

City Space Race

Balancing the need for homes
and offices in cities

Rebecca McDonald and Hugo Bessis
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About the authors

Rebecca McDonald is an analyst and Hugo Bessis a researcher at Centre for Cities:

r.mcdonald@centreforcities.org | 0207 803 4325

h.bessis@centreforcities.org | 0207 803 4323

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01.

Executive summary

Competition for space is becoming more acute as the economy clusters ever more in cities, particularly in city centres. Previous work by Centre for Cities has shown that high-skilled, knowledge-based jobs are increasingly located in successful city centres because of the benefits on offer compared with other parts of the country.¹ This has sparked a revival in city centre living, as the most vibrant city centres once more offer the lifestyle that residents – specifically young professionals – are looking for.

The revival of city centre living means a growing number of cities face the challenge of balancing the needs for both commercial and residential property. City centres do not have unlimited supplies of land so accommodating continually growing numbers of residents and businesses requires difficult policy choices about which types of property to prioritise. Cities must ensure the commercial heart of the city is not squeezed by housing development if they are to continue to provide jobs for people who live in and around them.

This has long been a challenge in central London, which has taken the decision to prioritise commercial over residential property, in light of constraints on space. It has been much less of an issue in the centres of other large cities, such as Manchester and Birmingham. This is despite strong increases in demand for residential and commercial space in recent years, because of the large amounts of land they have had available for development. But the resurgence of these cities means how land is used is an increasingly urgent question.

Currently, planning policy compounds this threat to commercial space. The sustained prioritisation of brownfield land, combined with opposition to city expansion, means development has not kept up with growth, intensifying competition for space. Rather than directly addressing this shortage of land, the

¹ Serwicka, I, Swinney, P (2016). Trading Places, London: Centre for Cities

recent introduction of permitted development rights (PDR) squeezes commercial space further where residential demand is high, by allowing the conversion of commercial buildings into residential usage without the need for planning permission.

The policy has no doubt helped to deliver new homes. Nearly half of new homes in Crawley and 34 per cent in Slough are due to PDR, but this has come at the cost of commercial space and so threatens the contribution that cities like these make to the national economy. It is right for policy to aim to provide more housing in cities where demand is highest, but these homes should be additional to commercial space, not instead of it.

To ensure cities are able to provide the commercial space they need for economic success and to sustain their roles as places of residence, the following policy changes should be made:

- 1. Prioritise commercial space in city centres.** Building on the exemptions that the Government has already given to selected city centres, all city centres should be offered exemptions from commercial to residential conversions under PDR. While the policy plays an important role in converting disused business space into new homes in suburban locations, it restricts the ability of city centres to provide sufficient commercial space crucial for their future economic growth. Though residential use may generate a greater return than office use for a specific building, conversion is not always the best use of space for the city economy as a whole. To ensure city centres are able to play their role as places of production, the exemptions which already apply in some areas, such as central London, should be extended to cover all city centres.
- 2. Relax planning constraints that limit the development of new homes.** The green belt restricts the ability of cities to expand outwards, while conservation areas – and protected views in London – constrain their ability to build upwards. These regulations need to be relaxed if our most successful cities are to provide the homes they need without squeezing out space needed for commercial property.
- 3. Devolve missing policy powers to big cities.** Each part of a city region has a distinct economic role to play. Some are better placed to provide housing while others better suit commercial space. Most city regions with a mayor have formal powers to plan across their areas. But the mayors of the West Midlands and Tees Valley do not. Two things should happen – firstly, the Government should give these mayors the same powers as their colleagues elsewhere. Secondly, other big cities should be given a devolution deal at an appropriate geography so that they can better manage the supply of residential and commercial space.

02.

Introduction

How cities use their land is a politically charged topic. There are strong and differing opinions about how land should be allocated, be they protests against building on the greenbelt, campaigns to protect the line of sight of St Paul's Cathedral in London, or recent objections by conservationists to new developments in Manchester city centre. All create fierce debate.

There are also many competing goals when managing land. Politicians want to conserve character, provide affordable housing, safeguard the future of cultural venues, protect the surrounding countryside and accommodate a growing number of businesses. The challenge is that a number of these goals are opposed to one another.

To make informed decisions about how cities should use their space, it is important to understand the role they play within the UK economy. Specifically, cities play three roles. They are places of production, places of consumption and places to live. In order to support the success of cities, the role of policy is to maintain all three roles within a limited amount of land, and this requires planning authorities to make difficult choices and trade-offs.

In making these choices, the relationships between the different roles of a city must be recognised. In particular, the success of a city as a place of residence and a place of consumption is usually reliant on its success as a place of production. The creation of jobs drives up demand for housing, while the wages these jobs pay increase demand for services such as shops and restaurants.

The balance that policy needs to strike is to support the growth of all three roles without restricting the supply of commercial space available.

In aiming to better inform choices over how land is used, this report does three things. Firstly, it sheds light on why competition for space develops, which UK cities are currently affected and which may develop the problem soon. Secondly, it investigates the role that policy has played in intensifying this competition. Finally, it proposes what policymakers should focus on to tackle the issue and prevent it affecting more cities.



03.

The geography of demand for residential and commercial space

Cities are attractive locations to both businesses and residents, but do not have unlimited space to accommodate them. As a result, commercial and residential properties compete for space, especially in city centres.

This threatens the economic success of cities. Increasingly, the most high-skilled, productive firms are looking for a city centre location. Not being able to offer them appropriate commercial space has implications not only for the productivity of the UK's cities themselves, but for the national economy too.

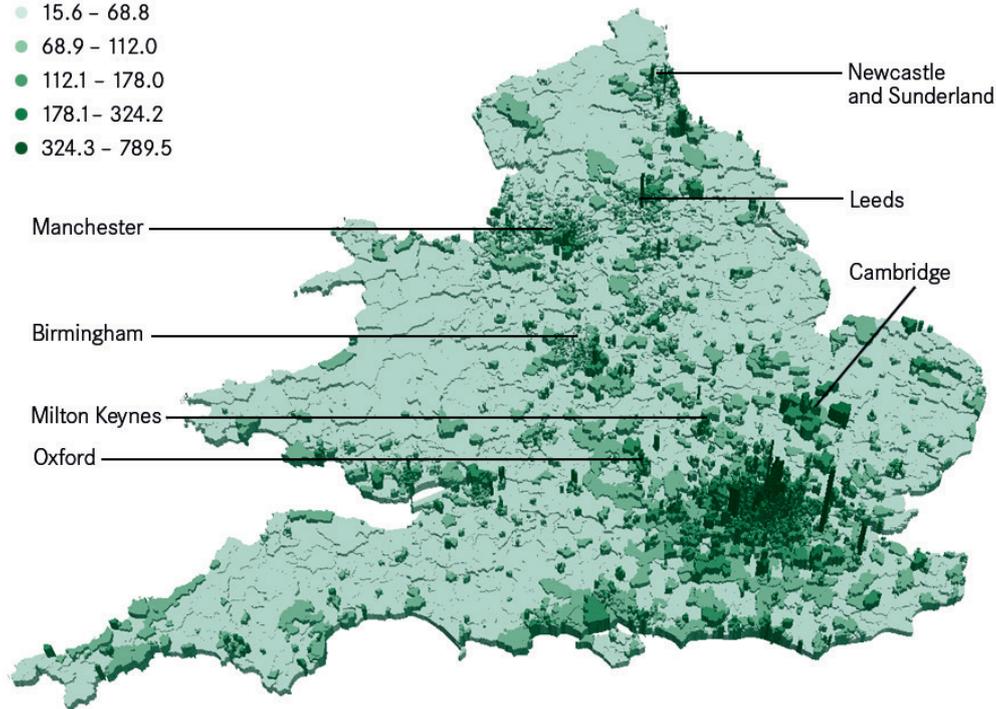
The most productive businesses favour a city centre location

Demand for commercial space is not evenly spread across the country. Figure 1 looks at the rateable value per square metre (a proxy for rents, see Box 1) across England and Wales. As can be seen, prices are highly variable, suggesting businesses have a stronger preference for locating in some areas over others.

Prices tend to be highest in cities. Cambridge and London are the most expensive business locations, with a median rateable value of £192 per m², compared with the English and Welsh median of £81 per m². Within cities, there is great variation in prices. In London, prices are above £600 per m² in parts of the boroughs of Hammersmith and Fulham and Kensington and Chelsea. In comparison, prices fall below £80 per m² in parts of Barking and Dagenham and Havering.

