

# More Homes: Fewer Empty Buildings

## Reform of the Use Classes Order

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### Executive Summary

This paper proposes that, as part of a strategy for growth, the government should reform the Use Classes Order to make it much easier to move buildings and land from Use Classes A (retail) and B (employment) to C3 (dwelling houses). Such a step would be part of a wider programme of planning reform for which Policy Exchange has been arguing since 2005, the aim of which is to move away from the current top-down 'plan-led' system towards a collaborative and flexible model that delivers both more and better development.

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The Use Classes Order (UCO) is the mechanism by which the planning system in the UK designates land and buildings for particular purposes or uses. These uses fall under broad categories which are then further subdivided, with the most common use class being C3, which covers most domestic housing. In order to move a building from one use class to another (so from employment to residential use), and in most cases from one subdivision to another, planning permission is needed.

The relationship between the different use classes is therefore key to the operation of the overall planning system. The UCO exists for a good reason. No-one wants the house next door suddenly to become a pub without some kind of accountability. The difficulty is that the system has not always kept up with changing times and circumstances when it comes to allowing conversion from one class to another, even when a designated use is no longer viable.

At the moment, the greatest challenge facing the planning system is generally acknowledged to be an acute shortage of housing. British – and particularly English – local authorities have an appalling track record in delivering new homes. Household formation is currently reckoned to be running at around 250,000 a year. Yet despite house prices more than doubling, the 2000-2009 period saw on average just over 160,000 homes built each year in England – the lowest rate since at least the Second World War – and toward the end of the decade almost half of these homes were small one and two bedroom flats.<sup>1</sup>

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<sup>1</sup> For references for the figures in the Executive Summary please see the main document.

Last year 102,000 new homes were completed in England, barely enough to keep up with household formation arising from net migration alone. Meanwhile, many buildings in the retail and also the employment class (which covers industrial and office space) are vacant and no longer well suited for their designated purpose. But too often councils fail to acknowledge as much, and refuse to allow them to become housing. As a result, empty space that could be used for homes remains unused, even in the midst of a housing crisis. We accept vacancy rates for employment and retail space of around 17%, while worrying about a vacancy rate of 3% in the housing sector.

This paper will argue that there is a case for relaxing the Use Classes Order to allow vacant retail, industrial and office space to be converted into housing, without having to obtain planning permission for change of use. We also propose potential safeguards to deal with possible objections to this policy. Relaxing the Use Class Order in this way would encourage growth, reduce urban blight, support the construction industry, and increase the number of new homes being made available. There is also a case for the 'true cost' of our planning system being revealed. At present, we create higher housing costs and lower costs for offices and industrial property because our planning system is reluctant to allow change of use. This is shown by, for example, the typical gap in the price of residential and commercially zoned land. But high housing costs increase pressure on wages, meaning the system simply increases costs for business in a different (and hidden) fashion, whilst simultaneously increasing the number of empty buildings and thus adding to inefficiency throughout the economy.

### **The Use Classes System, Why it Exists, and Why Problems Occur**

The Use Classes Order classifies most buildings and development land into four main categories: each of which is itself subdivided. A schedule of its main provisions is attached at Annex A. Broadly, Class A covers shops and other retail premises such as restaurants and bank branches; Class B covers offices, workshops, factories and warehouses; Class C covers homes and other residential uses including hotels; Class D covers non-residential institutions such as schools, halls, churches and cinemas. The UCO does not cover agricultural uses.

The problem with the Use Classes Order is how it interacts with the wider planning system. Under the system as it currently functions, local development plans and local development frameworks, prepared every decade or so by local authorities, allocate land for different uses and set out what the local authority wants their area to look like. On top of this is central government planning guidance. Planning applications, including changes to the use of a property, are therefore judged not only on their individual merits but also on whether they fit in with the local plan and often what the national guidance says as well. The local plan sets broad goals and standards that subsequent planning decisions refer back to.

Because of this wider planning role, councils do not just use the UCO to ensure that a change of use does not impact unfairly on neighbours (e.g. blocking a house converting to a chip shop). They can also

use it to try to second guess the market by forcing buildings to remain designated for purposes which are no longer viable – usually employment and retail purposes. This usually occurs when worthy aims such as ‘maintaining a town centre’ or ‘promoting economic regeneration’ are interpreted in an over rigid fashion.

