

APPG for Ending Homelessness and APPG for Housing Market & Housing Delivery
Joint inquiry into Housing Solutions for Homeless Households – Rethinking Conversions
Response from Propertymark
March 2023

Background

1. Propertymark is the UK's leading professional body of property agents, with over 17,000 members. We are member-led with a Board which is made up of practicing agents and we work closely with our members to set professional standards through regulation, accredited and recognised qualifications, an industry leading training programme and mandatory Continuing Professional Development

Overview

2. The APPG for Ending Homelessness launched a joint inquiry with the APPG on Housing Market and Housing Delivery into Housing Solutions for Homeless Households on 24 January 2023. The goal of the joint inquiry was to explore views on how office and commercial space could be converted into genuinely affordable, decent housing to boost supply for those experiencing homelessness and other low-income households.

Methodology

3. In order to gain a full understanding of any potential barriers to commercial property being converted to residential use, Propertymark's Research and Policy and Campaigns Officers spoke to members of Commercial Advisory Panel in a series of interviews. Propertymark Advisory Panel members are made up professionals working in the sector with decades of experience in buying and selling commercial property. These interviews were followed by an additional survey sent to all Propertymark members who answered a series of questions on the feasibility of and barriers to successful conversions.

Summary

4. In principle, Propertymark is supportive of converting vacant or underutilised commercial property for the use of developing new homes. Propertymark is fully aware of the current housing supply issues facing the country and the conversion of empty or underutilised commercial property into affordable housing may help to address these issues. However, there are several key issues that must be addressed in order for conversions to be successful:
 - **Set standards** – conversions of commercial property will require set standards in order to ensure quality homes are delivered and the conversions meet all the essential needs of new residents. This will prevent conversions being isolated in areas and opportunistic development. When deciding suitability, location, energy performance, size of the building and the ability to deliver the necessary infrastructure within the building were all highlighted by Propertymark members.
 - **Essential requirements for domestic properties** – the suitability of each conversion would have to be reviewed individually. Our members expressed concerns that some conversions

they were aware of did not meet the standards of homes that you would expect. For example, residential properties require 24-hour heat and water, which commercial properties do not to the same extent. Consequently, a conversion from commercial property to residential would require a substantial refit of building materials and internal plumbing systems which would result in a poor quality of life for residents if delivered to a poor standard.

- **Consistent application through planning decisions** - various issues within the planning system will need to be addressed. This is to ensure consistent approval of conversions which will provide confidence to developers and ensure that poor quality conversions are not approved.
- **Financially viable**- conversions will need to be financially attractive for developers and building owners to consider them. If conversions are not financially viable, they will not be delivered. Members are more in favour of grant funding rather than cuts to residential property developer tax to encourage conversions.

Questions

Question 1: Do you agree that there is scope to use commercial to residential conversions to deliver good quality, genuinely affordable settled homes for people experiencing or at risk of homelessness and others on low incomes?

5. When speaking to our members, there was general agreement that this could provide a solution to the current housing crisis and undersupply of affordable accommodation. Only a minority (9%) of members had never discussed the potential of converting commercial properties, and all but two members surveyed stated that commercial to residential conversions were at least a potential option. Some respondents even estimated that a large portion of their properties could be suitable. However, emphasis was made on the need to judge the suitability of residential conversions on a case-by-case basis.
6. Those who did not believe that there was scope to convert commercial property stated that the commercial property was likely a vital asset that the local community would need or that the vast majority of their clients would be unable to afford conversions.

Question 2: If appropriate to your organisation, are you willing to invest in this type of conversion? If so, what rent would you plan to let the end property at? If not, why not and what would need to change to make it viable?

7. While our members are agents, and therefore do not decide whether or not to invest in conversions, they did generally agree that some of the owners of the properties they manage may be willing to invest in this type of conversion. Three areas were highlighted as reasons influencing investment in this type of conversion:
 - **Shortage of suitable property** – some of our members expressed an interest in supporting conversions, citing the UK's current housing shortage and changing demand for office space. However, even with the increase in people working from home, the demand for office space differs across the UK which will affect the supply of empty

office space suitable for conversion. In London for example, demand for office space continues to outstrip supply, as the working office culture has not shifted despite the pandemic. Therefore, viability is driven by the supply of suitable property in a given area, be that residential or commercial.