Figure 1: Median rateable value per m² of commercial property, 2015**Median rateable value per m² by MSOA, 2015 (£)**

- 15.6 – 68.8
- 68.9 – 112.0
- 112.1 – 178.0
- 178.1 – 324.2
- 324.3 – 789.5



Source: VOA, 2017

In particular, city centres contain some of the most expensive commercial properties. London has by far the most expensive city centre, with a median rateable value of £424 per m². The median rateable value in the city centre of Cambridge is £250 per m², compared to £161 per m² elsewhere in the city, and in Manchester the median city centre price is twice that of the suburbs (£146 per m² and £71 per m² respectively). In total, all of the 58 city centres in England and Wales have a higher median commercial property price than their respective suburbs, except for Aldershot and Portsmouth.

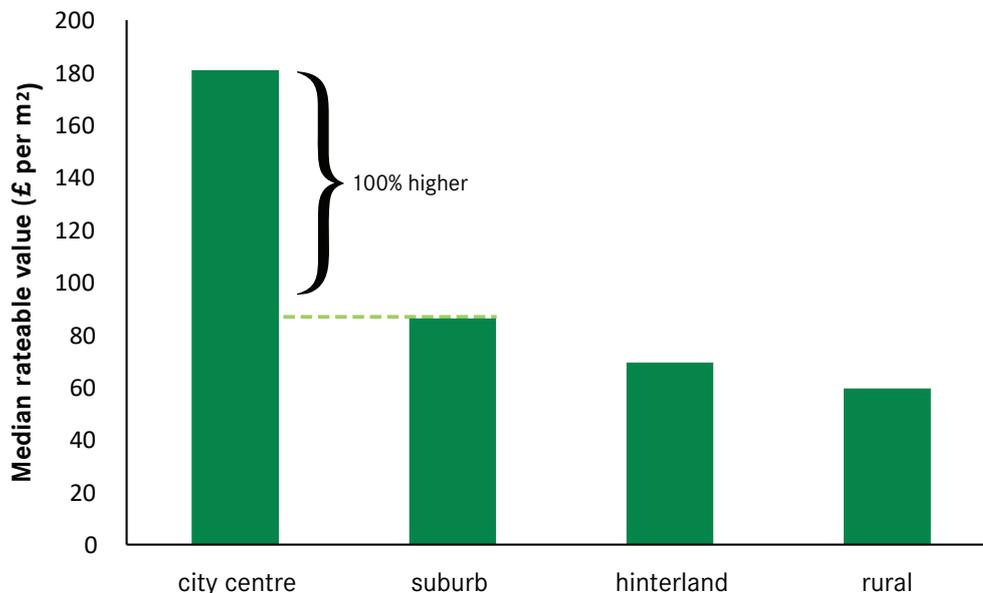
A number of commercial areas within suburbs have particularly high prices too. These usually correspond to shopping centres and retail outlets, a number of which can be seen on the map, such as Bicester Village near Oxford (£191 per m²) and White Rose near Leeds (£374 per m²). A few of London's satellite towns, such as St. Albans and Guildford, also stand out as having relatively expensive commercial space.

Businesses favour urban areas because they provide one major benefit – proximity. For a large number of workers and firms, cities offer proximity to shared infrastructure and to integrated supply chains. For this reason, 60 per cent of jobs in Britain were located in cities in 2016.

In addition, the density in city centres provides businesses with access to knowledge. Close geographical proximity to other firms encourages innovation, creates deep networks and increases information sharing.² These benefits are particularly important to knowledge-intensive, high-skilled industries, such as finance or marketing.

The benefits on offer in city centres are strong enough to persuade firms to pay a considerable premium to be there.³ High demand from firms for these central locations pushes up the price of property. On average, the price of a commercial building in a city centre is double the price of one in the suburbs, as shown in Figure 2.⁴ Despite covering just 0.1 per cent of Britain's land, city centres were home to 41 per cent of all knowledge-intensive jobs in 2015. For these businesses it is worth paying for access to knowledge.⁵ On the other hand, firms that rely less on knowledge prefer to locate in the suburbs and hinterlands where they can access cheaper, larger premises.

Figure 2: Median commercial prices by degree of urbanisation, 2015



Source: VOA, 2017

² Storper, M, Venables, A, (2004). Buzz: face-to-face contact and the urban economy. Oxford: Journal of Economic Geography, Volume 4, Issue 4

³ Swinney, P (2017). Why don't we see growth up and down the country, London: Centre for Cities

⁴ City centres are defined based on all the postcodes that fall within a circle from the pre-defined city centre point. The radius of the circle depends on the size of the residential population of a city and its size is as follows: London – radius of 2 miles, large cities – radius of 0.8 miles, medium and small cities – radius of 0.5 miles

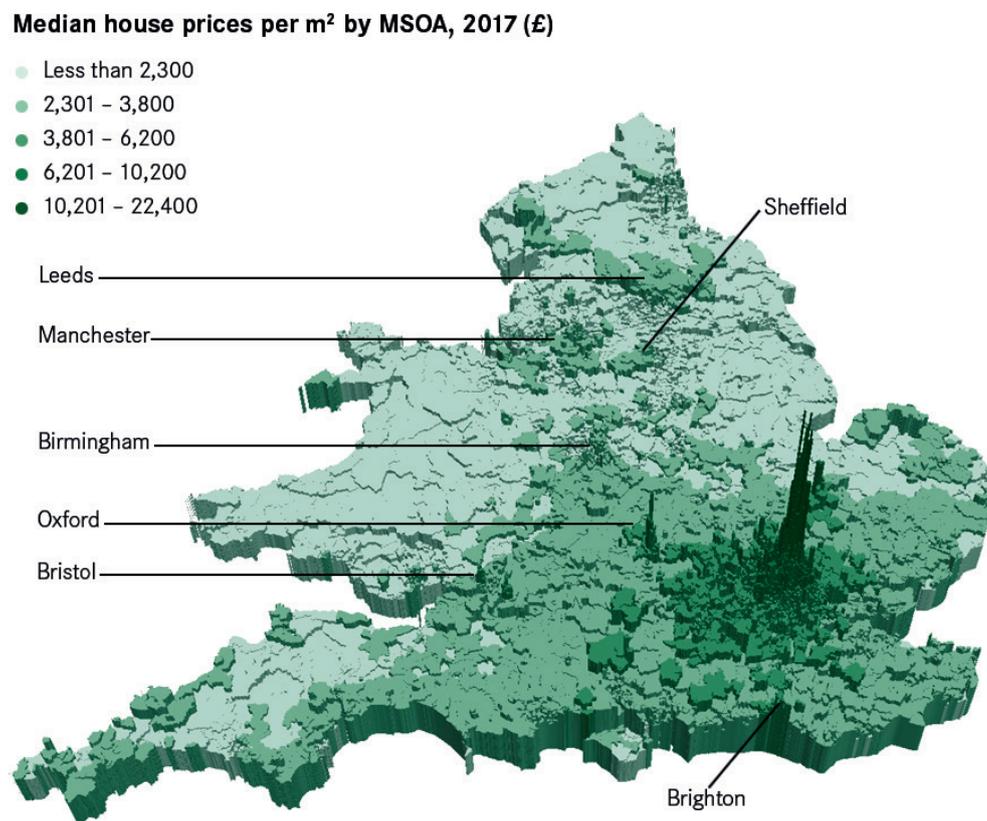
⁵ Serwicka, I, Swinney, P (2016). Trading Places, London: Centre for Cities

These high-skilled firms generate demand for local services, creating jobs in the city centre.⁶ Policymakers should encourage these industries to locate in city centres to ensure they succeed and this benefit is realised.

Residents are attracted to both city centre and suburban locations

The distribution of residential prices is slightly different to commercial prices. Figure 3 shows how the median price paid per m² for housing varies across the country. The map shows four broad price levels, centred on London and decreasing with distance from the capital.

Figure 3: Median residential price per m², 2017



Source: HM Land Registry, 2018. MHCLG, 2017

First, the most expensive properties are in the capital. In most of central London, prices are above £6,200 per m², with values peaking in Soho and Marylebone (at around £20,000 per m²), as well as parts of Kensington, Chelsea and Pimlico (above £18,000 per m²). Second, central London is surrounded by a ring of

⁶ E. Moretti finds that, in the US, for one high-tech job created, five are created in the local service sector

suburbs where prices range between £3,800 and £6,200 per m².