Much as they might like to, local authorities cannot change economic reality with a sweep of the pen. Councils cannot force shops, factories and offices to keep open, or make them operate at a loss in their current use, but they often act as if refusing to allow a change of use will have this effect. In practice, this merely hinders others from redeveloping redundant premises and utilising underused development land for projects for which there is demand. Not only can this result in derelict buildings and urban blight, exacerbating the problems of struggling high streets and run down neighbourhoods, but the tendency to approve certain categories of land use relative to others distorts prices, leading to a hidden transfer of wealth and allocative inefficiency which impinges on the economy as a whole.

### The Current Situation

In theory the planning system should be able to deal with such problems; the planners, after all, are meant to plan for what is needed. But often this does not happen. At the moment, we have high and rising rates of vacant commercial property of all sorts, and many of these properties are becoming increasingly run down and blighting the areas they stand in. Yet at the same time we have a shortage of housing, which in many places is acute. Conversion from one use to another could both reduce the housing problem and help tackle urban blight. But even where this is permitted, the process can be lengthy and bureaucratic.

The Coalition has repeatedly said that it wants to see more homes built, and that it has radical proposals to reshape the planning system. Policy Exchange is a strong supporter of this move and has proposed key elements of government plans such as the New Homes Bonus, local referendums and sharing planning uplift with local communities. Such a system will lead to better and more homes over time. When the Coalition took power it was clear that the previous approach was failing, with household formation of 250,000,<sup>2</sup> (driven by both internal change and migration), running well ahead of the 160,000 new homes being built annually between 2000-9,<sup>3</sup> while in 2008-9 half of this supply was one or two bedroom flats.<sup>4</sup>

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<sup>2</sup> *Household Projections to 2031, England*, Department for Communities and Local Government, (DCLG), 2009, available:

<http://www.communities.gov.uk/publications/corporate/statistics/2031households0309>

<sup>3</sup> From *Table 244 House Building, Permanent Dwellings Completed*, DCLG, available:

<http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/housebuilding/livatables/>

<sup>4</sup> *Recent developments in the UK Housing Market*, Office for National Statistics, August 2009, available: [http://www.statistics.gov.uk/elmr/08\\_09/downloads/ELMR\\_Aug09\\_Chamberlin.pdf](http://www.statistics.gov.uk/elmr/08_09/downloads/ELMR_Aug09_Chamberlin.pdf)

However, at present the planning system is in a state of flux. Key parts of the old set up, including Labour's Regional Spatial Strategies and Density Targets, have effectively been suspended. Meanwhile, the new system is still in embryonic form and it will be several years before it can be fully implemented.

The result is a planning 'hiatus', as local authorities apply the brakes while they wait to see what the new system entails. Research for the National Housing Federation calculates that, following the announced abolition of Regional Spatial Strategies after the election, councils have reduced the number of planned new homes by 215,000.<sup>5</sup> The vast majority of these reductions have been made by councils in the South West, South East and Eastern regions where the housing shortage is worst.

In 2010 the numbers of completed new homes fell to just 102,570 in England.<sup>6</sup> Faced with the planning system getting even worse (from their point of view) before it gets better, some house builders are criticising the Coalition, arguing that its plans are in effect a cloak for Nimbyism. The construction industry's problems were illustrated with the release of the 2010 fourth quarter GDP figures showing that the sector's output fell by 2.5%.<sup>7</sup> This was partly due to weather, but it must be worrying that construction fell so steeply in this period. The government clearly needs to ensure that, while cutting the deficit, private sector activity is expanding and growing.

Looking further ahead, any reduction now in new homes being built or the level of planning consents for the future can only exacerbate the next destabilising house price boom when growth and credit return a few years hence. If there are opportunities to expand the numbers of new homes and at the same time help the construction industry maintain output over the next year or so, the government should look favourably at such proposals.

### **Too Many Shops in the Wrong Places and of the Wrong Type**

Just as the construction of new homes is slowing an increasing number of retail properties of all types are becoming empty, and many are becoming dilapidated as well. These properties are blighting the areas in which they stand. But while many could be converted to housing, planning policy often prevents them being granted change of use, even though residential use may be the only viable future for them.

