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Luton Borough Council

Review of town centre office/business premises for alternative re-use



Final Report | May 2013

Document Control Sheet

Project Name: **Review of town centre office/business premises for alternative re-use**

Project Ref: **27709**

Report Title: **Review of town centre office/business premises for alternative re-use**

Doc Ref: **Final report**

Date: **24 May 2013**

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Revision	Date	Description	Prepared	Reviewed	Approved
V2	24.05.2013	Final Report	SC		

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*APPENDICES

*Please note that appendices are listed in a separate technical document '**Review of town centre office/business premises for alternative re-use – Technical Appendices'**

1 INTRODUCTION

1.1 Peter Brett Associates (PBA) has undertaken a review of selected office/business premises in Luton's town centre. The purpose of the review is to assess whether vacant or underused business and commercial accommodation in Luton's town centre is suitable for conversion or redevelopment for residential or other potential alternative uses. This included consideration of whether the redevelopment/refurbishment of the existing buildings could deliver modern employment space (e.g. office accommodation) in a mixed scheme.

1.2 With the consideration of mixed use development in mind, it became clear from early on in the assessment process that the most economic advantageous use for the conversion or redevelopment of the sites selected by the Council would be residential of the whole. This is because mixed use development is not viable in the current market due to low capital values and some of the type of sites considered did not easily lend themselves to a mixed use format. Therefore the study has focused on residential use as the most economic advantageous use for the sites.

1.3 The site assessment has been based upon 31 sites which have been provided by Luton Borough Council. These sites vary in size, quality and location. A full list of the sites is provided in Appendix 1 and Appendix 2 of this report.

1.4 The output of the study is to inform the appropriate level of housing target for the Borough over the next 20 years (2011 – 2031) and development management policies to deliver such development within a new Luton Local Plan.

Study approach

1.5 PBA has approached this study by initially undertaking a desktop market assessment (set out in Section 2 of the report), and then followed by a physical site assessment; the outputs of both have been used to assess whether the sites identified could be suitable for redevelopment or conversion. If the sites were deemed suitable, an assessment has then been made as to how many units[1] a redevelopment or conversion of the site/building could yield. In a number of circumstances additional comments have been provided whether a larger element of the building or neighbouring site(s) need to be utilised to facilitate an alternative use being delivered. This is because some sites just considered the ground floor and left offices on the upper floors, in our experience this type of mixed use development does not work.

1.6 The analysis has been supplemented with a high level development appraisal to establish whether the sites are viable to develop in the current market. The cost and value inputs for the development appraisals are based upon market evidence.

1.7 The assessment of each of the 31 sites is summarised by way of an individual pro-forma which are contained within Appendix 3 of this report.

[1] The overall premises size has been determined through Valuation Office Agency or local agent's details. A typical unit size of 56 sq.m has been applied.

1.8 A recommendation in Section 4 of this report places the sites in three categories of suitability; good, marginal, poor. A site which is deemed to have a good prospect of alternative use is one which is viable in the current market and its site characteristics would be suitable for residential. A marginal site is one which has good characteristics for residential use but is currently not viable. A poor site is one which is not viable in the current market and its site characteristics are not currently suited for residential use.

1.9 Please note as part of the study PBA has been instructed by the Council to set aside policy constraints and aspirations. Notwithstanding this, consideration has been made of the changes to permitted development rights[2] of B1(a) Office[3] use to C3 Residential.[3] This is achieved through testing two scenarios. The first scenario assumes the current status quo that a developer/land owner requires planning permission to convert/redevelop their site from offices to residential. The second scenario assumes the developer/owner proceeds with residential conversion through permitted development rights. This is reflected in lower professional fees and some buildings yielding a lower number of units because conversion will be within the existing building fabric thus restricting development.

[2] Changes to the Town and Country Planning (General Permitted Development) (Amendment) (England) Order 2013 come into effect from 30 May 2013 which will allow conversion of B1 business space to C3 residential, subject to certain conditions and exemption, without the need for planning permission.