The third price level highlights that property remains relatively expensive across the Greater South East. Here, residential property prices range from £2,300 to £3,800 per m². In comparison, prices in the rest of England and Wales tend to be below £2,300 per m², making up the fourth level.

Within all four levels, cities stand out as having higher prices than their surroundings. This is the case with both the southern cities of Oxford, Cambridge and Brighton – where average prices in some areas can exceed £5,000 per m² – and several cities in the Midlands and the north of England, such as Birmingham, Sheffield, Manchester and York, where prices can reach above £3,000 per m².

In many cities, the city centre is relatively more expensive than its surroundings. In Manchester city centre, one square metre of floor space is typically worth around £3,100, compared to £1,800 for the city as a whole. In Leeds, the city centre costs around £2,300, compared to £2,000 across the whole city.

But there are also pockets of high prices in suburban areas. In the affluent suburbs of Solihull, which surround Birmingham, and Stockport, on the outskirts of Manchester, median prices can exceed £3,000 per m².

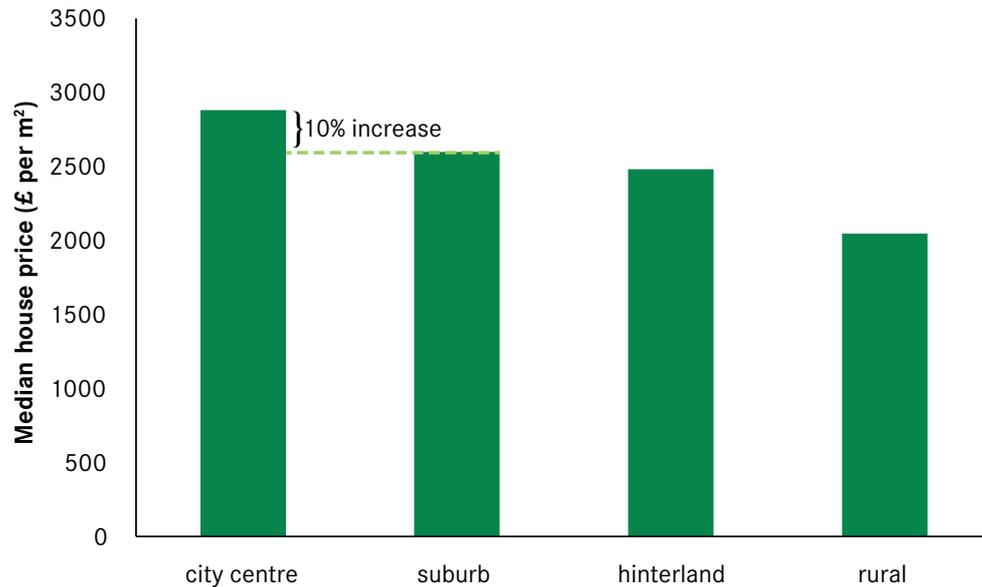
The result is that house prices are more uniform across different geographies than commercial prices. While city centres remain expensive areas to live, house prices do not reduce as significantly as commercial prices in less urban locations. As Figure 4 shows, house prices (per m²) in city centres are on average only 10 per cent higher than suburban prices.

Previous research shows that one of the main draws to city centre living is proximity to jobs.⁷ The clustering of jobs in a city centre creates a consumer market which strengthens the city centre's amenity offer, such as retailers and restaurants. In turn this makes city centres more appealing places to live, particularly young professionals.

The suburbs offer different benefits and drawbacks as places to live. While they don't offer immediate access to the same range of amenities, they do offer access to larger houses and more green space and are less noisy. These benefits tend to appeal to older residents. As a result demand to live in both parts of the city tends to be more even.

⁷ Thomas, E, Serwicka, I, Swinney, P (2015). Urban Demographics: Why do people live where they do? London: Centre for Cities

Figure 4: Median residential prices by degree of urbanisation, 2016-2017



Source: HM Land Registry, 2018. MHCLG, 2017

Competing demands for city centre space threaten cities' roles as places of production

The varying patterns shown in Figures 1 and 2 demonstrate that businesses and residents do not always have the same location preferences. But city centres are attractive to both businesses and residents which means they compete for the limited space on offer. This competition forces difficult planning decisions about which type of property use to prioritise in the city centre.

Strong residential demand can squeeze out commercial space. City centres do not have unlimited land so choices must be made about how to allocate it between the two property uses. There is a risk that priority is given to housing due to the pressure on local authorities to meet specific targets.

But commercial space must be the priority in city centres. Knowledge-intensive firms thrive in these central locations, and generate jobs for the local economy.

Without this space, a city's role as a place of production is threatened.

The attractiveness of the city centre to businesses will be compromised if firms cannot access the premises they need. It is these high-skilled, knowledge-intensive industries that drive productivity growth in the national economy, so restricting their growth is not only bad for the city, but also the UK's prosperity.

Box 1: Measuring commercial and residential property prices

In this report, commercial property prices are measured using rateable values. These values, which are estimates of the annual rental values businesses pay, are periodically calculated by the Valuation Office Agency (VOA) to assess each property's business rates bill. Figures presented here use VOA data that was published in 2017, but report rental values that were estimated in 2015.

Residential property prices were calculated by combining two datasets: Land Registry's Price Paid Data, which collects information on residential transactions including price of purchase, and the Energy Performance Certificate dataset, which provides floor space for a large sample of properties across the country. Two years of residential transactions (2016 and 2017, uprated to 2017 prices) have been compiled to obtain a larger sample size.

The two prices measure different things but their relative size can be compared. Rateable values reflect the annual rental value of properties, while residential property prices measure their selling price.

Prices are expressed as median prices rather than mean. This is to provide a more accurate picture of the property market by giving less weight to outliers. For instance, an exceptionally high one-off transaction could affect average prices per m² in one area, therefore not reflecting the value of most other properties. Median averages are frequently used to express property prices, such as in the ONS HPSSA publications.⁸

High-skilled city centres have the most intense competition for space

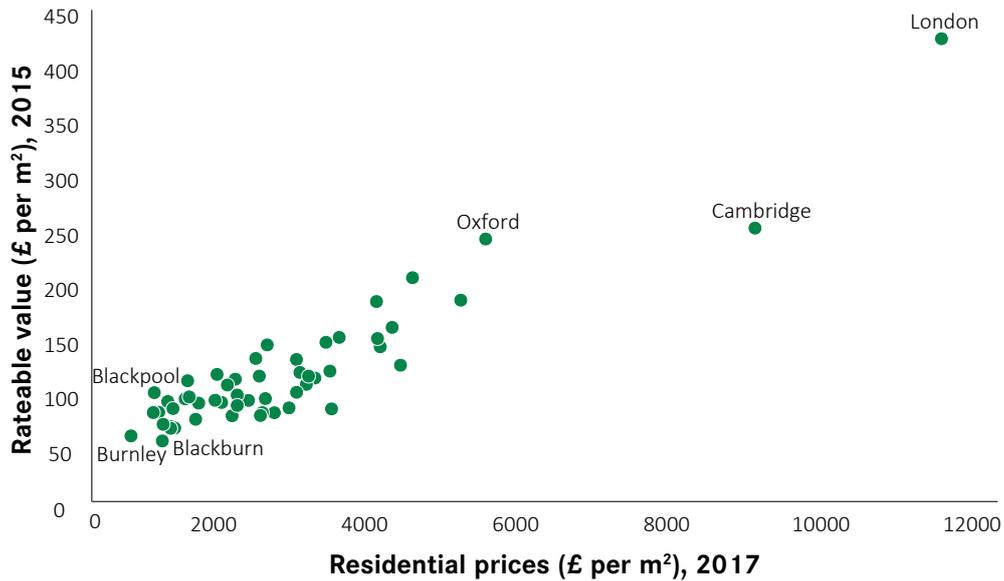
Not all city centres experience this competition for space to the same extent. Figure 5 illustrates this variation by comparing the price of residential and commercial property in each UK city centre.⁹ The two prices are closely linked: the higher the cost of housing in a city centre, the higher the cost of business space.

⁸ See ONS methodology, accessible at: <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/methodologies/housepricestatisticsforsmallareasqmi#concepts-and-definitions>

⁹ City centres are defined based on all postcodes that fall within a circle from the pre-defined city centre point. The radius of the circle depends on the size of the residential population of a city: 2 miles for London, 0.8 miles for large cities, and 0.5 miles for medium and small cities

City centres in the top right – London, Cambridge, Oxford – have very expensive residential and commercial property, while city centres in the bottom left have low prices for both – Burnley, Blackpool and Blackburn, for example.