The average high street vacancy rate was 16.5% by 2010, and had been steadily rising even in periods when GDP grew.<sup>8</sup> Nor is this just a problem in poorer regions – London, the East, and South East all currently have vacancy rates around 14%.<sup>9</sup> It is important to emphasise that the rising level of retail

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<sup>5</sup> National Housing Federation, *Evidence to Communities and Local Government Select Committee*, forthcoming.

<sup>6</sup> See Table 244 House Building, Permanent Dwellings Completed, DCLG, available: <http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/housebuilding/livatables/>

<sup>7</sup> *GDP Growth Contracts by 0.6% in Q4 2010*, Office for National Statistics, February 25<sup>th</sup> 2011, available: <http://www.statistics.gov.uk/cci/nugget.asp?id=192>

<sup>8</sup> *Terminal Illness or Gradual Decline: A Review of GB Shop Vacancy in 2010*, Local Data Company, 2011

<sup>9</sup> Ibid.

vacancy is not just a result of the recession. The growth in internet shopping, for example, has sharply changed the way that Britons shop. In 2000 internet shopping was barely heard of, but by 2010 10.6% of all shopping was done online, according to the Office for National Statistics.<sup>10</sup>

Most predictions expect this share to at least double over the next ten years. This is on top of other changes in the way that we shop – such as our increasing preference toward mini-supermarkets or out of town shopping centres. Mini-supermarkets are particularly efficient in using space – recent McKinsey research found that a Tesco Express store had a sales volume (in terms of £ per square foot) three times that of smaller food stores.<sup>11</sup>

Developments like this mean that there has been a shift in the amount, location and type of retail space that our economy needs. Even in better off areas, many older or poorly located shops will probably never be used again, not least because they lack the modern facilities, such as loading bays and customer parking, that companies with multiple stores require.

The argument about ‘preserving town centres’ is often invoked as a reason not to allow derelict retail properties to change use. While there are sensible things that councils can do to preserve town centres (e.g. provide free or cheap parking), keeping empty shops empty is not one of them. Derelict housing has a huge impact on the value of surrounding properties – and it is likely that a similarly large effect exists with shops. A 2003 survey by HomeTrack found that a derelict house pulls down the value of a neighbouring property by a staggering 20%.<sup>12</sup> In the same way having half the units empty or boarded up is unlikely to encourage shoppers to come to a high street – it is more likely to drive customers away, especially higher spending ones. By forcing ugly, derelict shops to remain on a high street, planners can actually make a bad situation even worse.

Yet few local authorities have done much about this growing problem, even though conversion away from outdated designations could act as a spur for growth – a point recently made by the economist Roger Bootle. Writing in the Daily Telegraph he observed that, “in the current environment, many high-street shops will fall vacant. Permission for redevelopment for residential use will be difficult to get. Pure waste.”<sup>13</sup>

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<sup>10</sup> *Record fall in sales hits Christmas Shopping*, Office for National Statistics, 21<sup>st</sup> January 2011, available: <http://www.statistics.gov.uk/pdffdir/rsnr0111.pdf>

<sup>11</sup> *From Austerity to Prosperity: Seven Priorities for the Long Term in the United Kingdom*, McKinsey, November 2010, available: [http://www.mckinsey.com/mgi/publications/UK\\_report/pdfs/MGI\\_UK\\_growth\\_and\\_renewal\\_full\\_report.pdf](http://www.mckinsey.com/mgi/publications/UK_report/pdfs/MGI_UK_growth_and_renewal_full_report.pdf)

<sup>12</sup> *The Blight Guide on Where Not to Live*, The Times, June 10<sup>th</sup> 2003, available:

[http://property.timesonline.co.uk/tol/life\\_and\\_style/property/article1140930.ece](http://property.timesonline.co.uk/tol/life_and_style/property/article1140930.ece)

<sup>13</sup> *It is time for imaginative solutions to boost confidence*, The Daily Telegraph, 12<sup>th</sup> September 2010, available: <http://www.telegraph.co.uk/finance/comment/rogerbootle/7997962/It-is-time-for-imaginative-solutions-to-boost-confidence.html>

## Distortions in Land Allocated for Employment Use

The B class, covering employment use, has been particularly prone to distortion. Many authorities, especially in the South East, have over provided for employment space while tightly restricting new homes. Over time this has had a significant effect on housing costs.