- **Financial incentives** – were considered the most important barriers to viability for suitable conversions. Property owners and developers will need reassurances that any conversion projects would be profitable and potential owners of the individual properties would require assurances that purchasing any property in these conversions would be financially rewarding.
- **Role of local authorities** – an alternative way ensure that these conversions are workable from a financial perspective would be through central or regional funding projects that developers can apply for, so that they can deliver these homes and sell them at a cost that will be attractive to landlords and the building owner. These funding projects could incorporate minimum standards that set the benchmark for future conversions based on the outcome of these projects.

Question 3: What are the constraints on being able to make such conversions work to deliver truly affordable housing for mixed communities, including ensuring it is accessible for people facing homelessness? How can these be addressed?

8. Our members highlight that there are three constraints on being able to make such conversions work to deliver truly affordable housing for mixed communities, including how these can be addressed:

- **Delays due to the misinterpretation of planning and the consistency of planning laws** – our members stated that there are inconsistencies to how planning permission is approved. Many shared instances when similar projects to ones previously accepted can be rejected by the same local authority without clear reasons as to why. This creates a situation where developers are less likely to take risks producing detailed project plans, as they fear they will be rejected. There are also fears that UK Government legislation for all local authorities to develop their own local plans, with greater emphasis on community input over the approving of planning applications, could lead to greater inconsistency of approved developments. We therefore call for greater clarity and guidance over what should be considered an acceptable conversion, with an emphasis on high standards and quality affordable homes.
- **Inconsistent local authority enforcement which leads to developers to make significant changes to their original application and flout planning laws** – local authorities are significantly under resourced and are sometimes unable to prosecute some developers whose developments do not meet the standards set out in their application. Members even brought up cases where developers had agreed to build rental property but advertised and sold the property to homeowners. If a programme of high-quality conversion is to be effective, local authorities will need significant resources to carry it out and ensure that developments meet high standards and follow through with their original applications. If additional funding for local

authorities cannot be provided, we would urge for a centrally funded deterrent system as part of a national conversion programme.

- **Building owner's attitudes to conversion** – large-scale affordable housing continues to have a poor reputation and some commercial property owners would not be willing to convert even if the property itself was suitable. Propertymark members estimate that less than half of property owners may be open to the concept of converting their commercial properties. To resolve this, conversions must be made financially viable and attractive to building owners.

Question 4: How would you define affordability criteria in regards to housing, both in terms of these potential conversions and the wider context of affordable housing across other tenures?

9. If a national programme of conversions were to take place, affordability should be considered at a local level. We would discourage a flat rate against market rents but would support a detailed examination of market rents against the average income of the local area. Affordable housing should also take into account Local Housing Allowance rates to ensure that tenants who are benefit recipients are also able to afford the rent.

Question 5: Are there changes that need to be made to PDR or full planning permission to facilitate the right type and quality of conversion more easily or to make undertaking this more attractive?

10. Yes, we think there are four changes that need to be made to PDR or full planning permission to facilitate the right type and quality of conversion more easily or to make undertaking this more attractive.
 - **Firstly, the speed of the planning process must be addressed** – a national commitment to fast-track conversions with set high standards could ensure this. Developers with a proven track record of delivering these conversions to set standards could be prioritised through planning in order to carry out these conversions quickly and effectively.
 - **Secondly, prevent developers sitting on land or approved developments that they have not started or completed** – one way in which this can be achieved is to include an agreement that developers must sign that includes the requirement to sell land back to the local authority if works have not commenced after an agreed time.
 - **Thirdly, produce planning exemptions or guidance for conversion projects in Grade-listed buildings** – our members have serious concerns over current interpretation of regulations affecting planning permission for certain buildings. For example, some local authorities may be more reluctant to approve developments affecting grade-listed buildings or buildings that they consider to be essential to the character of their local areas. By providing guidance on how to carry out such conversions, such as a requirement to only develop the interior of the building, as long as the exterior is not touched, we can overcome this barrier.
 - **Fourthly, ensuring conversions work alongside existing and future local plans** – local plans may include passages that emphasise retaining commercial property or prioritising new builds above conversions. In order for this project to succeed, a large-

scale programme of conversion will require clear guidance on when permission can be granted, enforceable by the central government that cannot be blocked by local plans. Otherwise, development projects run the risk of being delayed or rejected even when these developments produce good outcomes.

