



Luton Council

Luton Article 4 Direction - Employment Report

April 2022

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Report title: Luton Article 4 Direction - Employment Report

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For and on behalf of Avison Young (UK) Limited

1. Introduction

- 1.1 Avison Young has been appointed to advise on future Article 4 Directions policy in relation to the potential change of use to residential through permitted development right conversion.
- 1.2 The recent change in planning policy with the creation of Class E and the permitted development rights that now exist for conversion to C3 residential strengthens the requirement for a robust planning policy response to protect against potential adverse effects of permitted development conversions.
- 1.3 The Council have put in place Article 4 Directions to try and establish a level of control over the permitted development process. With this expiring on 31st July 2022; it is our understanding that the Council are seeking to weigh up the potential risk permitted development conversions pose to both employment and retail uses in various areas of Luton.

Permitted Development Right Policy

- 1.4 Permitted development rights allow for certain types of work without needing to apply for planning permission. They derive from a general planning permission issued by the Government, rather than a Local Planning Authority. The Town and Country Planning (General Permitted Development) (England) Order 2015 is the principal legislation underpinning this right.
- 1.5 The Town and Country Planning (Use Classes) Order 1987, as amended, groups common uses of land and buildings into classes. The uses within each class are, for planning purposes, considered to be broadly similar to one another. The different use classes are:
 - Part B (Schedule 1)
 - Class B2 – General Industrial
 - Class B8 – Storage and distribution
 - Part C (Schedule 1)
 - Class C1 – Hotels
 - Class C2 – Residential institutions
 - Class C2A – Secure residential institutions
 - Class C3 – Dwellinghouses
 - Class C4 – Small Houses in multiple occupation
 - Part A (Schedule 2) Commercial, Business and Service
 - Class E – Commercial, Business and Service
 - Part B (Schedule 2) Local Community and Learning

- Class F.1 Learning and non-residential institutions
- Class F.2 Local community

1.6 In 2021, the Government introduced permitted development Class MA, allowing for:

“Development consisting of a change of use of a building and any land within its curtilage from a use falling within Class E (commercial, business and service) of Schedule 2 to the Use Classes Order to a use falling within Class C3 (dwellinghouses) of Schedule 1 to that Order.”

- 1.7 In areas where residential values are significantly higher than those for Class E uses, there is likely to be heightened risk of conversion.
- 1.8 The use of an Article 4 Direction (A4D) would allow the Council to remove permitted development rights including changes of use from an area or a particular property in certain limited situations where it is necessary to protect local amenity or the well-being of an area.
- 1.9 Luton has a recent history of significant permitted development conversion. Data from the Ministry of Housing, Communities and Local Government shows there were 875 office-to-residential conversions in Luton in the five years to 2019/20. This accounts for 25% of the 3,490 new homes created in the area over the same period - while across England as a whole, the average was just 6%. ¹
- 1.10 Examples include the 110 apartments created at Unity House, a former office building, and the 137 apartments at Wesley House, also a former office building.
- 1.11 In light of this history of significant loss of office stock, and the potential impacts upon the economic vitality of the area, this report will consider the risks permitted development conversions pose to both employment and retail uses in various areas of Luton. This will allow the Council to consider whether to pursue an Article 4 Direction in high-risk areas to protect the amenity and well-being of the council area.
- 1.12 Whilst other uses within Class E can also be converted through Permitted Development Rights, within the general employment sphere (B1 uses in the Town and Country Planning (Use Classes) Order 1987 prior to the latest amendment), office uses are likely the most at risk. This is due to the nature of the buildings being most conducive to conversion to residential apartments compared to say light industrial units where the make-up of the building is not as straightforward and similar to existing residential typologies. Therefore, this study into employment risk has focused predominantly on office uses although some commentary has been provided on other employment uses within the report.

Areas of Analysis

- 1.13 In order to address these questions, a number of areas of analysis have been identified. These are based upon their location within the borough, types of employment units and the quality of space.
- 1.14 Identified areas are considered below in Table 1.

