

Luton Council

Luton Article 4 Direction - Retail Report

June 2022

Contents

1.	Introduction.....	1
2.	Market Overview.....	5
3.	Retail Data Analysis	11
4.	Conclusion	14

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 Whilst the focus at present appears to be the conversion of office premises is occurring in the main, other use classes within Class E can also be converted through Permitted Development Rights. This puts at risk retail premises to also be converted through permitted development rights and therefore it is important to assess the levels of risk of this occurring in different areas.

Areas of Analysis

1.12 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.

1.13 Identified areas are considered below in Table 1.

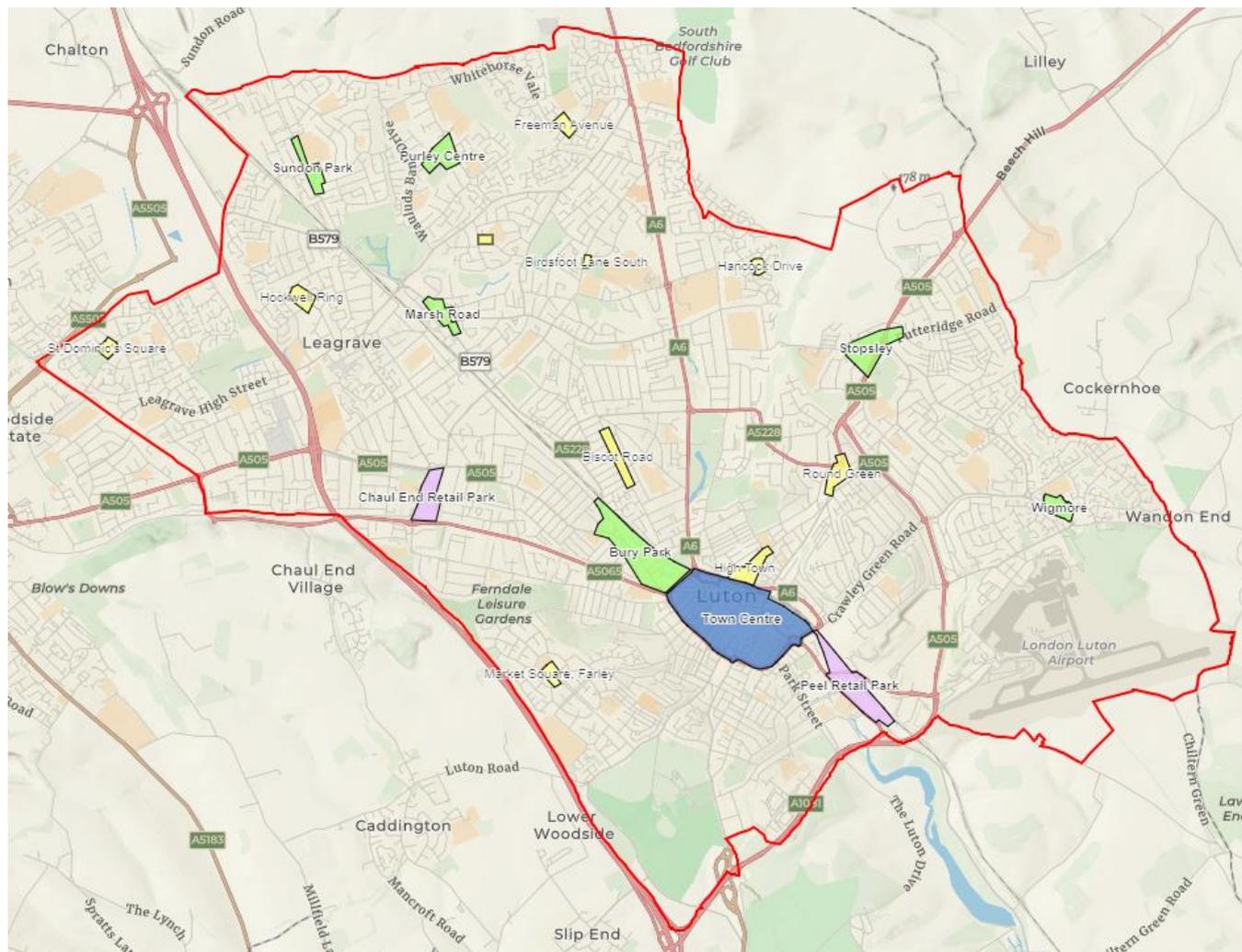
Table 1.1: Areas of Analysis

Employment Space	Key
Town Centre	Dark Blue
District Centres	Green
Neighbourhood Centres	Yellow
Out of centre retail parks and supermarkets	Pink
Suburban Retail Premises	Other Locations

Source: Avison Young, 2022

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

Figure 1.1: Retail Areas



Source: Avison Young, 2022

- 1.14 The areas are mapped to reflect the boundaries within the Local Plan Policies Map.
- 1.15 Another important point of note is that suburban retail accounts for all premises that does not fall within the identified areas in Figure 1 and so could include a range of premises including supermarkets, small local centres and individual corner shops amongst others.
- 1.16 The Luton Retail Study Update (2015) identifies District Centres as areas that 'act as the primary focus for shopping and other service delivery within a particular part of the town. Such centres can cover typical weekly retail, service and community requirements. Due to their ability to provide a range of shopping, such centres can act as a natural focus for investment and ensure that one journey can satisfy most needs of the local population. A small-to-medium supermarket typically acts as an anchor, alongside dedicated parking, a range of community or potentially health facilities and the possibility of a transport hub, depending on location. Seeking to further focus investment and services at these locations (in terms of the Council and transport operators) should ensure that they cater for a considerable proportion of local journeys.'
