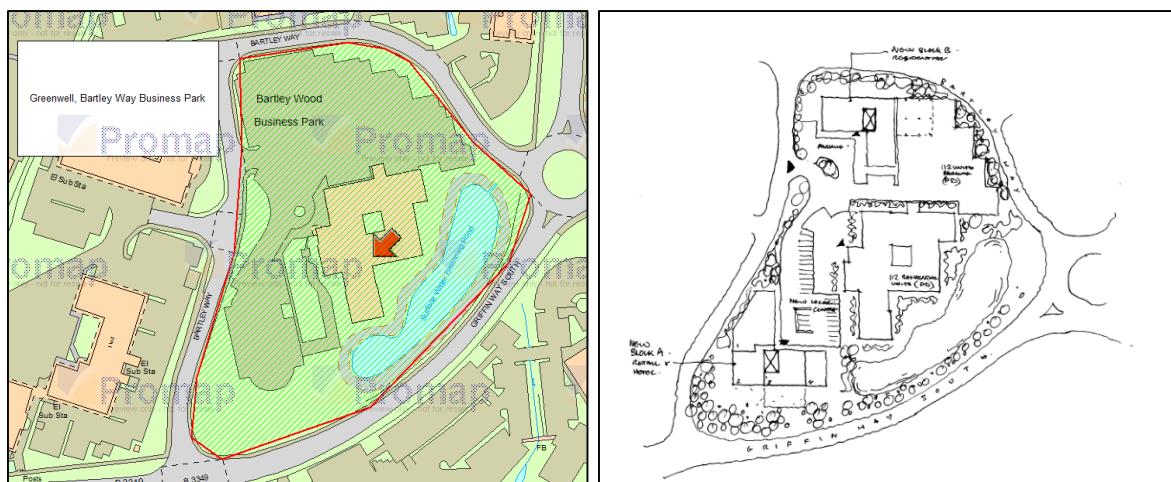
The figures provided relate to the conversion of the buildings only. Each of these properties benefits from large car parking areas within which additional units could be provided. It is estimated that an additional 70 units could be provided through extensions or new build.

APPENDIX 3 – Case study 2: Greenwell, Bartley Way Business Park

Greenwell is prominently located in the centre of Bartley Wood Business Park offering up to 5,902 sqm of office space. There are a total 323 car spaces available within the 4 acre landscaped grounds. Since the building was built there has been a significant decrease in demand for office space in the area and indeed countrywide.



Bartley Wood Business Park is only a half mile from junction 5 of the M3. It's within walking distance of Hook station and the town centre retail and leisure facilities. London is within easy reach with a journey time of under 1 hour. Thus the site is considered to be suitably located for residential use



There is a current application submitted to convert the existing building into 113 apartments. There is also significant potential for many more units. The option above illustrates two new blocks each with 2 bed units - up to 73 units are illustrated. In addition, there is the retail area. We feel that there is great potential for a local retail centre here to serve the new residential units and indeed the employees of the surrounding businesses. The introduction of a suitable retail element on site would help add vitality and character to the area whilst creating a more sustainable form of development where car journeys are greatly reduced.