This over-provision has been partly for political reasons. Local authorities want the revenues and jobs extra businesses create, recent top-down guidance tended to create undesirable housing developments, and the government did not effectively allow money to come with new residents, putting a strain on public services for existing voters.

In addition to this, planners have also been slow to recognise the impact of technology on the demand for employment space; digital storage take up less space than filing cabinets, hot desking requires fewer desks, and laptops and mobiles mean fewer people in the office at all. Working from home may not have reached the levels often predicted, but by 2008 around 24% of firms offered employees the chance to regularly work from home.<sup>14</sup> All of this has had an effect on the amount of employment space required.

Perhaps more importantly, the need to accommodate new technology has also rendered many older office and industrial buildings obsolete, even though they are still structurally sound. Modern offices need raised floors to accommodate computer cabling and suspended ceilings to take air conditioning, features that are not often found in buildings more than 25 years old. Economic change has played a part as well; large factories are rarer than they were even 20 years ago, while many call centre and back office jobs have been outsourced abroad.

Even the South East, the strongest regional economy outside of London, has office vacancy rates at around 17% according to research by Colliers International.<sup>15</sup> The latest vacancy figure for business parks in the UK is the highest since records began at nearly 18%,<sup>16</sup> while the construction of new buildings on them is the lowest it has been since at least 1996.<sup>17</sup> By contrast, the national vacancy rate for housing is just 3%.<sup>18</sup>

Yet many planners are still reluctant to allow redundant B class buildings or unused B class land to be changed to housing, just as they are with empty shops. In 2008, change of use provided just 16,600 new

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<sup>14</sup> *Flexible Working: Working for families, working for business*, DWP, 2010, available: <http://www.dwp.gov.uk/docs/family-friendly-task-force-report.pdf>

<sup>15</sup> *South East Office Snapshot*, Colliers International, February 2011, available: [http://www.colliers.com/Markets/UK/content/MarketReports/OfficesReports/South\\_East\\_Offices\\_Snap\\_shot\\_February2011.pdf](http://www.colliers.com/Markets/UK/content/MarketReports/OfficesReports/South_East_Offices_Snap_shot_February2011.pdf)

<sup>16</sup> *Research Report: Business Parks Review: Summer 2010*, GVA Grimley, 2010, available: [http://www.gvagrimley.co.uk/Documents/publications/research/offices/06998%20Offices%20Business%20Parks%20Report%20Summer%202010\\_12PG.pdf](http://www.gvagrimley.co.uk/Documents/publications/research/offices/06998%20Offices%20Business%20Parks%20Report%20Summer%202010_12PG.pdf)

<sup>17</sup> *Ibid.*

<sup>18</sup> *Table S048 Dwelling type and accommodation type by household space type*, Office for National Statistics, available: <http://www.statistics.gov.uk/STATBASE/ssdataset.asp?vlnk=7508>

homes, which coincidentally was exactly the same number as was lost through demolition, and compares with a total of 142,680 new dwellings in 2008 overall.<sup>19</sup>

Often planning authorities refuse even to consider change of use unless a commercial property has been empty for at least several years, with the result that many owners have demolished empty premises rather than pay full rates when it is unlikely they will ever be viable again in their current use. According to the Institute of Commercial and Business Agents, the then Labour government's own statistics suggest that up to 8,900 buildings were demolished between March 2007 and the end of 2009<sup>20</sup> as businesses chose not to pay the empty property tax required.

Given the high level of commercial vacancy rates, there is also a good argument for allowing at least some of the land currently zoned for commercial development to change to housing. Letting this happen without years of delay in the planning process would make particular sense given the current difficulty in securing funding to develop it for commercial use. By the time demand picks up a new, more flexible planning system will hopefully be able to respond by providing further land for commercial purposes, when and where it is required.