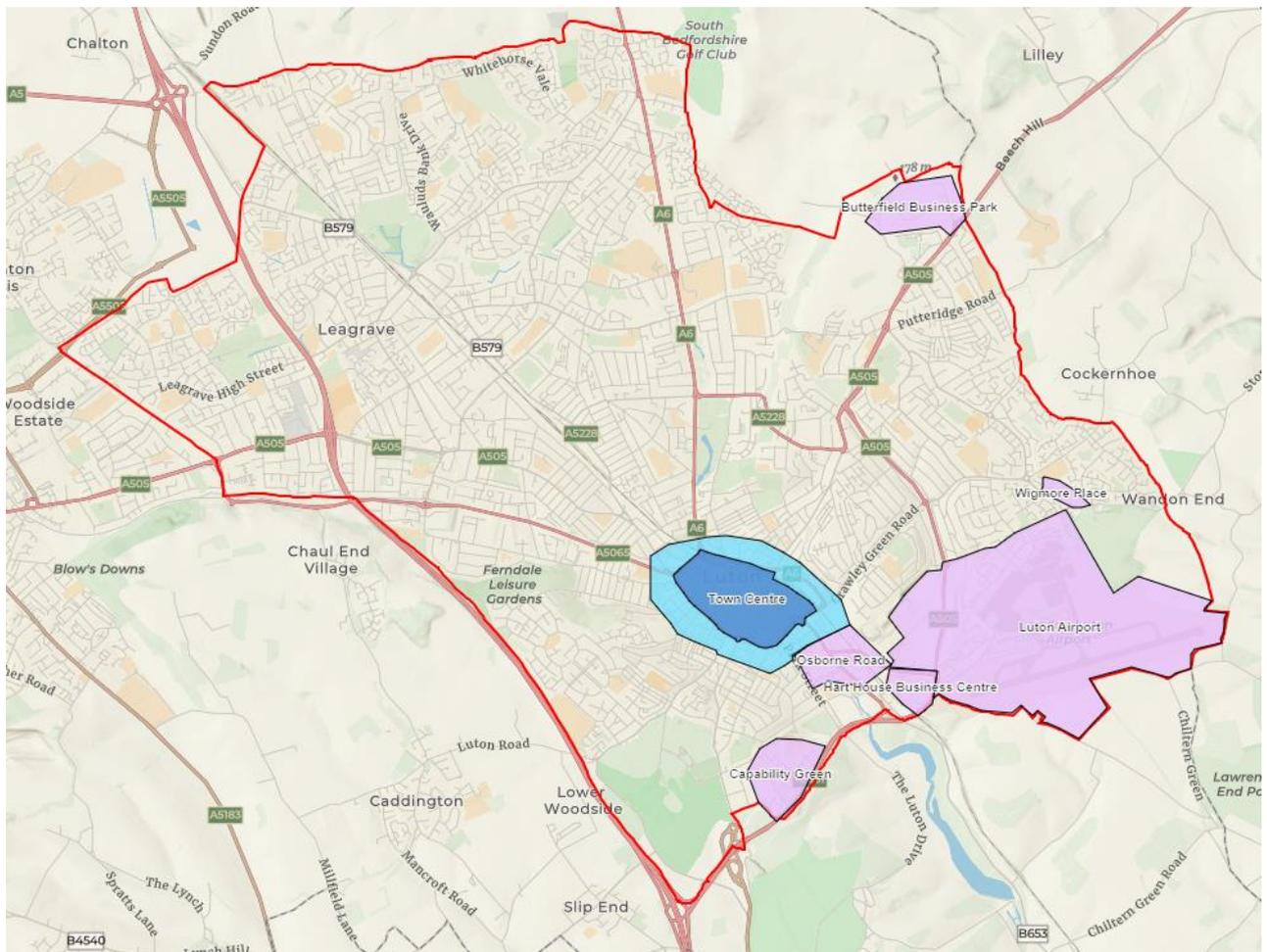
¹<https://www.lutontoday.co.uk/news/environment/quarter-new-homes-luton-are-office-conversions-compared-6-across-england-3102299>

Table 1.1: Areas of Analysis

Employment Space	Key
Town Centre (within the ring road)	Dark Blue
Edge of Town Centre	Light Blue
Out of Town Business Parks	Pink
Suburban Businesses	Other Locations