[3] As defined within the Use Classes Order 1987, as amended

2 MARKET ASSESSMENT

2.1 This section of the report provides analysis of the housing market (including student accommodation) and commercial markets in Luton. The results of this analysis have informed whether the areas identified could support alternative uses, and the potential end value of these uses. These resulting values identified in this section have been used to inform the high level viability assessment. In turn the results of the viability assessment have been used to inform the delivery strategy.

Residential market

2.2 The UK housing market is intrinsically linked to the performance of the wider economy, therefore a brief overview is provided of the current economic position then leading into analysis of the housing market.

UK economy

2.3 The UK economy is cyclical, so in turn is the UK housing market, with both experiencing peaks and troughs – typically the housing market lagging behind the economy. As a result the UK has one of the most persistently volatile housing markets[4], with four cycles of peaks and troughs since the 1970s. The volatility of the housing market impacts upon both the supply and demand of housing. With an acute shortage of delivery of new developments in periods of recession when prices are depressed and demand (driven by a growing and ageing population) is weakened, against periods of economic growth when there is significant house price inflation. Furthermore during recent periods of growth demand still outstrips supply. This is because the UK is reliant on the private sector to deliver new housing and they cannot sustain delivery of the numbers required.

The UK is around the trough of the economic cycle

2.4 As widely reported, the UK has experienced a 'double-dip' recession. The UK economy contracted in the second quarter of 2008, this was followed by four consecutive quarters of contraction (after two quarters of contraction the UK technically entered recession). The resulting economic upturn was fragile and growth was weak with the economy fluctuating from expansion to contraction. The UK entered into a second recession ('double-dip') in the first quarter of 2012, with recent recovery occurring in the last quarter (Quarter three 2012).

2.5 The UK's on-going fragile economic position means that the downturn is worse than the great depression in the early 1930s and every downturn since[5].

2.6 The very weak initial upturn in the UK economy followed by a further contraction has been caused by both internal and external factors i.e. the Government's austerity programme introduced to tackle the budget deficit, persistently relatively high inflation against stagnate/falling wages affecting consumer spending, the need for the banks to recapitalise

[4] Joseph Rowntree Foundation - Tackling housing market volatility in the UK 2011

[5] BBC.co.uk/ The National Institute of Economic and Social Research

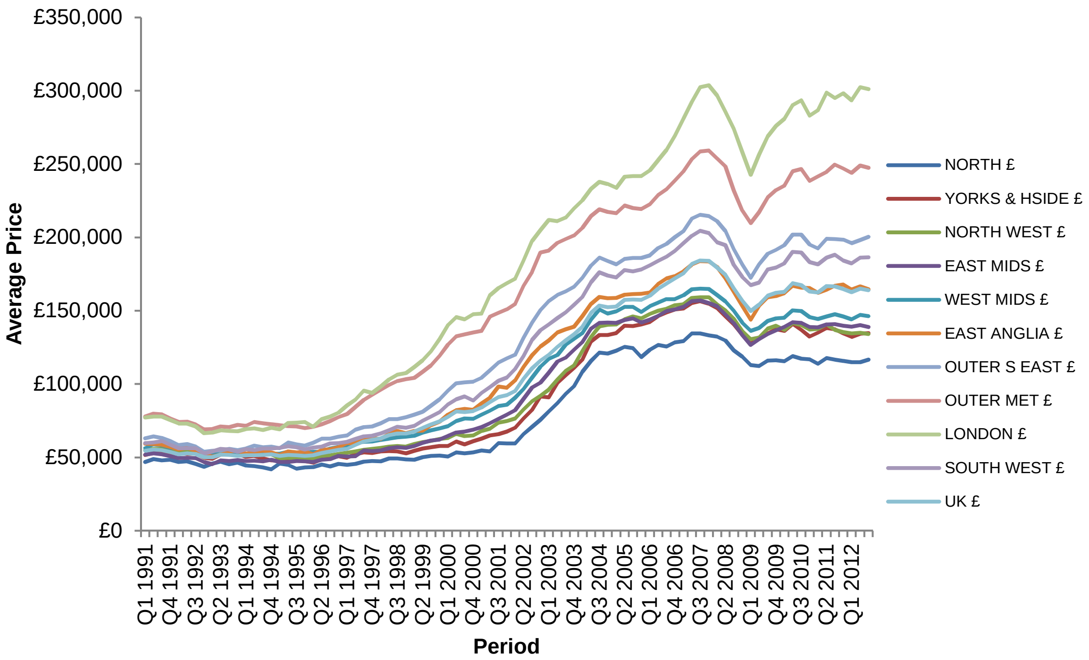
thus restricting borrowing for business and households, and the wider uncertainty in the Eurozone affecting exports.