### The Scope for Reform

Scrapping the Use Classes Order outright before a new neighbourhood planning system is in place would not be wise. Broadly speaking, neither do the classes themselves need altering – as designations they are useful. It is the lack of flexibility between them that is the problem. At present the scope for changing use without permission is extremely limited. Permission always has to be obtained to switch from one use class to another. Even within the C class permission has to be obtained for a change to C3 housing, unless it is from C4 which covers houses in multiple occupation.

Yet, it is clear that many vacant or underused employment and retail premises could be changed to residential. Indeed, this would be worth doing even if housing was not in such short supply, to prevent empty shops, offices and warehouses blighting their surroundings. The effect of such a reform on housing supply is difficult to estimate, but all the indications are that it could be substantial. As far back as 2003, long before the recession struck, a report from the Office of the Deputy Prime Minister estimated that there were 5,000 hectares, equating to over 500 million square feet, of floor space in commercial properties across England that had been empty for over a year.<sup>21</sup>

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<sup>19</sup> Table 244 House Building, Permanent Dwellings Completed, DCLG, available: <http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/housebuilding/livatables/>

<sup>20</sup> ICBA – Business Rates are Holding Up Recovery, Institution of Commercial & Business Agents (ICBA), 22 March 2010, available: [http://www.icba.uk.com/news/news\\_details.aspx?id=420](http://www.icba.uk.com/news/news_details.aspx?id=420)

<sup>21</sup> Empty Property: Unlocking the Potential, a Case for Action, Office of the Deputy Prime Minister, 2003, available: <http://www.communities.gov.uk/archived/publications/housing/emptypropertyunlocking>

More recently, over 16% of all non-domestic rateable hereditaments (taxable units of property) were listed as empty in March 2010, a total of 266,000 units.<sup>22</sup> These hereditaments are often large and could provide multiple dwellings. Further, this figure of 266,000 empty units compares unfavourably with the earlier figure of 16,600 new homes being created through conversions in 2008. Nor is the problem of empty commercial property confined to poorer areas or regions. In London, where housing is in especially short supply, Kensington and Chelsea, the City of London and Westminster were all listed as having more than 1,000 vacant commercial hereditaments each.<sup>23</sup>

### Would Safeguards be Needed?

All the available evidence suggests that the case for allowing freer conversion of what is at the moment effectively a large amount of wasted space into much need housing is a strong one. Any reform of the planning system, however, will only work politically if it is introduced sensitively, so as to protect as far as possible the interests of those who might otherwise be adversely affected by changes to the current set up. What are the potential sensitivities and possible problems that need to be addressed before the UCO is reformed?

### Minimal Disruption

In political terms, one advantage of creating more housing by allowing existing commercial buildings and land to be changed to residential use is that only existing buildings or land that has already been approved for commercial building would be affected. Reform of the UCO would not involve the release of any more land for building.

It should also be emphasised that reform of the UCO would only affect the use of a property. Any alteration, enlargement, development etc. not currently allowed as permitted development would still need planning permission, just as at present. Given this, few people are likely to be worried when the use of an existing building changes to housing, rather than from housing to something else, and nor are there likely to be many problems about amenity or traffic. The same will usually be true of undeveloped land that has already been zoned for non-residential development.

### Protecting the Village Shop and Pub

Where retail space is concerned, there is already a perceived problem with 'shutting the village shop', and the Coalition has brought forward proposals for a Community Right to Buy, which will come into play once the Decentralisation and Localism Bill becomes law. Yet having a vacant or derelict shop or

<sup>22</sup> *National non-domestic rates collected by local authorities in England 2009-10*, DCLG, 2010, available: <http://www.communities.gov.uk/publications/corporate/statistics/nondomesticrates200910>

<sup>23</sup> *National non-domestic rates collected by local authorities in England 2009-10 (Revised)*; Table 8: *Estimated number of empty hereditaments as at 31 March 2010*, DCLG, available: <http://www.communities.gov.uk/documents/statistics/xls/1710195.xls>



building is unattractive, lowers residents' quality of life, and damages local economies. Until the introduction of the Community Right to Buy, one way round the village problem might be to allow free change of use for any shop, pub or post office, provided there was another one operating within, say, a mile. This would address concerns over the closure of local amenities (where no other provision exists), while helping to deal with urban areas where a parade of shops or town centre is being blighted by a string of unattractive and derelict properties. It could be that this safeguard should operate with a 'sunset clause' so that once the Community Right to Buy is operating this provision drops out.