Source: Avison Young, 2022

Figure 1.1: Employment Areas



Source: Avison Young, 2022

2. Market Overview

Residential Market Overview

- 2.1 House price growth in the UK remained strong in Q4 2021 despite the initial tapering of the Stamp Duty Land Tax (SDLT) holiday at the end of June and the final tapering in September.
- 2.2 Nationwide reported 10.4% growth for 2021, the highest level for a calendar year since 2006. This puts the average UK house price at £254,822, compared to £229,819 at the same time last year.
- 2.3 Transactional activity also remained strong in the final quarter of the year, although it normalised relative to the very high levels that characterised the first three quarters of the year. There were 300,560 transactions in the UK in Q4, down 15% on Q3. Over the past 12 months, transaction levels have been the highest we have seen since the Global Financial Crisis and 25% above the 2019 total.
- 2.4 Although we expect the market to cool somewhat through 2022, the latest RICS Residential Market Survey and internet searches suggest buyer demand ticked up in December, having receded over the previous two months (although still high). Zoopla have also reported higher than typical demand for the time of year.
- 2.5 Another factor which will help support price growth is very limited supply. According to the RICS survey, the number of homes per surveyor at its lowest level on record except for the housing market shutdown in Q2 2020.
- 2.6 Looking specifically at Luton Borough, the borough has experienced c.16% growth in achieved house prices between April 2017 and April 2022, rising from an average price of £231,605 in April 2017, to £267,787 in April 2022.
- 2.7 Flats represent a less significant uplift in value over the same period with growth from an average achieved value of £144,726 in April 2017 to £151,357 in April 2022. This reflects a 4% uplift in value.

Figure 2.1: Average Price Paid, Luton Borough



Source: Land Registry, 2022

- 2.8 Set against UK wide trends, this represents fairly modest house price growth, with the UK indicating 25% growth over the same period for all properties (£218,642 in April 2017, to £273,762 in April 2022), and 12% growth for flats (£199,988 in April 2017 to £224,186 in April 2022).
- 2.9 Considering the above on a £psf basis, values for flats in Luton Borough have fluctuated rising from £263psf in April 2017 to a peak of £326psf in February 2020. Latest data in January 2022 indicates a steady decline, reflecting values of £273psf. This indicates growth of c. 3.8% over the whole period considered.
- 2.10 Considering new build stock alone, values for flats grew from £295psf in April 2017 to a peak of £403psf in August 2018. Since then, values have dropped off, reaching £354psf in September 2020. Given the lack of new build flatted schemes in recent years, there is an absence of more recent data.
- 2.11 The table below indicates value changes in Luton's postcode areas for new build flats. Given the absence of more recent sales data, averages have been calculated based on achieved sales values psf dating back to 2017. With the significant fluctuation in values over this period identified above, this provides the best means of understanding an accurate view of value sets.
- 2.12 Data indicates that the highest values on a £psf basis are seen in the LU4 postcode area. As might be expected, the most active postcode markets are in LU1 and LU2 with a total of 130 sales transactions for new build flats in the last 5 years.

Table 2.1: Average Residential Values by Postcode

	Average Value 2017-2022 (£psf)	Number of Transactions 2017-2022
LU1	£339.28	70
LU2	£369.01	60
LU3	£364.77	28
LU4	£450.07	31
LU6	£292.55	1
LU7	£271.40	8

Source: Realyse, 2022

Figure 2.2: Postcode Districts



Source: Avison Young, 2022

2.13 Some of the more significant new build schemes are considered in more detail below.

Table 2.2: New Build Development Achieved Sales Values

Scheme	Type	No. Sold	Price Range	Size Range (sq. ft.)	Avg. (£psf)
Kensington Court, LU1	1-Bed	8	£155,000 - £205,000	441 - 560	£344
Ellesmere Court, (Saxon Square) LU2	1-Bed	20	£193,000 - £214,000	527 - 549	£371
	2-Bed	34	£242,500 - £284,000	721 - 797	£353
Brooklands Court, (Saxon Square) LU2	1-Bed	8	£196,000 - £204,000	527 - 560	£364
	2-Bed	12	£235,000 - £260,000	710 - 743	£335

Source: Aspinall Verdi, 2021

Kensington Court

2.14 Kensington Court is a 60-unit flatted scheme developed by John James Homes. The development is located within a short walk of Luton town centre and the mainline railway station, providing one- and two-bedroom apartments. The scheme provides shared outdoor space and cycle storage.