Fragile economy means fragile housing market

2.7 Like the wider economy the UK housing market remains fragile, Nationwide stated that UK house prices increased by 0.6 percent in October 2012 but prices are slightly below (0.9 percent) than a year ago. According to Nationwide the price of a typical home is now £164,153. However, it is viewed that the increase in average house prices at national level is not a true reflection of the country as a whole, as London is experiencing significant house price increases where as some regions are still seeing prices fall or stagnate.

2.8 As evidenced in Figure 1 below, since the peak of the market house prices have fallen significantly (typically by 17 percent). In most regions house prices have recovered since prices bottomed out in 2008/09, however, the extent of the recovery varies significantly from region to region. Average house prices in London have now recovered to their 2007 peak, whereas prices in the South East are still 8 per cent below the peak. Analysis of the data also indicates average house prices in the South East region have started to level out in recent years.

Figure 1 Average house prices by region



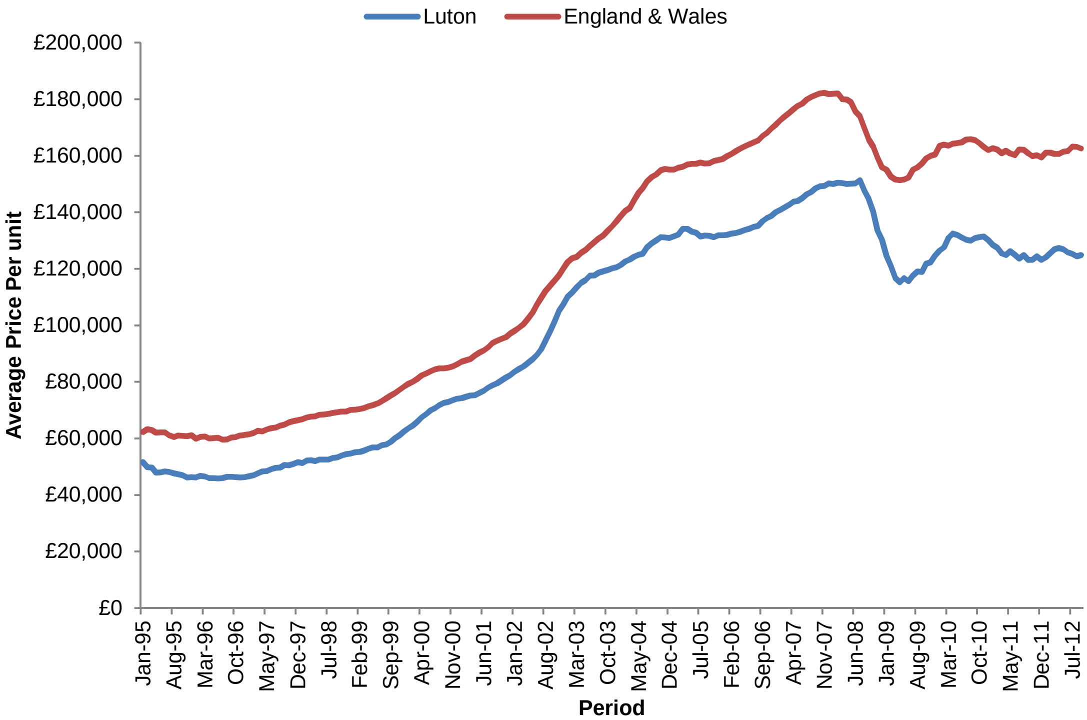
Source: Nationwide/PBA

Average house prices in Luton below the England & Wales average

2.9 Average house prices over the last 17 years in Luton have constantly been below the average for England & Wales average.