### The Hidden Subsidy of Employment Uses

The average land value for a hectare of land with residential planning permission was recently recorded at £1.85 million,<sup>24</sup> while planning permission for industrial use of B2 was around £600,000 and for employment use B1 was £710,000.<sup>25</sup> The imbalance in the provision of employment and housing under the present planning system, which these figures reflect, distorts prices and could be seen as a 'hidden subsidy' from private housing to business. In Guildford, for example, Valuation Office Agency figures show house prices rose by around 40% between April 2003 and the peak of the boom in January 2008, and the price of residential land rose by 60%.<sup>26</sup> Yet rents for good quality offices in Guildford actually dipped slightly over the same period, and the price of land for offices flat-lined.<sup>27</sup>

If this does represent a subsidy for business, however, it is largely illusory. As every employer knows, the higher costs of housing are one of the main factors that push up employment costs. Wages in the South and London are higher in large part because they need to be to meet higher housing costs. Higher housing costs in turn lead to higher government expenditure on housing benefit and social housing, and so higher taxes.

This is not to say that companies will always be able to secure the property they need, in the place that they want, at an economical price. But the problem of redundant shops, factories and offices which reform of the UCO would address is a separate issue. Because modern, efficient, well located commercial premises may not always be easy to come by, it does not follow that we should prevent old, inefficient, badly located ones for which little demand exists from being reused for housing.

<sup>24</sup> *Property Market Report July 2009*, Valuation Office Agency, 2009, available:

[http://www.voa.gov.uk/publications/property\\_market\\_report/pmr-jul-09/index.htm](http://www.voa.gov.uk/publications/property_market_report/pmr-jul-09/index.htm)

<sup>25</sup> Ibid.

<sup>26</sup> See *Property Market Report (Housing) Spring 2003* and *Property Market Report (Housing) January 2008*, published by the Valuation Office Agency, available at:

[http://www.voa.gov.uk/publications/property\\_market\\_report/PDF-spring-2003/4\\_housing\\_market.pdf](http://www.voa.gov.uk/publications/property_market_report/PDF-spring-2003/4_housing_market.pdf)

and [http://www.voa.gov.uk/publications/property\\_market\\_report/pmr\\_jan\\_08/housing.htm](http://www.voa.gov.uk/publications/property_market_report/pmr_jan_08/housing.htm)

respectively.

<sup>27</sup> See *Property Market Report (Residential Land) January 2003* and *Property Market Report (Residential Land) Spring 2008*, and *Property Market Report (Offices) Jan 2003* and *Property Market Report (Offices) January 2008*, all published by the Valuation Office Agency. The 2003 reports are available at:

[http://www.voa.gov.uk/publications/property\\_market\\_report/pmr\\_spring\\_2003.htm](http://www.voa.gov.uk/publications/property_market_report/pmr_spring_2003.htm). The 2008 reports are available at: [http://www.voa.gov.uk/publications/property\\_market\\_report/pmr\\_jan\\_08/index.htm](http://www.voa.gov.uk/publications/property_market_report/pmr_jan_08/index.htm)

Many vacant commercial properties will only remain so temporarily. But many others that are outdated or in poor locations will struggle to find any business that wants to occupy them, even at a bargain price. Furthermore efficient, well located commercial premises are likely to remain in their current use, not only because it is profitable but also because they are usually unsuitable for residential use. Modern offices, factories and shopping centres are not configured for easy conversion to housing, and especially not at an economic cost, whereas the older buildings which they have superseded often are.

But even though the vast majority of businesses are likely to be unaffected by a relaxation of the UCO, for some – mainly small ones in cheaper, older premises – it could be a problem. To reassure them two safeguards could be incorporated in a new UCO:

- The right to convert A or B class buildings to C3 housing should only apply when that building has been vacant for at least a year.
- If an A or B class building has been vacant for less than a year, then the right to convert it to residential should be limited to 50% of the total floor space in any five year period.