Question 6: What measures need to be in place to ensure high standards and good quality conversions? Is existing legislation sufficient or does it need to be further improved? If so, how?

11. In order to ensure consistency across the UK, there should be a set of centralised standards that developments will have to meet. Be that through new legislation or requirements in order to receive additional grant funding if this is pursued as part of a national programme. We do not believe that existing legislation provides sufficient standards as it is often inconsistently interpreted and local authorities often do not have the required resources to enforce their standards. Developers therefore require a set of minimum standards that are simple and easy to follow. Standardisation of developments also increases the speed at which conversions can be completed and improves enforcement capabilities as local authorities understand exactly what they need to inspect.

Question 7: What would a set of minimum standards look like? Should these be enshrined in planning law so that sub-standard conversions are not possible?

12. A minimum set of standards should be enshrined in planning law. We recommend that these standards be consulted on further, however we recommend that they should be made up of four key elements. Firstly, a minimum number of facilities for tenants both inside their properties and include minimum standards for building materials to ensure that the properties are suitable for residential use. Secondly, minimum requirements of space within property and have multiple sizes of property available to support different sizes of households. Thirdly, conversions should be chosen based on their location to community assets, including schools, medical care, shops and other essential needs. Residents should also have access to suitable parking. Fourthly, prioritisation of mixed conversions, which combined with a beneficial location, can help facilitate pride residents have in their homes and communities.

Question 8: What are the criteria that would/would not make a building suitable for conversion? For example, the type of building and proximity to amenities.

13. There are five key factors that would make a building suitable for conversion. Firstly, conversions must be located within easy access to local infrastructure. This will ensure that tenants within these properties have access to jobs, public services and local transport. Secondly, for those with cars, sufficient parking will be essential. Thirdly, buildings must be assessed as feasible for residential use, taking into account the amount of hot water and electricity that will be required. Fourthly, the need for windows and minimum amounts of natural light and ventilation in each habitable room. Fifthly, members pointed out that five to six storey office blocks would be good for development, although each will need to be assessed on an individual basis.
14. There are three key factors that would not make a building suitable for conversion. Firstly, Properties that are located within industrial areas with little access to the majority of

community assets would not be suitable as they would risk the conversions being isolated away from other residential areas. Secondly, office buildings that are part occupied where the tenants would need to be removed before conversion. Thirdly, commercial premises with huge floor plans, high ceilings and whether the lifts and elevators have to be removed.

Question 9: Where do you think the most potential for commercial to residential conversions lays? For example, thinking about location or whether this is more suited to a particular type of developer.

15. We think the most potential for commercial residential conversions are those that are attractive to landlords to invest in, or if conversions are financially viable for developers. For instance, Propertymark is aware of some developers who are social enterprises and specialise in developments which deliver affordable housing. These developers should be targeted for the delivery of these conversions, especially if they have a good track record of doing so.

Question 10: What is needed to overcome negative perceptions of such conversions and make them a viable contribution to the housing crisis? For instance, are there wider community benefits that could be achieved?

16. We believe that two things are needed to overcome negative perceptions of such conversions and make them a viable contribution to the housing crisis. Firstly, quality assurance. If conversions have been made at a cost that insufficiently provides the facilities residents need, or if the quality of homes is made to a poor standard, then negative perceptions of affordable housing will remain. That is why conversions should only take place in suitable locations and high standards must be met. Secondly, wider investment and community appeal. New residents in cities and towns would help to sustain existing businesses that have suffered during the pandemic and due to changing consumer habits, and so enhance the local area's appeal for new commercial and retail tenants. This could also help justify investments in parks and green spaces, wider roads and pavements and other improvements.

Question 11: Do you have any views or experience around selling and renting commercial-to-residential conversion properties? What seems to have worked well and not so well with such properties so far?

17. There are three key factors from our members who have experience of selling and renting commercial to residential conversion properties. Firstly, space is the biggest issues. Conversions that try to fit in as many residential units as possible with little regard for the size of the properties or the need for essential amenities produce poor living conditions. Secondly, avoid isolation. Conversions set in rural areas, that are away from other residential areas or remote from the rest of the community are at risk of being isolated. Thirdly, avoid inconsistent planning rules. Inconsistencies and length of time to obtain planning permission leads to development delays and cancellations. A clear national set of standards that are easy to understand should drive conversions.