Figure 5: Residential and commercial property prices by city centre

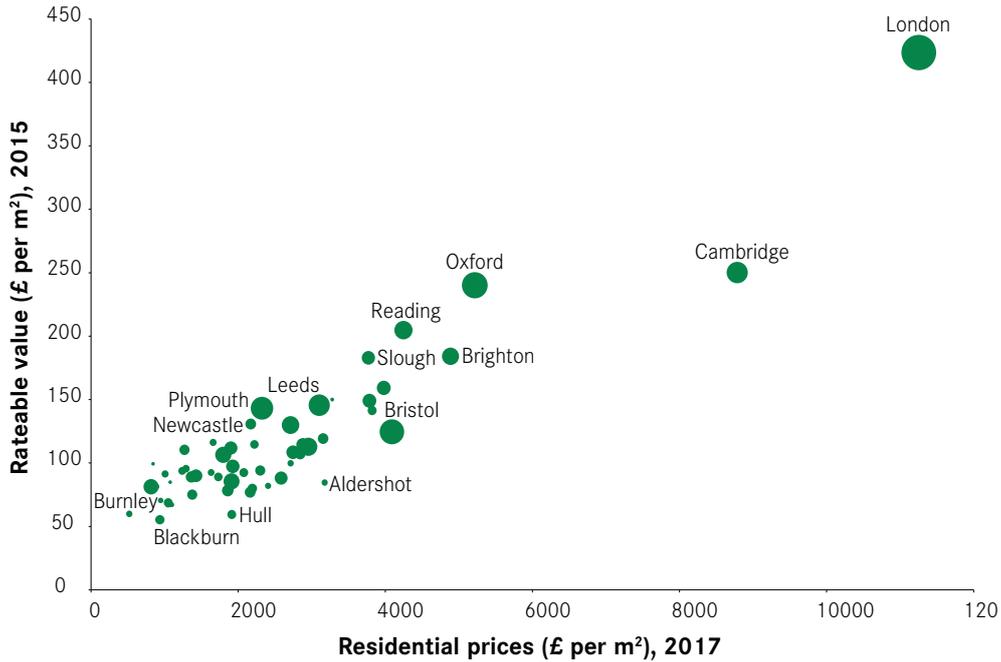


Source: VOA, 2017. HM Land Registry, 2018. MHCLG, 2017

City centres with the largest shares of high-skilled jobs tend to have the most expensive property. As explained above, firms providing these jobs choose city centre locations because of the knowledge spillovers on offer there. But as Figure 6 highlights, not all city centres offer this benefit to the same degree.

Workers with a degree account for 46 per cent of Reading city centre's workforce and 55 per cent in Oxford's city centre, as shown in Figure 6. This reflects the large number of high-skilled jobs in these cities. By contrast, only 21 per cent of those who work in Birkenhead city centre are graduates, while this figure is 32 per cent in Derby.

Figure 6: Share of city centre workers with a degree compared to property prices

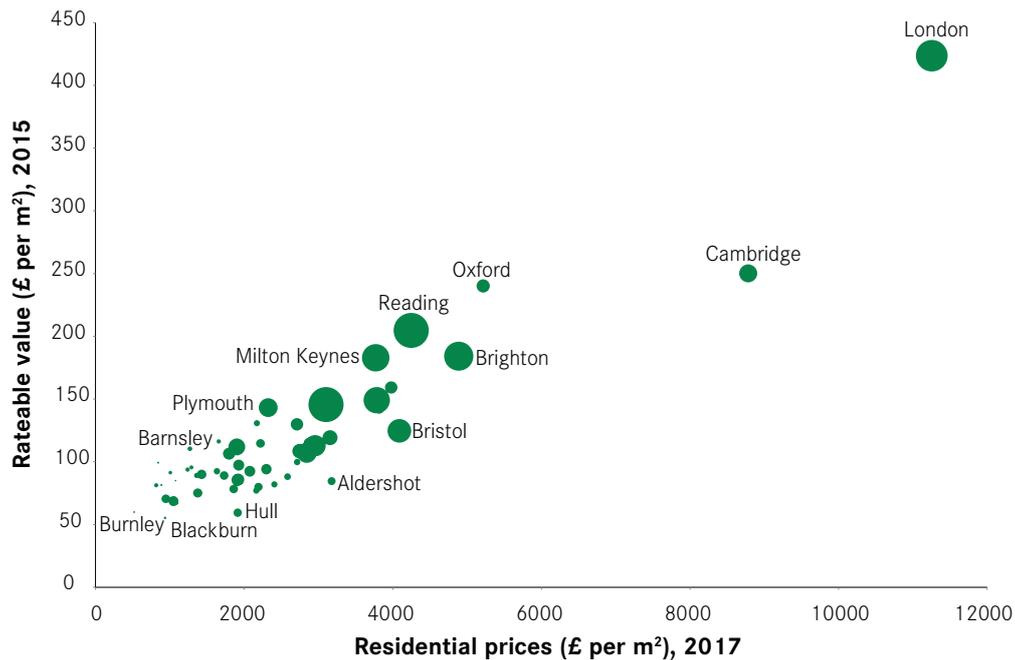


Bubble size: share of city centre workers with a degree

Source: Census, 2011. VOA, 2017. HM Land Registry, 2018. MHCLG, 2017

Many high-skilled workers choose to live in the city centre. Figure 7 highlights how the city centres with the most expensive property also tend to have the highest proportions of residents with a degree. In Bristol for instance, 42 per cent of the city centre population are graduates and half of city centre residents in Reading have a degree. Graduates are drawn to city centres that offer close access to the high-skilled jobs they work in.

Figure 7: Share of city centre residents with a degree compared to property prices



Bubble size: share of city centre residents with a degree

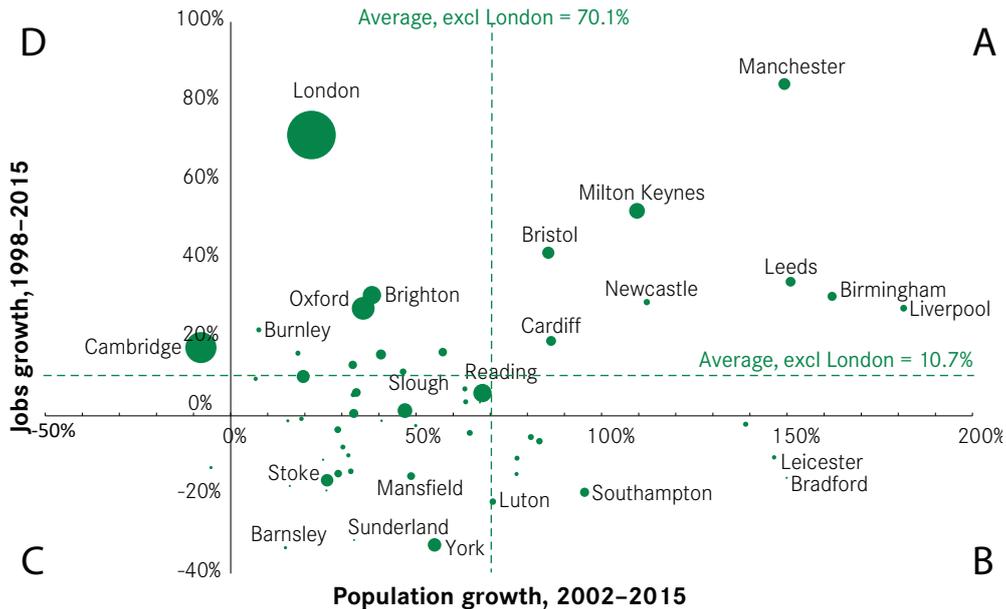
Source: Census, 2011. VOA, 2017. HM Land Registry, 2018. MHCLG, 2017

Looking at these trends over time shows that in recent years many successful city centres have grown in popularity as places to work and places to live. Figure 8 shows the relationship between growth in residents and growth in jobs in city centres across the country. The size of the bubbles represents the price of commercial and residential property (measured using an index of the two sets of prices combined) in the city centre: the larger the bubble the higher the price.