2.10 At the start of 1995 (as shown in the graph in Figure 2 below) the average house price in Luton was £50,000, which was 17 per cent below the England & Wales average. At a national level house prices peaked in November 2007 at £182,000. House prices in Luton peaked later, July 2008, at £150,000. The difference in house prices at the peaks of their respective markets was 17.5 percent.

Figure 2 Change in Average House Prices – Luton / England & Wales



Source: Land Registry/PBA

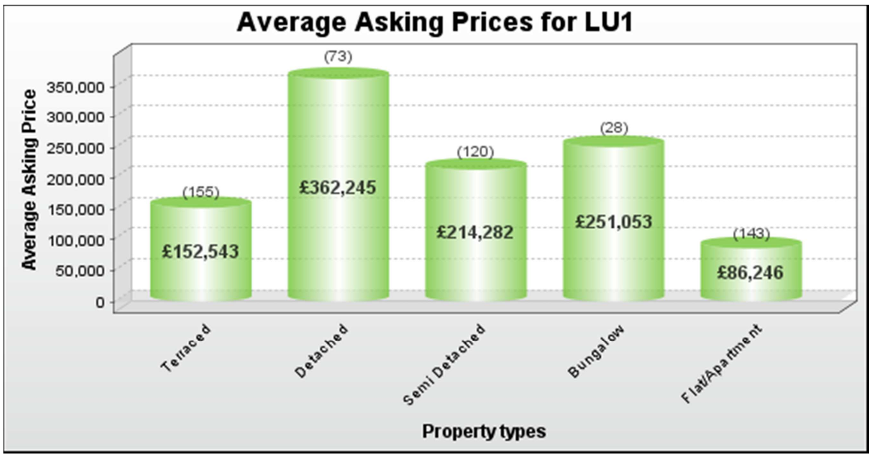
2.11 Since 2007 there has been a peak to trough in house prices at a national level (England & Wales) of 17 percent, the peak to trough within Luton has been more severe at 23 percent. Both have recovered, with average prices at a national level are £162,000 (12 percent below their peak) compared to a Luton average of £125,000 (16 percent below their peak).

Analysis of prices of typologies in Luton town centre (LU1)

2.12 Average asking prices in Luton town centre are distored by the larger detached houses, which have high average prices, with apartments being very affordable in comparison.

2.13 As shown in Figure 3 below, analsyis of published data by proeprty website Rightmove indicates that the average asking price for detached housing in Luton town centre is £360,000, semi-detached are £215,000, terraces £152,000 and apartments £86,000.

Figure 3 LU1 Advertised prices last September 2012 – November 2012



Source: Rightmove

2.14 In general terms the Luton town centre apartment market shows a narrow variation in prices for new build apartments. Notwithstanding this, the area south of Dunstable Road has a number of pockets of lower prices; this is a reflection of the mixed nature of the area and a lack of modern purpose built stock. Sold prices around this area average between £65,000 to £100,000. Prices to the north of the train station at Hatton Place achieve £100,000 to £110,000 for a one bed and £125,000 to £150,000 for a 2 bed.

Estate Agent Consultation

2.15 Our secondary research has been supported with evidence from local estate agents who are active in Luton. The results are as follows:

Haart Estate Agent

2.16 Haart Estate Agent indicate that a one bedroom apartment sold at Chiltern Rise (located 0.5 kilometres south west of the ring road) for between £100,000 to £110,000. Two bed apartments have sold at Langham House East Mill Street for £125,000. They suggest that these prices reflect the general tone of the town centre market, with the price for apartments without car parking discounted by about £5,000 per unit.

2.17 Haart Estate Agent also indicate that there is currently very high demand for apartment accommodation in the town centre from first time buyers and investors.

Taylor Estate Agents

2.18 Taylor Estate Agents indicate that there is currently good demand in the town centre for apartments which is mainly driven by investors. Two, one bedroom apartments have recently sold at the Point Red on Midland Road for £90,000 with no parking.