Figure 2.3: Kensington Court



Source: Housesforsaletorent.co.uk, 2022

Saxon Square (Comprising Ellesmere Court and Brooklands Court)

- 2.15 Saxon Square is a flatted scheme of 223 units, developed by Redrow Homes. The scheme comprises Studios, 1 bed and 2 bed apartments split across Ellesmere Court and Brooklands Court. The development is situated to the east of the town centre in very close proximity to Luton Airport Parkway.

Figure 2.4: Saxon Square



Source: Onthemarket.com, 2022

- 2.16 Looking at the development pipeline, there are two significant schemes currently under construction in Luton.

- 2.17 There are 76 units under construction at 37-39 Castle Street. This will provide 46 one bed, 20 two bed and 9 three bed flats across 4 13 storey buildings. Construction is due to complete in March 2023.
- 2.18 We are also aware of a 48-unit scheme at 27A Upper George Street. This will provide 38 one/two-bedroom flats with 2 retail units at ground floor level. Construction is due to complete here towards the end of 2023.

Commercial Market Overview

- 2.19 National office rental value growth has been modest, with 1.1% over 2021. However, the removal of the work from home guidance from the government – hopefully the last time that this measure is required – means that occupiers are likely to have a larger appetite for office space, helping to bolster rental growth.
- 2.20 The changing nature of work, stimulated by the COVID-19 pandemic, has led to a shift in the demand for office space, at least in the short term, which led to headlines about the ‘end of the office.’²
- 2.21 However, demand is more complex and relies on a wide range of factors including technology, economic growth, culture and productivity and commentators suggest that demand is likely to rebound over the medium to long term. The Avison Young Economic Property Market Review³ has suggested that demand already appears to be recovering with the end of 2021 delivering strong take-up, up 42% on 2020 in the major cities outside of London.
- 2.22 The nature of the demand has shifted and will continue to shift towards flexible office space that enables collaboration, supports wellbeing and fosters learning between employers that are increasingly adopting hybrid working patterns. Occupiers are also wanting higher quality space that better caters for the needs of the workers who are in the office less frequently.
- 2.23 The shift to remote working has also increased the demand for flexible workspace in well-connected commuter areas, close to where people live. This builds on the ideas of a ‘20-minute neighbourhood’⁴ with the pandemic reinforcing the importance of living and working locally.
- 2.24 Flexible workspace is appealing to a wide range of occupiers including remote workers, entrepreneurs, SMEs and corporates. In relation to the latter, Avison Young’s occupier survey indicates that one fifth of occupiers anticipate that they will disperse their office portfolios to be closer to where their workforce lives and want to work.
- 2.25 This could be beneficial for the office market in Luton instead of commuters travelling to London and other nearby towns through the excellent transport links, businesses and employees may choose to relocate to offices within Luton itself.
- 2.26 Demand for space where businesses need to be in situ has been more resilient than office space over the course of the pandemic (e.g. maker space, laboratory space, light industrial space, industrial space etc). This is evidenced by the national industrial market, which saw high levels of demand

² <https://www.ft.com/content/1b304300-0756-4774-9263-c97958e0054d>

³ <https://www.avisonyoung.co.uk/economic-and-property-market-review/march-2022>

⁴ <https://www.rtpi.org.uk/find-your-rtpi/rtpi-english-regions/rtpi-london/london-calling-newsletter/15-minute-cities20-minute-neighbourhoods/>

during 2020 take up reached 49 million sq. ft. which is far higher than the previous record of 34 million sq. ft. in 2016.

- 2.27 Consumer demand for competitive prices and short delivery times has risen as a result of the pandemic, which means that the last mile of delivery is the most complicated and expensive. As a result, urban logistics, which focuses on short distance delivery generally based out of edge of centre hubs, warehouses and transportation, is of growing interest.
- 2.28 Urban logistics hubs have an important role to play in promoting clean and efficient freight activity. This is because the use of hubs supports the rationalisation of goods and can utilise the use of low and zero emission vehicles. This therefore reduces the number of delivery vehicle trips, can lead to better management of congestion at peak times and an overall reduction in emissions.
- 2.29 According to Steer⁵, some of the factors that are critical for new urban logistic hub sites include good access to the strategic road network, security, sufficient height clearance and costs. If the conditions are right, this can encompass a wide range of sites including car parks, railway arches or other 'spare' available space.