Several groups of city centres are visible:

- Quadrant A: city centres with more jobs and more residents
- Quadrant B: city centres with more residents but fewer jobs
- Quadrant C: city centres with fewer jobs and only slow growth in residents
- Quadrant D: city centres with more jobs but slow growth in residents

Figure 8: Property prices compared to resident and job growth in city centres



Bubble size: index based on residential prices (2017) and commercial prices (2015)

Source: ONS, Small Area Population Estimates, Business Structure Database

The fastest growing city centres in recent years (**Quadrant A**) currently do not have the highest prices. Manchester and Leeds, for example, saw 84 and 34 per cent increases in city centre employment between 1998 and 2015. In the same period, their populations increased by 149 and 151 per cent, with new residents – many of whom were young professionals – likely to have been attracted in by the job opportunities and amenities on offer. The fact that they are not the most expensive city centres suggests there has been enough space to accommodate this growth. In Manchester, for example, the city centre has made room for an additional 20,000 residents (since 2002) and 70,000 jobs (since 1998).

As growth continues, property prices will likely increase as space becomes more limited. While these cities have not had to make specific choices about the use of land in their city centres in the past, this is likely to change in the future if they continue to be successful.

A number of cities in **Quadrant D**, such as London and Brighton, have not seen strong jobs growth matched by strong residential growth. And yet residential prices in these city centres are high, suggesting that residential demand is strong. This points to a restriction in space in these city centres, unlike those city centres in Quadrant A. Accommodating more residents here will require building upwards, increasing density.

City centres in **Quadrant B** have seen the opposite trend, experiencing strong residential growth in spite of very poor jobs growth. Much of this is due to growing student populations. An examination of Census data, which gives greater

detail on the characteristics of residents, shows that in Sheffield the increase in student residents between 2001 and 2011 was equivalent to three quarters of the city centre's population growth, while in Leicester it was 63 per cent.

Population growth due to increases in student numbers is beneficial to these city centres - it will increase footfall and bring activity back into them. The challenge will be to guard against too much commercial space being given over to residential. If their city centre economies are to improve, having commercial space available will obviously be important.

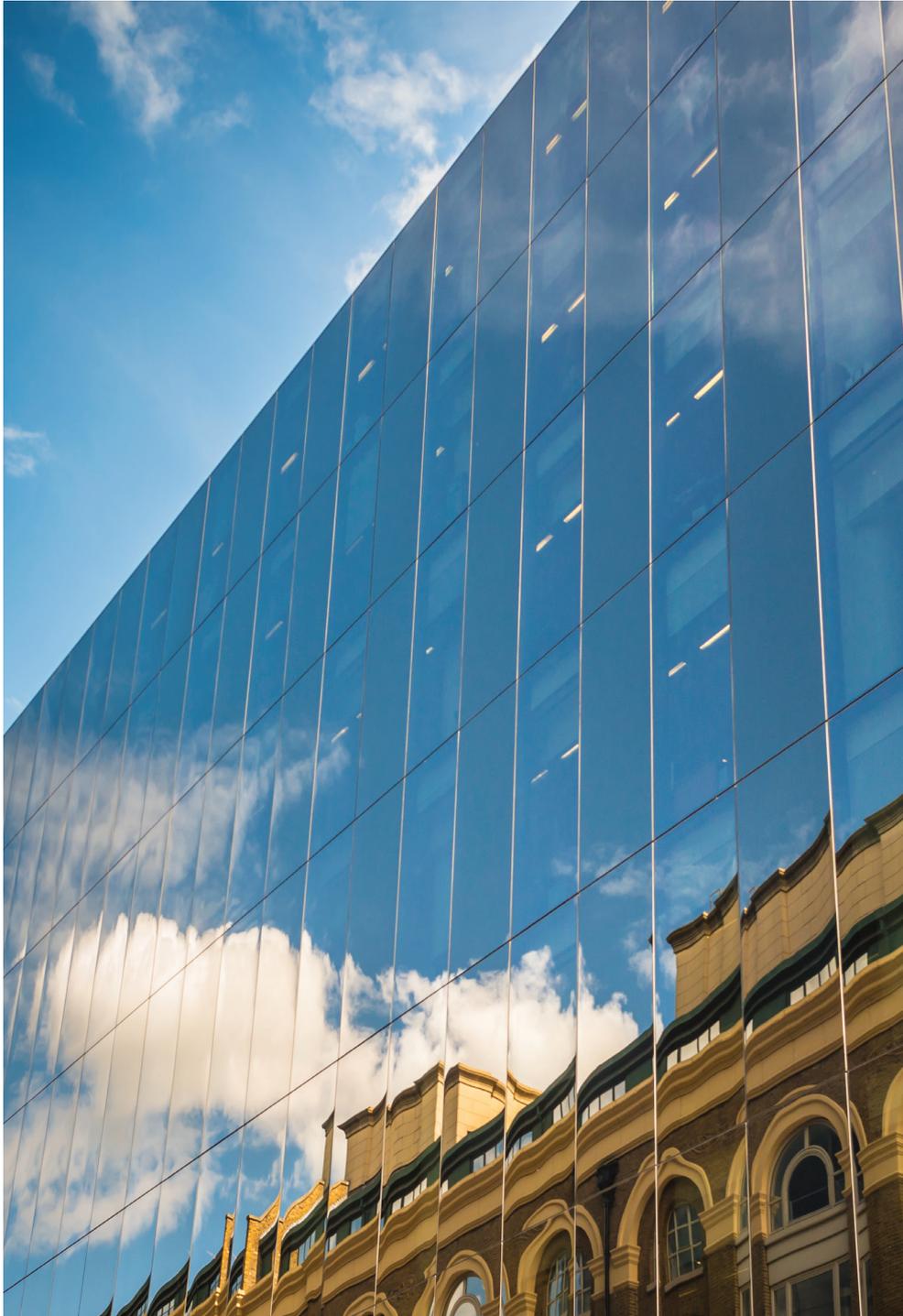
Finally those cities in **Quadrant C** have seen very sluggish growth in both residents and jobs. Looking at the varying prices of space within this group suggests that this has occurred for two different reasons. In inexpensive city centres, such as Barnsley and Mansfield, this is likely to be because they have not been very attractive to high-skilled business investment (reflected in their low shares of higher-skilled jobs, as shown above), and this in turn has meant that residential growth has been weak (and there has been little demand from higher-skilled workers to live there, shown by the low share of degree-holders living in these city centres).

In a city centre like York, where property is relatively expensive, its low growth in part may have resulted from restrictions in space as a result of its historic centre. This makes York much more like cities in Quadrant D, such as Cambridge, where constraints on the availability of space requires choices and trade-offs about how land is used.

As the UK continues to specialise in ever more knowledge-based activities, demand for a city centre location is likely to continue to increase. In weaker city centres, the challenge will be to get growth going, making them more attractive to higher-skilled business investment. But the choice between how space is used – either for commercial or residential – is not likely to be one that requires a trade off because of the availability of land.

In more successful city centres in Quadrants A and D, the challenge will be to continue to increase the supply of commercial and residential space to match rising demand. Within this, commercial space should be prioritised over residential space. Not providing the required commercial space in a city centre will affect the ability of a city to attract higher-skilled activities, with implications for productivity, jobs and wages. And because in many cases the popularity as a place of residence results from the success of a city centre as a place of production, policy makers need to make sure that the rise of the former does not impact on the latter.

Residential space should still be provided in city centres. But this will need to be done in balance, and will require choices and trade-offs to make sure that the city centre economy is still able to grow. This has been a challenge that central London has faced for many years. And it is likely to be something that Manchester and Birmingham city centres will increasingly have to deal with.



04.

The role of policy in intensifying competition for space

Two decades of brownfield-first policy have focused on infilling and densification. While this approach has been useful in enabling development, in many cities this policy, coupled with a reluctance to build outwards, has increased the competition for space between residential and commercial property. Rather than address this shortage of development land, the recent introduction of permitted development rights has worsened the issue by incentivising conversion of commercial space to housing.

This section looks at how planning policies are increasing the pressure on the provision of commercial space in city centres.

Permitted Development Rights (PDR)

This national policy allows the conversion of retail and office space to residential property to take place without obtaining the usual planning permissions. The vast majority of conversions are from office space to housing so this analysis focuses on this specific aspect of the policy, introduced temporarily in May 2013 and made permanent in May 2016. It was extended to apply to conversion of light industrial property in October 2017.

Conversions take place when residential space can earn higher returns than office space. The benefit of PDR is that by removing the need for planning approval it reduces the time and money costs of conversion. This has directly led to an increase in commercial to residential conversions.¹⁰ This is a good thing if it converts empty commercial space into new homes, but local planning authorities lose a degree of control over the economy and it increases the potential that occupied commercial property is also converted.