2.19 They also indicate that a new scheme has been brought to the market on Gordon Street. Quoting prices here are £75,000 for a studio and £90,000 for a one bed apartment.

2.20 Taylor Estate Agents further indicate that two bed apartment values are circa £110,000 in the town centre.

Student Accommodation

2.21 Demand for residential accommodation in Luton is bolstered by higher education students. The University of Bedfordshire's main campus is based in Luton. The University has 1,000 staff along with 19,000 students (UK and overseas)[6].

2.22 Telephone consultation has been undertaken with Graham Blake, Director of Facilities at the university. Mr Blake indicates that the current supply of student beds is 1,850. The university has just been through a programme of developing new halls, with 850 new beds opened last September; Fitzroy Court opened for the first time in September 2011 and Wenlock Court opened in 2012. The majority of the purpose built student halls are located throughout Luton town centre.

2.23 Mr Blake stated that in recent years accommodation has been oversubscribed but this has been addressed, in part with the new halls being developed and with the fees recently increasing resulting in reduced demand. There are no short term requirements from the university for more student accommodation especially as they are waiting to assess the impact of the increases in fees.

2.24 The university is aware of a number of private developers have sought planning permission for student beds in the town centre. These developers are seeking to de-risk the scheme through getting a commitment from the university to supply students i.e. nomination agreement. However, the university currently believe that they have sufficient capacity in their existing supply so are not prepared to commit to additional accommodation. Furthermore, Mr Blake indicated that there is still a desire for students after the first year to move into private accommodation i.e. house share which therefore does not sustain demand for purpose built halls.

2.25 Weekly rent's for purpose built accommodation is from £104[7] for a standard non en-suite room and up to £149[7] for a single studio on an all-inclusive for a 42 week contract. Private accommodation through the form of house shares are typically cheaper from around £65 per week exclusive of bills. Although generally not a major concern to most students, car parking at the purpose built halls is limited to a small number of spaces on-site, with the private accommodation (shared houses) typically able to provide on street parking as they are located out of the town centre.

[6] http://www.ucas.com/students/choosingcourses/choosinguni/instguide/b/b22

[7] http://www.beds.ac.uk/__data/assets/pdf_file/0007/157822/CLV-accomm.pdf

Office market overview

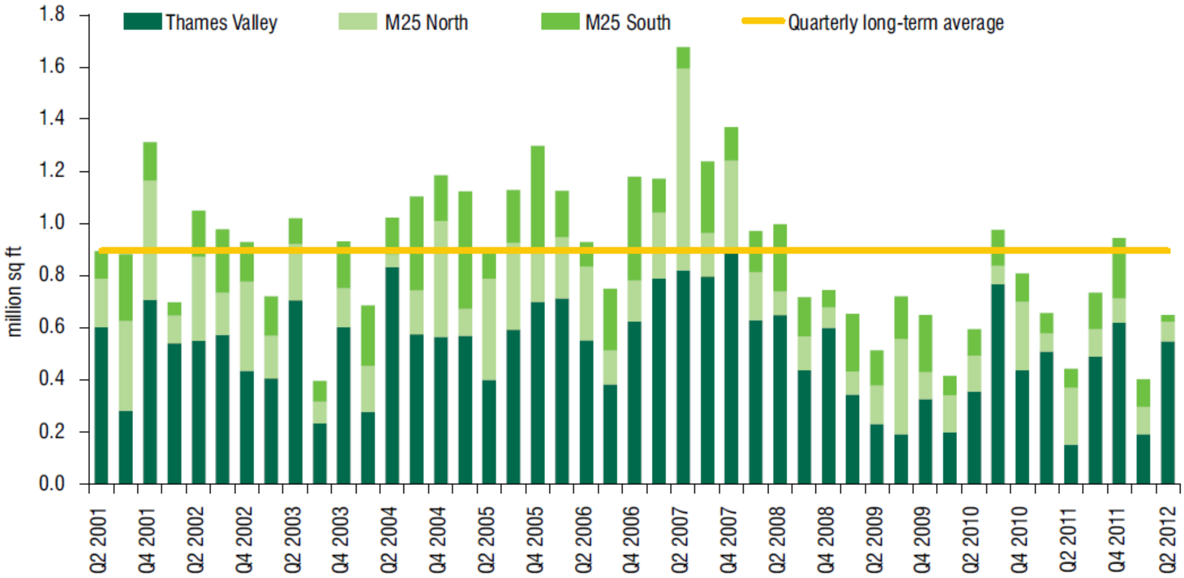
2.26 Similar to the residential market, the office market is intrinsically linked to the economy. In times of economic growth companies have expanded and new companies have been created leading to demand for office accommodation. This is a signal for developers to bring forward new schemes to satisfy growing requirements for new space. In times of weak economic growth companies fail or contract leading to an increase in vacant accommodation. During such periods to attract occupiers' landlords' offer incentives such as lower rents and rent free periods.