⁵ https://crossriverpartnership.org/wp-content/uploads/2021/01/Central-London-Hubs_Final-report_Exec-Summary-Only.pdf

3. Office Data Analysis

Luton Office Stock Overview

- 3.1 We have used data from the commercial property database CoStar to assess the quality of office stock in the four core locations listed in Section 1. Table 3.1 shows there is over 4 million sq. ft. of office space in the borough of Luton with the two largest areas being the Town Centre and Out of Town with under 500,000 sq. ft. of space in the secondary locations of Edge of Town Centre and Suburban.
- 3.2 The fact that these are secondary locations is shown by the lower Average CoStar Rating which rates office space on a basis of 1-5 dependent on the quality of space provided.
- 3.3 It is interesting that the best average quality space is in Out of Town office parks with an average rating close to 3 out of 5 yet this is the space that has the highest vacancy rate at nearly 12%. Whilst all other areas have extremely low vacancy rates at 1.5% or less. This suggests that the Out of Town area is potentially most at risk of residential conversion due to this high vacancy rate. However, high quality space is likely to be most in demand going forward and it is normally secondary stock which we have seen converted to residential use in the past as the cost of refurbishment and ongoing letting potential is reduced.
- 3.4 This is potentially even more so as we come out of the Covid-19 pandemic with an ongoing trend of occupiers looking for smaller but better-quality office premises as part of the return to work and hybrid working agendas.
- 3.5 Another potential reason for this is the recent conversion of a number of office premises within the town centre to residential. This has both reduced the available office space whilst also lowered the vacancy rates at the same time.

Table 3.1: Office Market Overview

	Buildings	Total Floorspace (sq. ft.)	Average Size (sq. ft.)	Average Stock Age	Average CoStar Rating	Vacancy Rate (%)
Town Centre	143	1,559,441	10,905	1945	2.48	0.98%
Edge of Town Centre	92	498,434	5,418	1961	2.32	0.15%
Out of Town	56	1,663,592	29,707	1997	2.93	11.89%
Suburban	73	405,153	5,550	1964	2.26	1.48%
Total	364	4,126,620	11,337	1961	2.49	3.62%

Source: CoStar, 2022

- 3.6 A look at recently achieved market rents across Luton shows an average value of £18.10 psf. This reflects an 18% uplift on the 10-year average, demonstrating strong value growth. This reflects a relatively strong office market particularly when combined with the low vacancy rate above.
- 3.7 However, from recent transactions, market capital values reflect £187 psf, with anticipated yields reflecting c.7.5%, which when combined with average market rent gives an estimated market value of £241 psf for a fully occupied office building. These are considerably below the c. £350 psf achieved in new build residential development and even the average apartment value of £273 psf. This shows

that residential market values are higher than office values, although consideration has to be given to the cost of conversion with current BCIS estimates suggesting median residential conversion costs of £131 psf.

- 3.8 Consideration also must be given to the variation in office stock. The below table shows the variation in the market based on the CoStar quality rating (out of 5). This shows a clear correlation between quality of stock and estimated market rent with higher quality stock estimated to achieve a better rental level which is understandable due to the quality and attractiveness of the space.
- 3.9 However, this means that there is potentially an even greater disparity between low quality office stock and residential values putting vacant low quality office stock at greater risk of conversion through Permitted Development Rights.

Table 3.2: Quality of Office Premises Review

CoStar Rating	Buildings	Total Floorspace (sq. ft.)	Average Size (sq. ft.)	Average Stock Age	Estimated Rental Value (£psf) *	Vacancy Rate (%)
4*	8	444,802	55,600	2005	£19.30	13.95%
3*	164	2,789,076	17,007	1967	£17.60	3.82%
2*	180	879,826	4,888	1953	£15.20	1.05%
1*	12	12,916	1,076	1957	£15.12	0.00%

Source: CoStar, 2022

* Estimated Rental Value is taken as the median of the CoStar range for estimated achievable rent if the property was available on the current market.