¹⁰ BCO (2015), Office-to-residential conversion. Establishing the impacts of the prior approval regime

To prevent important office space being lost to housing, some locations have been exempted from the policy. Many applied for protection, considering their commercial properties to be critical for economic success, but few were successful. Much of central London is exempt via the Central Activities Zone (CAZ), as is part of Manchester city centre, and a few areas within towns such as Sevenoaks and Stevenage. New exemptions are available via what is known as an Article 4 direction, if an area can show its office space needs to be protected.

Importantly, this improved ease of conversion only works one way. Converting back to office space requires going through normal planning procedure, meaning the policy is biased in favour of delivering residential property.

The policy aims to:

- 1. Achieve a more efficient provision of property** by making change of use more responsive to the market
- 2. Boost housing supply** where this is most needed by freeing up more property to develop into residential units
- 3. Revive high streets** by allowing vacant offices to be repurposed into residential use¹¹

The policy has not convincingly achieved these aims because its design has not accounted for where the demand for space is. PDR is most attractive where house prices are high due to strong residential demand. But cities with strong residential demand tend to also have strong business demand.

As a result, take-up of PDR is highest where offices most need to be protected. High-skilled, productive city centres with competition for space are at risk of losing key commercial property through the policy, as the following assessment of the three aims shows.

Aim 1: Achieving a more efficient provision of property

A more flexible, responsive planning system is a good thing. Allowing the market to determine a property's use can be beneficial. In many cities, older offices no longer attractive to businesses are more useful if converted to flats. Many cities have experienced this positive outcome of PDR, such as Southampton and Bristol, which consider it a helpful policy tool for repurposing poor quality offices.¹²

¹¹ Community and local government parliament committee (2014), Fourth Report. <https://publications.parliament.uk/pa/cm201415/cmselect/cmcomloc/190/19008.htm#a29>

¹² Centre for Cities interviews, BCO (2015), Office-to-residential conversion. Establishing the impacts of the prior approval regime

But this responsiveness has come at the cost of local control. Local planning authorities retain little influence over conversions taking place through PDR. Though prior approval ensures basic noise and infrastructure considerations are accounted for, little else is reviewed and it is difficult to prevent a conversion even when it is deemed unsuitable. Many areas have concerns about the delivery of very poor quality housing.¹³ Croydon, for example, has had to accept several proposed schemes that neither meet the London Plan's minimum space requirements nor have any private or communal amenity space.¹⁴

The policy also leads to a building-by-building approach to development, rather than considering each scheme within its wider context. The implication is that decisions are driven purely by the market, which may not lead to the best outcome for the city's role as a place of production, particularly if it leads to a conversion of space in the city centre.

Aim 2: Boost housing supply

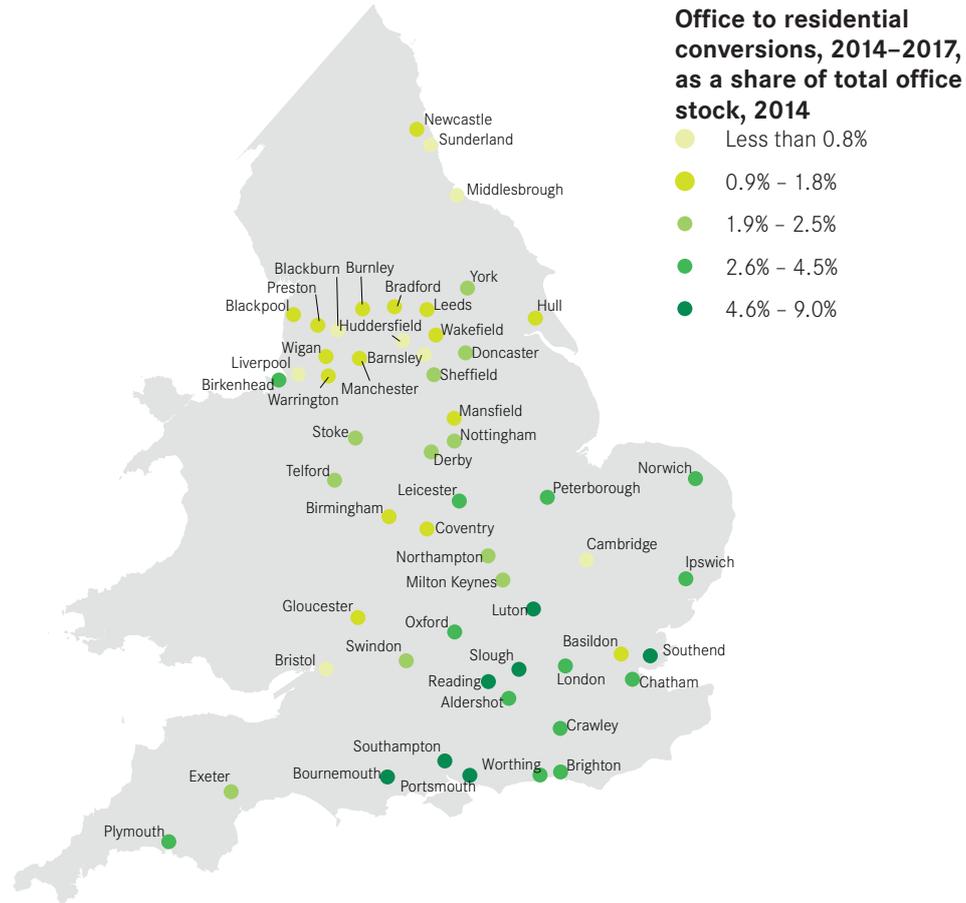
One of the appeals of PDR is that it helps deliver housing in the cities that need it most. By allowing change of use to follow market signals, conversion is most attractive where house prices are high.

Take-up of PDR has been most significant in cities in the Greater South East. As Figure 9 shows, the number of office-to-residential conversions granted has been equivalent to a considerable proportion of the office stock in many cities, such as 9 per cent in Slough, and 8 per cent in Southend. As a result, the policy makes a large contribution to net additional housing in these cities, many of which have competition for space. In Crawley, nearly half the new houses built between 2015 and 2017 were due to PDR, while in Slough and Basildon these shares were 34 and 35 per cent respectively.

¹³ Centre for cities interviews

¹⁴ London Councils (2015). The impact of permitted development rights for office to residential conversions

Figure 9: Permitted office to residential conversions as a share of office stock, 2014-2017W



Source: VOA, 2017. MHCLG, 2018

PDR works well when there is space to replace lost offices with new stock. Cities that are less constrained are able to build new, higher-quality offices elsewhere in the city and so the loss of older offices through PDR does not impact negatively on their economy. Birmingham, for example, approved the creation of around 560 residential units in its city centre (between 2013 and April 2017) but the city is not concerned about the lost commercial space because of new office developments taking place elsewhere in the city centre.¹⁵

But in city centres with limited space new homes come at the expense of commercial property. Since the policy is not restricted to vacant properties, occupied offices have also been lost and when there is competition for space in a city centre it is not always possible to replace these with new office stock.

On a national level the recent decline in office stock has been attributed to PDR.¹⁶ London boroughs outside the CAZ exemption are particularly concerned about the loss of occupied office space. They report that 100,000 m² of fully-occupied space was lost between May 2013 and April 2015 and as a result remaining office stock has become less affordable, pricing out some businesses.¹⁷ Brighton was so concerned about the loss of commercial space it obtained an Article 4 direction to prevent additional offices being converted within part of its city centre.

That the policy has been able to increase the supply of housing is a good thing. But that it has come at the cost of occupied commercial space is not. Instead of looking to address the housing crisis through the shortcut of the conversion of commercial space, more new homes should be built instead. The risk is that by allowing offices in city centres in particular to be converted, the policy holds back the main engine of growth in a city.

Case study 1: PDR is putting Crawley's economy at risk

Crawley faces very strong residential demand for two principal reasons. The first is its proximity to London – almost 10 per cent of Crawley's population commute every day to work in the capital. The second is the strength of the city as a place of production, with a successful industrial and business district (Manor Royal), a growing city centre, and London's second largest airport (Gatwick). Due to this high demand from both businesses and residents and the city's significant land constraints – proximity to London's green belt, the borough's tight administrative boundary and airport restrictions which limit the height of buildings – Crawley is experiencing competition for space.