- 1.17 Neighbourhood centres 'Provide a more limited retail offer which means a lesser role and function to District Centres. Neighbourhood Centres are primarily intended to service the needs of the

population within walking distance and may not therefore provide the same levels of dedicated parking, public transport accessibility or opportunities to capture passing trade. However, they will typically demonstrate a parade of shops in one or more continuous rows, with often independent outlets with a largely retail or service sector base. There may often be other public services clustered in close proximity such as schools and health facilities, providing a good basis to meet day-to-day needs.'

1.18 District and neighbourhood Centres indicated within the Retail Study Update (2015)¹ include:

Table 1.2: District and Neighbourhood Centres

District Centres	Neighbourhood Centres
Bury Park	Farley
Marsh Road	High Town
Marsh Farm	Round Green
Wigmore	Lewsey (St Dominic's Square)
Stopsley	Bushmead
Sundon Park	Bramingham (Freeman Avenue)
	Hockwell Ring
	Biscot Road
	Calverton Road
	Birdsfoot Lane South

Source: Retail Study Update (2015)

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 districts 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 districts. 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.
- 2.13 It is also noticeable from Figure 2.1 that some of the postcode districts such as LU7 (Leighton Buzzard) are outside of the Luton Council area and therefore of less relevance.

Table 2.1: Average Residential Values by Postcode District

	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

2.14 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.)	Average Value (£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

2.15 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)

- 2.16 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

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

- 2.18 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.
- 2.19 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.