The rationale for the first is simple; a building that cannot find a user within a year is clearly struggling. It is also expensive to keep a commercial building vacant for a long period. Not only is there no rent coming in but the owner also has to bear (in most cases) full business rates and other costs, including insurance, which is high for empty properties. Putting a limit of a year on the time the owner of an empty building has to bear these costs before having the right to change to another use would seem fair. And if landlords are tempted to game the new system, having to pay these outgoings for a year, on top of the costs of conversion to housing and the taxes and contributions discussed below, will be a substantial disincentive.

As for part vacant buildings, these can also be difficult and expensive to maintain, and many become run down. Redeveloping empty space within them into homes will require investment from which the businesses that remain can hopefully benefit as well. With these safeguards in place, and given the high level of secondary offices and industrial buildings lying vacant, few businesses should have much to fear from a relaxation of the UCO.

### **Local Authorities and the Question of Windfall Gains**

Just as no business wants to lose a subsidy, even a hidden one, so no bureaucracy wants to lose one of its powers. On that basis alone, local authorities can be expected to be wary of any relaxation of the UCO. In political terms, it is important that they too should be able to gain from a new system. Relaxing the UCO may also produce windfall gains for the owners of commercial buildings or sites that convert to housing, which raises the question – again political – of how much, if any, of this gain should be captured for the public benefit?

That some of the gain should accrue to the public seems reasonable. If it can be done in a way that helps local authorities and communities, then two birds will have been killed with one stone. On the other hand if the Exchequer or local authorities try to extract too much, conversion to housing could in some cases be rendered unviable. There could also be difficulty in establishing what the gain actually is in widely varying situations.

Once again, it is a question of striking an equitable balance. To that end, any system to capture a share of gains arising on conversion from commercial to residential use should be set at a reasonable level, and be simple. It would also be best if it could operate through established mechanisms, rather than having to invent new ones.

Any profit will anyway be subject to tax, normally either corporation tax for companies or capital gains tax for individuals. In addition the government is about to introduce the New Homes Bonus payable directly to councils. Conversions should be eligible for this, which in itself would give councils a financial benefit from a reformed UCO. Finally, the government is also about to introduce a Community Infrastructure Levy (CIL), to be paid by developers of new homes.

Any land zoned for commercial use that is developed as residential following relaxation of the UCO will presumably have to pay this. But any building that is converted to housing, or part converted, should also contribute to a CIL. The simplest way might be to charge a flat rate per converted housing unit, fixed at the same level as the New Homes Bonus. A system on these lines would be a clear and fair way of capturing some of the gains of relaxing the UCO for the public benefit, while at the same time giving local authorities and local people a direct stake in the success of the new system.

### A New Order

An effective reform of the Use Classes Order should have three objectives: to boost the supply of badly needed new housing, to spur growth and economic activity, particularly in the construction sector while a new planning system beds in, and finally to reduce the problem of urban blight and empty buildings. At the same time, reform has to be introduced sensitively, particularly where existing business interests are concerned.

To achieve this, as a minimum a reformed UCO should incorporate the following points:

- Any A or B class building or land that has been vacant for more than a year should be allowed to change to C3 housing without the need for planning permission.
- If an A or B class building has been vacant for less than a year, up to 50% of the overall floor space should be allowed to convert to C3 in any five year period without the need for planning permission.

- However, for A class buildings both provisions would only apply to shops, pubs or post offices provided there is another one operating within one mile until the Community Right to Buy has been introduced.

### Conclusion

At the moment the country suffers from an acute property mismatch. We have a significant housing shortage at the same time that a large number of commercial properties are vacant or partly so. Not only is this a prime cause of urban blight, but the shortage of housing, combined with the current low rate of new house building, places a huge and potentially unsustainable burden on young people and family life. Relaxing the rules to facilitate the conversion of vacant and redundant commercial property to residential use will not solve the problem, but it could make a significant contribution.

Provided that reform of the Use Classes Order concentrates on boosting housing and not other uses, and it is introduced with adequate safeguards, then the benefits to the economy, the built environment and those in search of an affordable home should greatly outweigh any potential downside. As part of its wider programme for growth the government should consult on the details of how this could be achieved as soon as possible.