The introduction of permitted development rights has had mixed results on Crawley's economy:

- **It has helped deliver homes:** 48 per cent of Crawley's net additional dwellings between 2015 and 2017 have been delivered through PDR, the highest proportion among English cities. In total, 18,000 m² of residential space has been delivered. By encouraging the conversion of outdated office spaces into residential units PDR has supported the city centre's regeneration strategy which aims to increase population there.
- **But it has generated concerns about poor accommodation standards.** Planning authorities can only refuse PDR based on very limited grounds. While noise pollution generated by businesses is a valid reason to refuse prior approval, transport noise pollution is not. Given

¹⁶ BCO (2017), Permitted Development Rights, One year on from permanence

¹⁷ London Councils (2015). The impact of permitted development rights for office to residential conversions

Crawley's proximity to Gatwick Airport, this raises the risk of housing being delivered in areas with unhealthily high noise levels.

- **And it has squeezed the supply of commercial space, impeding the city's capacity for sustainable economic growth.** Conversions of occupied office space have taken place in the city centre, and perhaps somewhat surprisingly, in Manor Royal. Given the demand for commercial space, Crawley has now put in place Article 4 directions for Manor Royal preventing the use of PDR, but no restriction applies to the city centre.

Aim 3: Revive empty high-streets

PDR was one of several policies that the 2010-15 government used to revive the fortunes of retail, stating that "...in many town centres there is unused space above shops and other town centre uses which could lend itself to conversion to residential."¹⁸ The rationale was that by bringing residents into town and city centres, footfall would increase. This in turn would increase the size of the market which retailers and restaurateurs could sell to.

But this has not happened to any great extent. While data on conversions in city centres is not readily available, the number of PDR office conversions in cities with struggling high streets outside of the Greater South East has been low, as shown in Figure 9. For example, across the whole of Middlesbrough there have been only 12 conversions granted since 2014. In Barnsley there have been six, and in Blackburn just one.

This has occurred because the policy fails to acknowledge patterns of demand. The policy assumes that developers can earn a sufficient return by converting office space into residential in these struggling city centres. The reality is that demand for residential space is weak precisely because they are struggling. These locations do not offer access to job opportunities or amenities in the same way that successful city centres do, reducing the benefits of living in them relative to the costs of more noise and less space. As a result, PDR has done little for these high streets.

Overall, PDR makes it more difficult to manage competition for space

PDR creates an incentive to deliver residential property rather than commercial space in the most expensive, in-demand city centres. But it is these city centres where the economy most needs high-skilled businesses to succeed. Putting the space they require at risk threatens the economic success not only of these cities but also of the national economy.

¹⁸ DCLG (2011), Relaxation of planning rules for change of use from commercial to residential – consultation. Accessible at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8491/1883189.pdf

Case study 2: PDR in Manchester is focused on its city centre

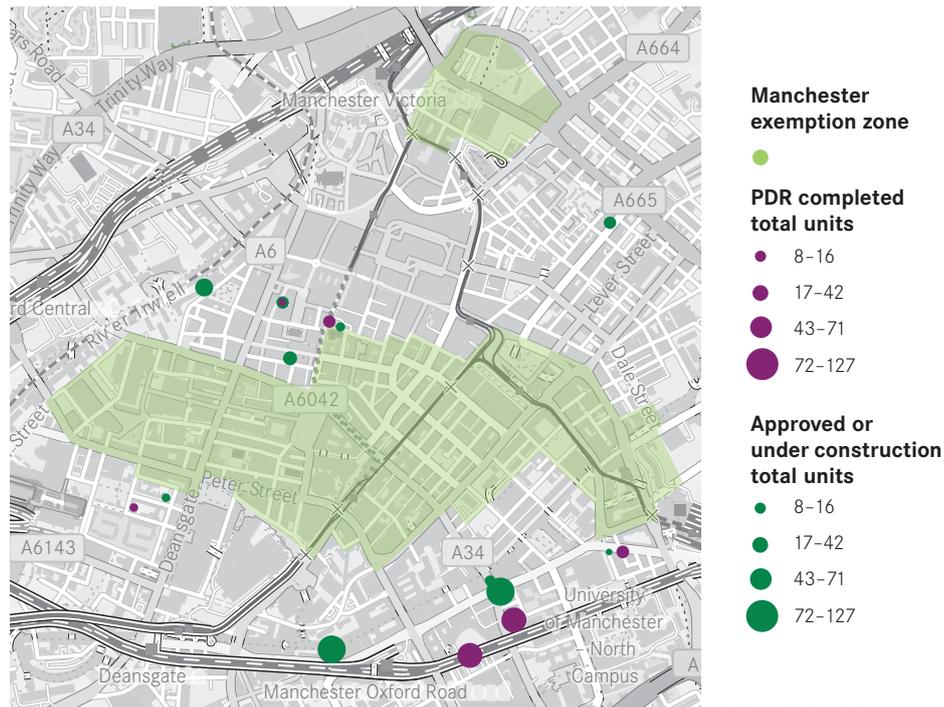
How land is allocated within Manchester is an increasingly political topic. Concerns are being raised about the pace of change, for example in the Northern Quarter, and policymakers are having to make difficult trade-offs between conservation of character and delivery of new commercial and residential space.

This is because the city is starting to experience competition for space in its city centre. The data shows that the city as a whole does not have particularly high property prices – for both housing and commercial space – compared with other UK cities. But when the city centre is considered in isolation, property is more expensive because demand – from businesses and residents – is high. This has implications for PDR.

Across the whole city, the scale of office to residential conversions through PDR has been small. The number of conversions granted since 2014 is equivalent to just 1 per cent of the city's office stock. As a comparison, in Southend and Reading conversions were equivalent to 7 and 5 per cent. But in the city centre conversions have been more significant. Since April 2015, city centre office conversions through PDR have provided 282 residential units, and 430 are under construction or approved.

Many of these conversions are close to the Office-to-Residential Exemption Area (see Figure 10). Without this protection, it is reasonable to assume that some high value, occupied office within the Exemption Area would be at risk of conversion. The city's view is that PDR conversion risks a significant under-valuation of these resources.

Figure 10: Office to residential conversions through PDR in Manchester city centre, 2015–2017



Source: Manchester City Council

In other parts of the city centre, there are examples of previously vacant office blocks which have been converted into residential through PDR. There can be no doubt that some of these buildings were in need of investment. But the city is concerned about the quality of several of these developments, which do not adhere to Manchester’s Residential Design Guidance (2016).

Manchester city centre’s recent boom has in part been enabled by the large amount of land that has been available in recent decades. But as its success continues, competition for how land is used will become more acute. For this success to continue it is vital that it retains its ability to provide offices for high-skilled jobs. So it is clear there is a need for strategic exemptions to PDR within the city centre.

Restrictive planning policies

The persistence of brownfield-first policy

Since the mid-1990s, government policy has prioritised the development of brownfield land, preferring to densify and infill rather than expand cities outwards. This was a sensible approach initially as there was a large amount of brownfield land within cities. But in our most successful cities brownfield land is ever less common.¹⁹

Resistance to building upwards

There is strong opposition to city expansion. In a recent speech on house building, the Prime Minister reemphasised the brownfield-first approach, stating that “Where cities surrounded by Green Belts still need more homes, we can increase housing density, make better use of brownfield sites, build upwards rather than outwards.” But this is easier said than done, for example, densification is limited by conservation areas, protected views and campaigns to protect heritage building. By continuing to restrict city expansion, difficult choices have to be made between provision of residential or commercial space.

Every UK city has its own collection of conservation areas designed to preserve character and protect its assets. For example, Brighton uses these restrictions to maintain its distinctive architecture, while in York buildings of historical significance are protected. In addition, London has protected views preventing developments obscuring sightlines considered important by the city, such as the ability to see St Paul’s Cathedral from King Henry’s mound in Richmond Park. The aim of these designations is to manage change in order to protect heritage, not to prevent development, but in reality they do have a restrictive impact on city growth.

Each planning restriction presents a trade-off between preservation and development. In cities where economic growth demands more business premises and houses, the consequences of resisting development are decreasing affordability and fewer suitable business properties. This forces cities to make difficult, political decisions – should the character of an area be maintained at the expense of housing costs, or should densification be permitted to keep housing and commercial space affordable?

Crucially, these trade-offs evolve over time. The benefits of being able to see St Paul’s from Richmond Park may have far outweighed the cost when originally protected, but those costs change over time and at some point the impact on property prices (due to limits on development) might become too high to justify preservation of the view.