Retail Market Overview

- 2.20 Overall retail footfall across the UK has not recovered to pre-pandemic levels. The ongoing shift online is continuing to drive structural changes in the retail sector, although rental data suggests that the trend may be plateauing with annualised growth of -3.1% in December – the highest figure since January 2019. Additionally, 2021 saw the fewest number of retailers going out of business since before 2007 with the least number of stores impacted since 2017.
- 2.21 Retail investment is also performing well with £1.0 billion in December, the highest monthly total since October 2016, while 2021 as a whole was the greatest annual figure since 2017. This was primarily due to retail warehouse transactions, which have proved more resilient over the course of the pandemic in terms of value and footfall. Retail capital value growth finished the year on a high with 7.0% across 2021, however values remain below their pre-pandemic levels (Avison Young, 2022)².
- 2.22 Since the start of 2022, it has been a mixed year for retail so far, the Avison Young Retail Snapshot, March 2022 showed a relatively strong start to the year for retail:
- 2.23 “Although Omicron continued to impact the UK economy during January, typically one of the worst trading months for retail, sales values were almost 12% higher than they were in January 2021.” (Avison Young, 2022)³.
- 2.24 This showed that there was strong improvement from the previous annual levels.
- 2.25 Despite the strong sales performance retail rents were still in decline over this period, with rental values in February 2022 falling in all retail categories, apart from retail warehouses which saw a slight rental growth (0.2%) from January 2022 (Avison Young, 2022)⁴.
- 2.26 Vacancy rates fell fractionally in the second half of 2021 from 14.5% to 14.4% according to the Local Data Company. With the lowest vacancy rates recorded in retail parks (11.3%), rather than High Streets (14.4%) and shopping centres (11.3%) (Avison Young, 2022)⁵.
- 2.27 However, since this report was released in March the war in Ukraine, rising inflation and growing cost of living crisis has led to a challenging retail environment in the last few months. Shopping in May was

²

<https://www.avisonyoung.co.uk/documents/38901/98617352/Economic+and+Property+Market+Review+March+2022.pdf/2c1c3e83-1d7f-24b4-fa3c-e420e017259b?t=1647866935286>

³ <https://www.avisonyoung.com/experience/research-uk/retail-march-2022/home/>

⁴ <https://www.avisonyoung.com/experience/research-uk/retail-march-2022/home/>

⁵ <https://www.avisonyoung.com/experience/research-uk/retail-march-2022/home/>

down 1.1% compared to the same month in 2021, an accelerated slowdown from a fall of 0.3% from the previous year in April 2022 (BBC, 2022).⁶

- 2.28 This suggests further pressures on the retail market and the potential for growing vacancy rates and store closures in the coming months if spending continues to fall. This will put greater likelihood on the potential for property owners to look at alternative potential uses for their property, whether that be alternative uses within Class-E or conversion to residential.

⁶ <https://www.bbc.co.uk/news/business-61709995>

3. Retail Data Analysis

Luton Retail Stock Overview

- 3.1 We have used data from the commercial property database CoStar to assess the quality of retail stock in the four core locations listed in Section 1. Table 3.1 shows there is over 4 million sq. ft. of retail space in the borough of Luton with approximately half of that located within the town centre.
- 3.2 The majority of this is located in the Mall Shopping Centre which totals 1.3 million sq. ft. with a recorded vacancy rate of 3.7% (CoStar 2022), slightly higher than the average for the area and across Luton, but below what we see in other locations suggesting a relatively strong retail market.
- 3.3 The secondary locations also see strong performance with low vacancy rates.
- 3.4 A review of the quality of the properties also shows greater quality outside the town centre particularly in the out of town retail parks, which are fully occupied, reflecting the national strength of this sector and retail warehousing as a whole.

Table 3.1: Retail Market Overview

	Buildings	Total Floorspace (sq. ft.)	Average Size (sq. ft.)	Average Stock Age	Average CoStar Rating (out of 5)	Vacancy Rate (%)
Town Centre	258	2,046,312	7,993	1929	2.28	2.89%
District Centre	182	389,346	2,139	1954	2.36	0.00%
Neighbourhood Centre	95	206,217	2,171	1951	2.41	0.15%
Out of Town Retail	18	384,509	21,362	1988	2.67	0.00%
Suburban Retail	267	1,042,921	3,936	1958	2.40	0.28%
Total	820	4,069,305	4,987	1947	2.36	1.53%