2.27 As established in paragraph 2.4 above the UK economy is around the bottom of the economic cycle as a result demand for office accommodation is currently weak and has been for a number of years. Since 2007, many office based sectors such as finance and professional services have reduced staff numbers, and no other sectors have expanded. This has led to increase supply of stock, and landlords are offering incentives such as reduced rents and rent free periods to attract tenants.

South East office market take-up dominated by the Thames Valley

2.28 CBRE report that since Quarter 3 2008 take-up of office accommodation within the South East has been below the long-term trend of 84,000 per sq.m per quarter. As shown in Figure 5 below take-up for office accommodation in the South East region has been driven by the Thames Valley area. The area north of the M25 contributes only a small percentage of the overall take-up figure.

Figure 5 South East Quarterly Office Take-up



Source: CBRE

2.29 The most significant office lettings within the South East region in 2012 have been in the Thames Valley with; Aker Engineering taking 20,000 sq.m at Chiswick Park at a rent of £495 psm, Winton Capital Management taking 5,600 sq.m at Grove House West London at rent of £377 psm, and BBC Magazine taking 4,800 sq.m at Vineyard House West London at a rent of £372 psm.

2.30 CBRE report that demand for office accommodation in the area north of the M25 has been subdued this year, with no one single sector dominating take-up. The sectors which have been active are banking & finance, business services, computers & hi-tech and consumer services sectors. CBRE suggest that the weak demand is due to the public sector, as between 2005 to 2010 is accounted for 23 per cent of total floorspace transacted, however it represented just 3 percent in 2011.

2.31 As result of the weak office market in the area to the north of the M25 there has been no speculative development here since 2009.

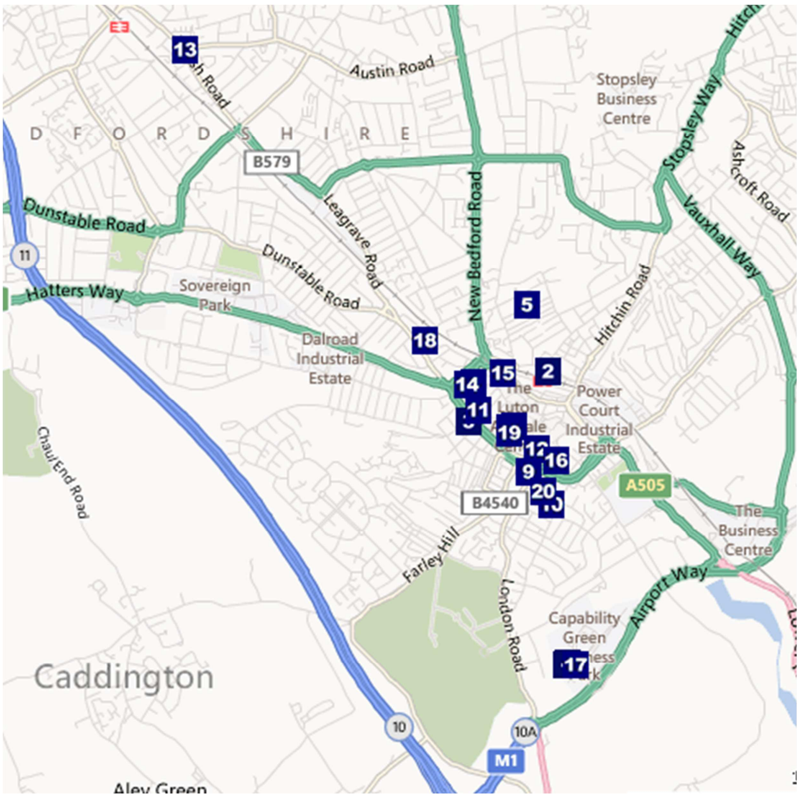
2.32 Prime rents in the area to the north of the M25 north have been static ranging between £205 to £240 psm with typical rent free periods of two years being offered. In comparison good quality office accommodation in Luton, which is typically located on the out of town business parks have rents circa £150 psm.