Specific Area Review

- 3.10 The above section shows the overall office market review, but it is important to consider the different areas mentioned in the Areas of Analysis section above to understand the variation across the different areas.
- 3.11 The achieved rents and capital values across the different areas are displayed below:

Table 3.3: Area by Area Office Value Analysis

	Transactional Data			Estimated Rental Data
	Average Sales Value (£psf) *	Max Rental Value (£psf) **	Average Rental Value (£psf) ***	Estimated Rental Value (£psf) ****
Town Centre	£192	£42	£14	£15.70
Edge of Town Centre	£149	£25	£13	£15.10
Out of Town	£233	£24	£16	£20.10
Suburban	£146	£21	£13	£16.30

Source: CoStar, 2022

* Average Sales Value is the average sales value achieved in each area from transactional evidence, as recorded by CoStar where data is available, in the last 3 years.

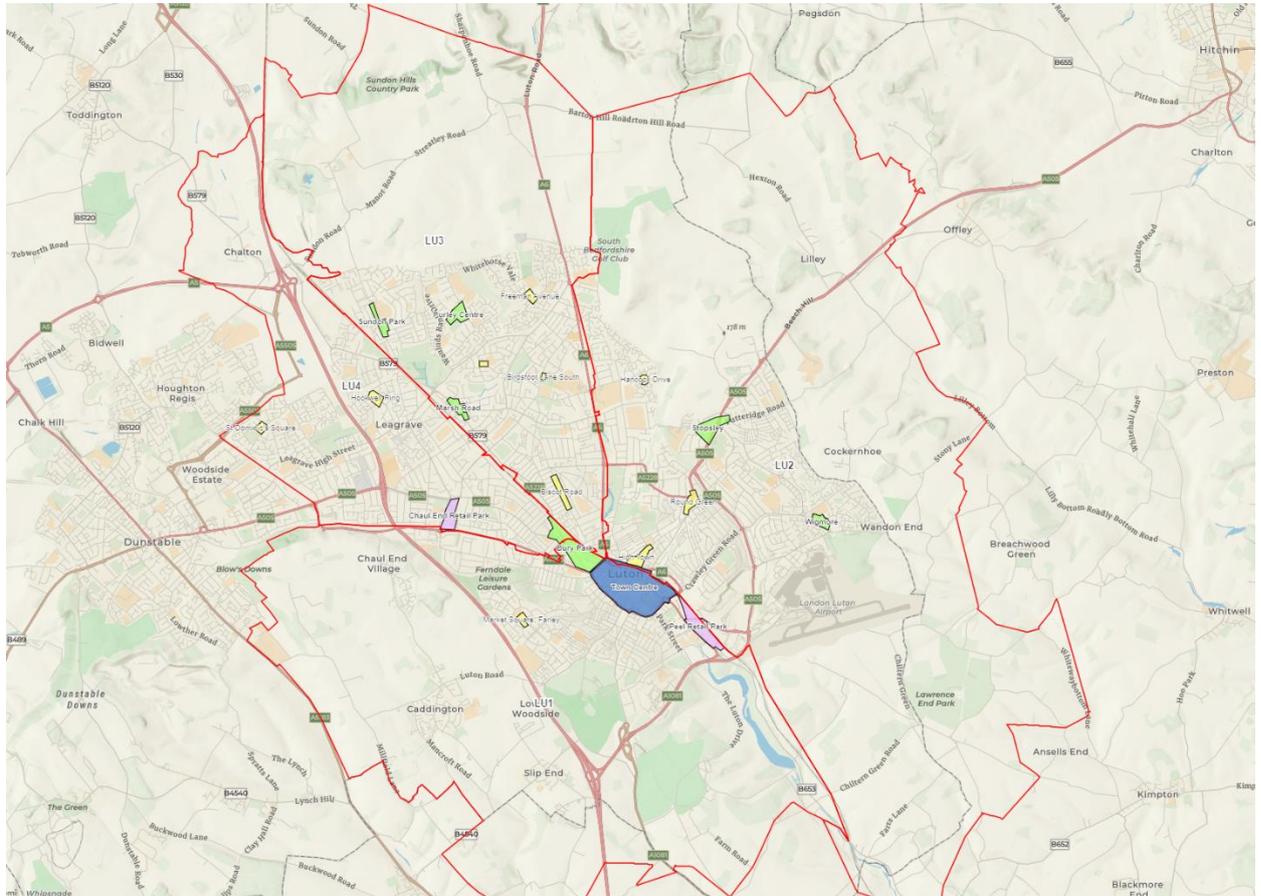
** Max Rental Value is the highest rent achieved in each area from transactional evidence, as recorded by CoStar, in the last 3 years.