Source: CoStar, 2022

- 3.5 According to CoStar data rental levels in Luton have dropped over the past year, by about 4% to an average rental level of £22.20 psf. This potentially leads to greater risk of PDR conversion due to falling rental levels making assets seem less attractive to investors.
- 3.6 There is some retail construction proposed in Luton. The most notable being Power Court with 21,140 sq. ft. of retail being delivered as part of a mixed-use development which also includes 1,200 residential homes and a new football stadium.
- 3.7 There is also a proposed Aldi supermarket on Gipsy Lane (16,899 sq. ft.) and 15,000 sq. ft. of ground floor retail space being delivered as part of a residential development on Midland Road.
- 3.8 In terms of sales transactions, the only major recent retail sale has been the sale of Dallow Road Retail Park which consists of a 90,000 sq. ft. B&Q and newly delivered 19,000 sq. ft. Aldi supermarket. This was sold for £31.3 million in August 2021 delivering a Net Initial Yield of 6.2%. This reflects a strong sales performance but is likely reflective of the covenant and long remaining lease lengths of 9 and 17 years respectively.

- 3.9 The relatively strong retail performance in terms of low vacancy and relatively strong capital values suggests that the strongest stock is not at risk of residential conversion. However, if vacancy levels start to grow and new retail stock is delivered detracting from secondary stock then there is a potential risk of conversion of certain assets.

Specific Area Review

- 3.10 The above section shows the overall retail 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 3.2: Area by Area Retail 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	£172	£150	£27	£25.97
District Centre	£384	£54	£29	£25.99
Neighbourhood Centre	£201	£39	£23	£27.15
Out of Town Retail	£371	£46	£23	£25.60
Suburban Retail	£426	£40	£20	£26.58

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.

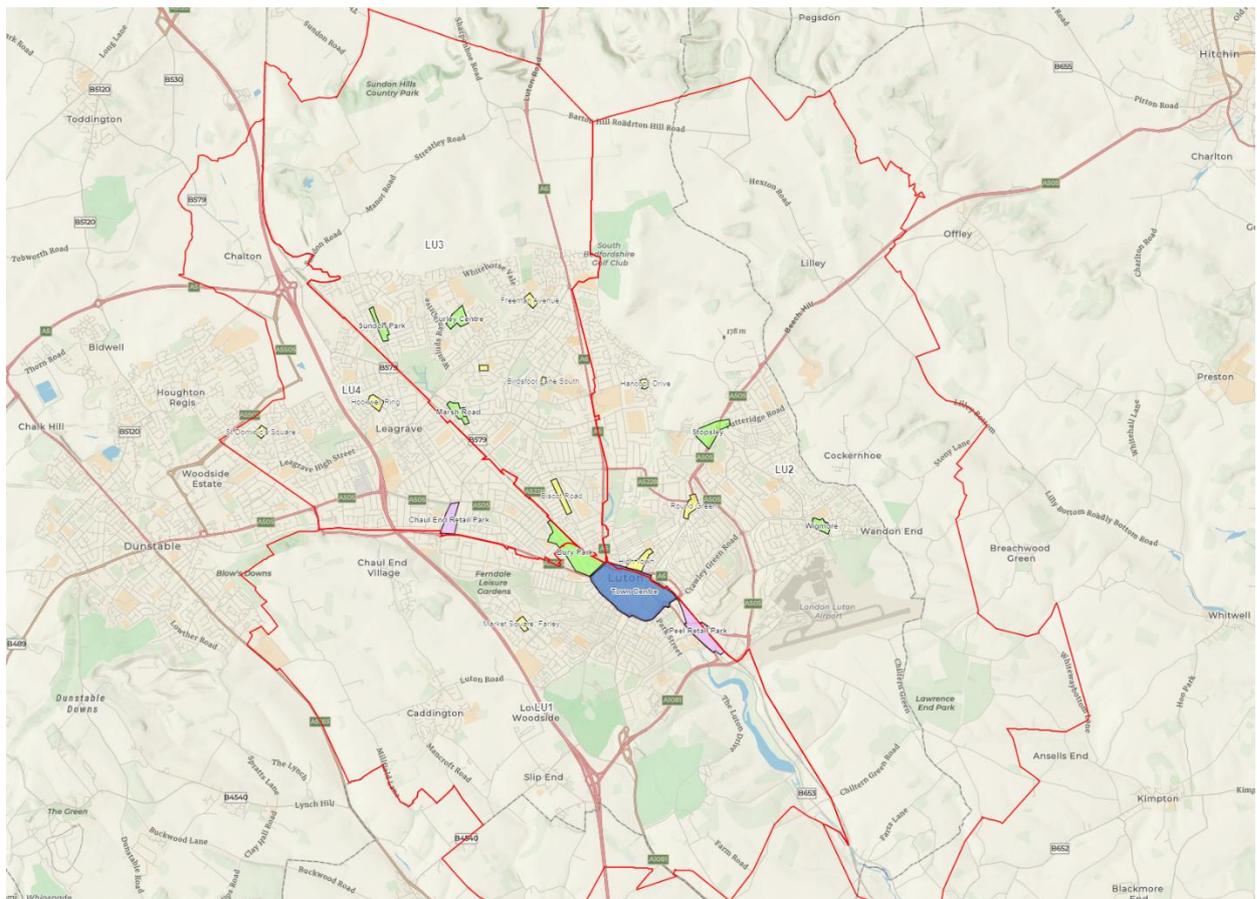
- 3.12 Table 3.3 shows the variation in rental in the different study locations. It shows that sales values are relatively low in the town centre but that overall rental values remain high with average rental values on recent transaction only bettered by the District Centres.
- 3.13 The sales values achieved in District Centres and Out of Town Centres is potentially reflective of better-quality stock than other locations.
- 3.14 A look at the estimated rental value shows very little variance between locations. This means that some areas are not necessarily at greater risk than others.
- 3.15 Consideration should also be given as to where residential markets are strong, Table 2.1 shows that LU4 is the strongest performing postcode district in terms of residential values and so