## ANNEX A: SCHEDULE OF USE CLASSES

### The Current Use Classes Order

(The Town and Country Planning (Use Classes) Order 1987 incorporating the amendments of 2005, 2006 and 2010 orders)

Class	Use	Permitted Change
A1: <b>Shops</b>	Shops, Post Offices, Travel Agencies & Ticket Agencies, Hairdressers, Funeral Directors & Undertakers, Retail Warehouses, Domestic Hire Shops, Dry Cleaners, Internet Cafés, Pet Shops, Showrooms, Sandwich Bars.	None
A2: <b>Financial &amp; Professional Services</b>	Financial Services: Banks, Building Societies & Bureau de Change. Professional Services: Estate Agents, Employment Agencies and Betting Shops. Excludes Health or Medical Services	A1 (If there is a ground floor display window)
A3: <b>Restaurants &amp; Cafés</b>	Where food and drink is sold to be consumed on the premises.	A1 or A2
A4: <b>Drinking Establishments</b>	Public House, Wine Bar or other Drinking Establishments. Excludes Nightclubs.	A1, A2 or A3
A5: <b>Hot Food Take-Away</b>	Where hot food is sold for consumption off the premises.	A1, A2 or A3
B1: <b>Business</b>	a) Offices, other than a use within Class A2 b) Research and development of products or processes c) Light industry.	B8 (where no more than 235 sq.m.)
B2: <b>General Industrial</b>	General Industry: use for the carrying out of an industrial process other than a use within Class B1. Excludes incineration purposes, chemical treatment, landfill or hazardous waste.	B1 or B8 (B8 limited to 235 sq.m.)
B8: <b>Storage &amp; Distribution</b>	Storage or Distribution centre, including open air storage.	B1 (where no more than 235 sq.m.)
C1: <b>Hotels</b>	Hotel, Boarding House or Guesthouse, where no significant element of care is provided. Excludes Hostels.	None
C2: <b>Residential Institutions</b>	Hospital, Nursing Home, Boarding School, Residential Care Home, Residential College or Training Centre where there is a provision of residential accommodation and care to people in need of care other than a use within Class C3.	None
C2A: <b>Secure Residential Institution</b>	Prison, Young Offender's Institution. Detention Centre, Secure Training Centre, Custody Centre, Short Term Holding Centre, Secure Hospital, Secure Local Authority Accommodation or Military Barracks.	None
C3: <b>Dwelling Houses</b> <b>C3(a)</b>	Forms three parts:  by a single person or people living together as a family; an employer and domestic assistant (such as au pair, nanny, nurse, chauffeur, personal assistant, servant, gardener, secretary), a carer and a care user or a foster parent and foster child.	None
<b>C3(b)</b>	by not more than six residents living together as a single household and receiving care, such as supported	None

	housing schemes for people with learning abilities or mental illness.	
<b>C3(c)</b>	by more than six residents other than a use within Class C4, who live together as a single household, such as a religious community or homeowner and a lodger.	<b>None</b>
<b>C4: Houses in multiple occupation.</b>	Small shared dwelling houses occupied by between three and six unrelated individuals as their or only or main residence, who share basic amenities such as a kitchen or bathroom.	<b>None</b>
<b>D1: Non-Residential Institutions</b>	Clinics & Health Centres, Crèches, Day Nurseries & Day Centres, Museums, Public Libraries, Art Galleries & Exhibition Halls, Law Court, Non-Residential Education & Training Centres. Places of Worship, Religious Instruction & Church Halls.	<b>None</b>
<b>D2: Assembly &amp; Leisure</b>	Cinema, Concert Hall, Bingo Hall, Dance Hall, Swimming Bath, Skating Rink, Gymnasium, or area for indoor or outdoor sports or recreations, not involving motor vehicles or firearms.	<b>None</b>
<b>Sui – Generis</b>	Certain uses that do not fall within any other Class and any change of use will require planning permission. Includes, Theatres, Nightclubs, Retail Warehouse Clubs, Amusement Arcades, Launderettes, Scrap yards, Petrol Filling Stations and Motor Car Showrooms (non-exhaustive list).	<b>None</b>
	Casinos - following declassification planning permission is needed for any premises, including D2 premises, to undergo a material change of use to a casino.	<b>D2</b>



### About the Authors

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