2.33 Prime yields in regional city centres currently stand between 6.25 per cent to 6.5 percent. Investors are typically seeking assets valued between £10 million to £40 million with a minimum of 10 year income stream on Grade A buildings. The secondary market is very different, with stock generally struggling to attract buyers with yields shifting out to in excess of 12 percent for this type of stock.

Luton town centre office market

2.34 Luton town centre does not have an established office core or a significant single occupier which underpins the market, as a result the office market is fragmented throughout the town centre and the type and quality is wide ranging. Notwithstanding this, the majority of recent office lettings this year as illustrated in the map in Figure 6 overleaf have been to the south west of the town centre around the A505 ring road.

Figure 6 Office lettings in Luton town centre January 2012 – December 2012



Source: CoStar/Focus

2.35 Achieved rents in Luton town centre have been comparatively low compared to other centres, ranging from £35psm to £120psm – this being below prime office rents for the north of the M25 and the good quality stock on Luton's out of town business parks. This resulting low rental means that existing premises are marginally viable to maintain for existing use. In addition, the majority of space is taken up through relatively small suites, typically ranging between 35 to 350 sq.m, by local companies. As a result larger office blocks are multi-tenanted on short-term leases – this impacts the investment value and subsequently results in low capital values.

Market assessment summary

2.36 The UK economy is weak so in turn is the residential and offices markets. Both these markets in Luton have underperformed both regional and nationally. As a result capital values of existing town centre offices and new residential are low. The economy and property markets are cyclical as a result there is likelihood both markets will improve. However, the growth opportunity for commercial space in Luton town centre is limited as the town struggles to attract blue chip covenants, stock is dated and rents are low. The Luton town centre market cannot compete with other centres north of the M25 although provides an affordable option or local/regional occupiers.

2.37 Our assessment of the current Luton office market indicates that a suitable existing use value when assessing viability is a rate of £500 psm for low grade offices and £1,000 psm medium grade offices.

2.38 In contrast there is an underlying need for residential accommodation throughout Luton driven by a growing population and falling household sizes. Therefore, residential development provides an opportunity to redevelop/refurbish the underused/vacant commercial stock within Luton town centre. Based upon the feedback from the university there is much uncertainty surrounding the student accommodation sector therefore this type of alternative use has been discounted as part of the site assessment process, although we acknowledge some of the premises could have characteristics that could make them potential suitable of this use.

2.39 Our assessment of the current Luton town centre residential market indicates that a suitable residential value when assessing viability is a rate of £2,000 per sq.m. This figure is also consistent with the 3 Dragons Luton Affordable Housing Viability Study.

3 SITE ASSESSMENT

3.1 The Council has provided PBA with a list of 31 sites/buildings (full list of sites with maps can be found in Appendix 1 and Appendix 2) to be assessed that could be suitable for conversion or redevelopment to residential. The sites fall within Luton town centre and vary in size and quality. The following section of the report provides an assessment of each site within a pro-forma. Each site has been assessed as follows:

- Site reference; including name, location map and photo,
- Description; property and surrounding area,
- Assessment of residential potential,
- Assessment of suitability for redevelopment or conversion,
- Development restriction,
- Number of units site can yield, and
- Assessment of viability*

*The assessment of viability has been undertaken through using a residual appraisal of each of the sites based upon the physical site and market assessment.