underperforming stock in this area could also be at particular risk of residential version where the disparity between retail and residential values may be greatest.

3.16 The study areas within LU4 are: Hockwell Ring and St Dominic's Square Neighbourhood Centres and Chaul End Retail Park.

3.17 Figure 3.1 below shows how the areas relate the postcode districts, the postcode districts which do not fall in the Luton Council area have been discounted (LU5, LU6 and LU7):

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 conversion of retail premises to residential use.
- 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 Currently the permitted development rights conversions in Luton are mainly limited to office premises. However, the change in planning use classes puts all uses within Class E, including retail at potential risk.
- 4.4 The relatively strong retail performance in terms of low vacancy and relatively strong capital values suggests that the strongest stock is not at risk of residential conversion. However, if vacancy levels start to grow and new retail stock is delivered detracting from secondary stock then there is a potential risk of conversion of certain assets.
- 4.5 However, current market trends including the uncertain around the war in Ukraine, rising inflation and increased cost of living is putting downward pressure on spending and this is therefore putting retail premises at risk.
- 4.6 Reviewing retail sales values on an area-by-area basis in Table 3.3, shows that the town centre may be at most risk due to relatively low values achieved although this may be reflective of secondary stock transacting and higher quality stock not being sold in the study period.
- 4.7 Better quality retail properties will likely still command high enough values to not be at risk of residential conversion. However, secondary stock may be at greater risk.
- 4.8 Consideration should also be given as to where residential markets are strong, Table 2.1 shows that LU4 is the strongest performing postcode district in terms of residential values and so underperforming stock in this area could also be at particular risk of residential version where the disparity between retail and residential values may be greatest.
- 4.9 Therefore, particular consideration should be given to these locations in terms of Article 4 Directions, particularly as it is important to maintain a supply of retail premises to cater for a growing residential population.

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