*** Average Rental Value is the average rent achieved in each area from transactional evidence, as recorded by CoStar where data is available, in the last 3 years.

**** Estimated Rental Value is taken as the median of the CoStar range for estimated achievable rent if the property was available on the current market.

- 3.12 Table 3.3 shows the variation in rental in the different study locations. It shows that sales and rental values are relatively high in both the Town Centre and Out of Town locations. On the other hand, Edge of Town Centre and Suburban values are lower with transaction values under £150 psf. This potentially puts these areas at greatest risk of PDR conversion.
- 3.13 This could particularly be the case in Edge of Town Centre locations with town centre locations often attractive apartment development because of the greater ability to develop at height and good locational links to public transport and amenities making them attractive places for young professionals.
- 3.14 Nonetheless consideration still needs to be given to secondary stock in other locations which could be masked within the above table where higher transactional values for better quality office stock hides the potential risk for some offices being converted through PDR. Wesley House is an example of a secondary office building within the Town Centre boundary which has recently been converted to residential through PDR.
- 3.15 Therefore, where an area is an important office location consideration could still need to be given to how best to protect it.

Figure 3.1: Retail Study Areas in Relation to Postcode Districts



Source: Avison Young, 2022

4. Conclusion

- 4.1 The above report has looked at the potential risk of office to residential conversion in different areas of Luton. There is potential that the changing nature of office use may be beneficial to Luton but this is as yet unproven and the current trend has been a loss of office accommodation rather than a growth.
- 4.2 Through the Town and Country Planning (General Permitted Development) (England) Order 2015, there are Permitted Development Rights to convert commercial premises to residential properties.
- 4.3 This has led to a number of conversions of office premises to residential units recently. Therefore, it is important that the Council considers whether to implement Article 4 Directions to enable a level of control over the types of conversions occurring in the town.
- 4.4 Office uses are particularly at risk of PDR conversion, as the nature of the building is more conducive to residential typologies. Furthermore, many occupiers are in the process of reviewing their office accommodation in relation to new flexible working practices that have continued in many industries throughout and as we emerge from the Covid-19 pandemic.
- 4.5 There is also a shift towards better quality stock, to create a better working environment when people do use office accommodation. Therefore, secondary office stock which commands lower rental levels and is experiencing reduced demand is at particular risk of PDR conversion.
- 4.6 Outside of office accommodation, a review of the general market for other use types within the former B1 use class (now part of use class E) shows relatively strong performance. Consumer demand for competitive prices and short delivery times has risen as a result of the pandemic with growing demand for urban logistics hubs. This has led to growth in demand for light industrial space, Furthermore, these are less similar in structure to standard residential typologies. Therefore, we consider these to be at lesser risk of residential conversion.
- 4.7 A review of the overall office market in Luton shows relatively strong rental growth over recent years, with average rental levels of £18.10 psf and relatively low vacancy levels (3.62%). This suggests a strong performing market, but one of the reasons for this could be the loss of vacant secondary stock already to PDR conversion thus driving up rental levels and reducing vacancy.
- 4.8 Average capital market values (£187 psf) are below the average values for apartment properties in Luton (273 psf). Therefore, there is an inherent risk for vacant office stock to be converted into residential units.
- 4.9 Reviewing the values on an area-by-area basis in Table 3.3, shows a distinct difference between certain areas of the town.
- 4.10 The Town Centre and Out of Town offices will mostly command high enough rental levels to be at lesser risk of PDR conversion, however there may be secondary office accommodation which could still be low performing in terms of value levels and therefore considered for PDR conversion. Therefore, there may still be a need for Article 4 Directions to protect office use in these areas if considered that it is vital to maintain office accommodation in these locations.
- 4.11 The areas where values are lower are Suburban and Edge of Town Centre offices. These offices are generally secondary in nature and command lower rental values. Therefore, they are at greater risk of

office conversion. We particularly consider the Edge of Town Centre location as being most at risk as the proximity to the Town Centre and its transport links and amenities could be of particular interest to young professionals and elderly persons who are most likely to live in apartment accommodation produced by PDR conversion.

4.12 Therefore, particular consideration should be given to these locations in terms of Article 4 Directions.

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