3.2 Each site individual site assessment pro-forma is set out in Appendix 3 of this report. The development appraisals assumptions used to inform the viability assessment are in Appendix 4 and viability outputs in Appendix 5 and Appendix 6 (assumes permitted development rights).

4 CONCLUSION

4.1 The market assessment has identified that the town centre office market is weak accentuated by the current economic climate. Over the longer term demand for offices will improve across Luton but occupiers are likely to be attracted to the better quality modern out of town stock as this meets occupier needs through open plan accommodation and on-site car parking. This will result in the existing town centre stock being attractive to those seeking affordable accommodation (typically local and regional companies) as they are prepared to compromise on quality as for the trade of being able to afford office space.

4.2 The residential market has also suffered due to the economic downturn at both a national and Luton town level. Residential values in Luton have seen a peak to trough of 23 percent, which is bigger than the national average of 17 percent. Both have seen a slight recovery with national averages now at 12 percent below their peak and Luton averages 16 percent.

4.3 It is clear from our physical site assessment that the most economic advantageous re-use, either for a conversion or redevelopment, of the 31 sites identified by the Council is residential rather than re-providing a mix of uses. This is because mixed use development is not viable in the current market due to low capital values and some of the sites being unsuitable due to locations and size. In addition consultation with the local university has indicated that they have no capacity for additional student beds which has ruled this option out.

4.4 In our site assessment, we also considered other elements of the buildings that that were not identified by the Council i.e. upper floors rather than ground or the building as a whole. Adopting this approach creates a larger development or conversion opportunity, the justification for taking this approach is:

- In the majority of cases the ground floor buildings identified have no defensible space to the pavement and/or have poor outlooks – this makes it unattractive for a small conversion. Through focusing on just the upper floors for conversion/redevelopment on the small central sites helps negate this issue.
- Developing just the ground floor for residential on the larger sites and leaving the upper floors does not work for mixed use development. Therefore, considering a comprehensive refurbishment/redevelopment of the larger sites will change the buildings perception away from commercial to residential and thus limits the isolated nature of solely developing the ground floor for residential use.

4.5 In our final assessment of the sites we have categorised the sites as; good for residential development, marginal for residential development and poor for residential development. The results of this is assessment is included in Appendix 7.

4.6 Sites we consider good for residential development are those that are viable in the current market. These are sites that can be acquired for low existing use value and can be brought into residential use through refurbishment. In addition we have included those sites that can be redeveloped as a whole and yield a significant quantum of development.

4.7 Sites that have been considered marginal for residential development are those that have a high existing use value and are currently not viable for residential use. However, if the poor market continues exiting use values may fall resulting in these sites becoming viable for residential development.

4.8 Those sites classified as poor, are currently not suitable for residential development either as a conversion or redevelopment. This is because that the quality of the external environment makes these sites unattractive as a standalone scheme and will only come forward as part of a wider-scale regeneration or development of the area.

4.9 In total the 31 sites assessed could potential yield in excess of 449 new residential units. There is a good prospect of 136 new residential units being created on 13 of the sites assessed, 283 units have a marginal prospect on 10 of the sites, and 30 plus units on 10 site which have poor prospect of residential use.

Introduction of permitted development rights

4.10 The introduction of permitted development rights has a small impact on increasing the number of sites that either have a poor or marginal prospect of residential use to that of a good prospect. Permitted development rights will negate the need to apply for planning permission, so costs are reduced and thus improving viability. But conversion restricts the number of units that the site could potential yield; so although three more sites have an increased prospect of coming forward for residential use the number of units these sites could yield reduces from 62 units to 34 units.

4.11 Overall the majority of the sites assessed are suitable for residential use, most likely through conversion. The actual delivery will depend upon both owners and developers aspirations on price of the existing stock as opposed to physical or geographical limitations.

4.12 With the Luton town centre office market being in recession converting or redevelopment some of the obsolescent office space provides a good opportunity to bring vitality to the town centre, improve the appearance and boost the local economy.