¹⁹ Clarke, E, Nohrova, N, Thomas, E (2014). Delivering change: building homes where we need them. London: Centre for Cities

Resistance to building outwards

Green belts encircle several UK cities. These rings of land aim to prevent urban areas sprawling outwards by confining development to within the city on previously developed or derelict sites.²⁰

The green belt squeezes the supply of new residential space, which in turn squeezes commercial space. By restricting delivery of new homes on the outskirts of the city, space must be found for them in more central locations. In theory this is done using brownfield land, but in reality many cities do not have enough brownfield land to accommodate the homes required. Previous research by Centre for Cities found there is insufficient brownfield land available within cities such as London, Oxford, Cambridge or Bristol to deliver the cities' assessed housing needs.²¹ So by requiring development to take place within the belt's boundaries, residential and commercial properties are placed in further direct competition, worsening pressure for space.

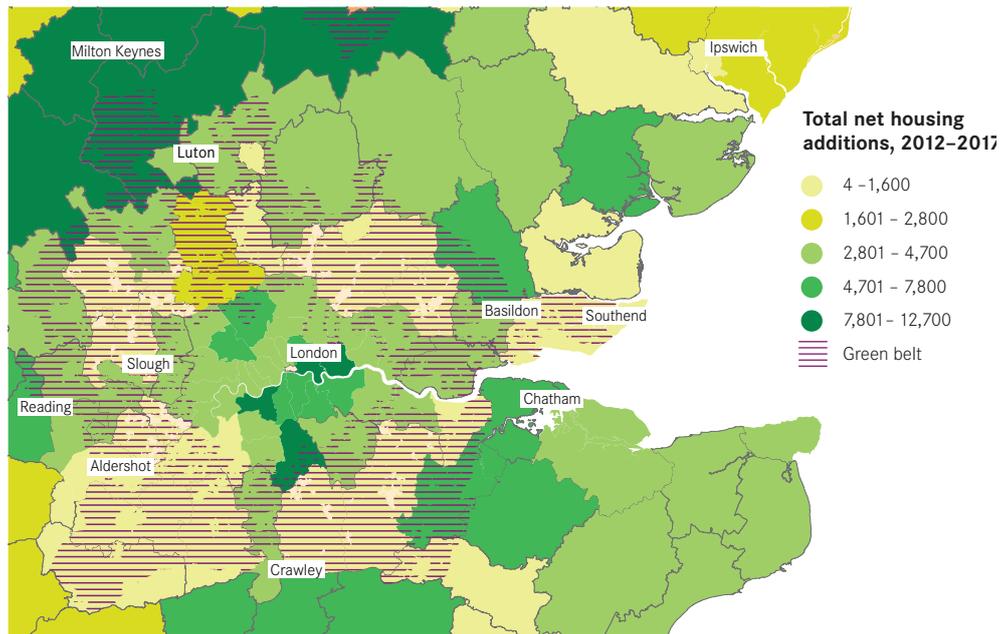
In London, demand for housing is so strong that it leap-frogs the green belt. Cities outside the belt are importing London's excess residential demand and expanding to accommodate commuters who cannot secure homes within the capital. This is illustrated in Figure 11, which shows that towns and cities outside the belt are building more homes than areas within it.



²⁰ DCLG (2012). National Planning Policy Framework

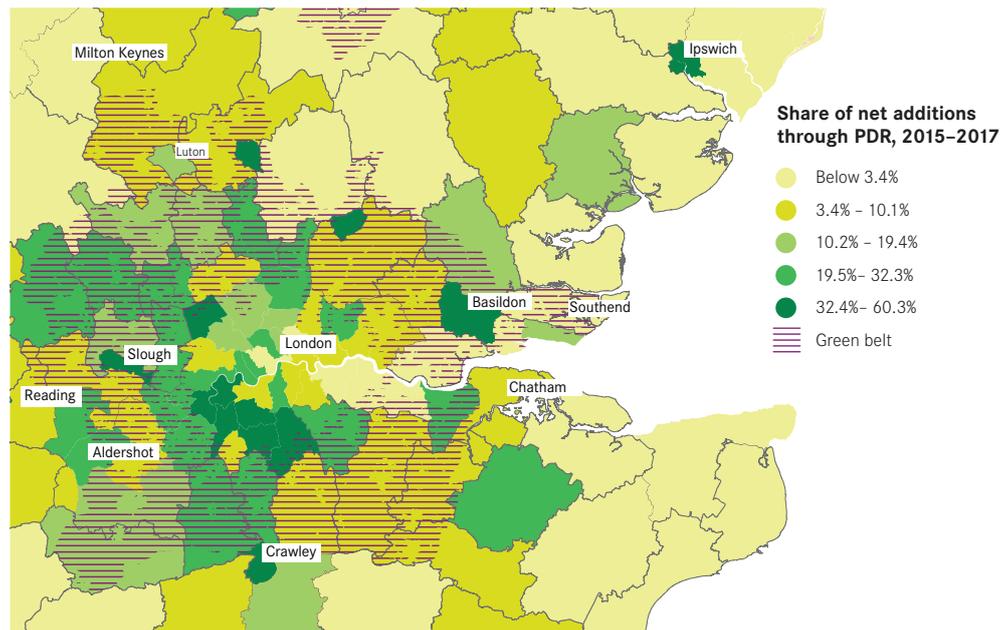
²¹ Clarke, E, Nohrova, N, Thomas, E (2014). Delivering change: building homes where we need them. London: Centre for Cities

Figure 11: Net additional houses built, by local authority



Source: MHCLG, 2017

Figure 12: Office to residential PDR conversions as a share of net additional houses built, by local authority



Source: MHCLG, 2017

Demand for residential space is also strong within the green belt. While the number of net additional houses is low, a high share of those delivered come from office to residential conversions under PDR, as shown in Figure 12. This confirms the restrictive role played by the green belt, as the only way to build homes is via conversion, but also highlights the pressure the policy places on commercial space especially when combined with use of permitted development rights.

The green belt has created the ideal conditions for PDR in cities surrounding London. High residential demand from London commuters and city economies which cannot match that of the capital together have generated a strong price differential in favour of conversion from offices to residential. This is why many of the smaller cities around London – for example Southend, Aldershot and Luton – have seen a significant take-up of PDR, as shown in Figure 9. These cities are concerned about the impact this loss of business space will have on their economies.

Case study 3: Slough is under pressure to accommodate growth

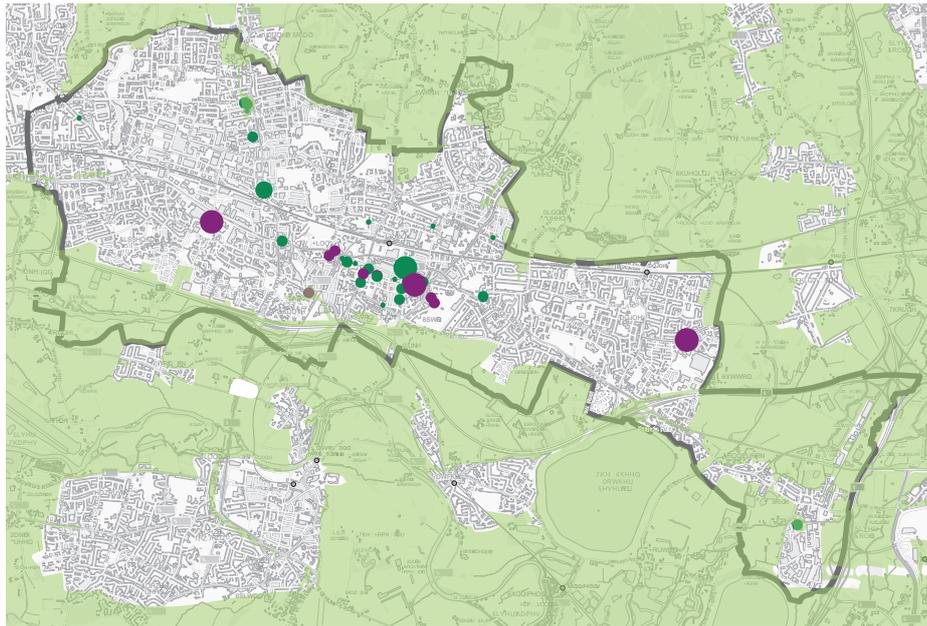
Slough is experiencing strong competition for space. It has the fifth highest residential property prices of all cities in England and Wales (£4,103 per m² at sale price) and the sixth highest commercial property prices (£124 per m² at annual rental price). This is a consequence of two factors:

1. Slough's economy is successful and fast growing. Between 2009 and 2015, the city's productivity grew at the fourth fastest rate of all UK cities and by 2016 it had the highest productivity level.
2. Land is significantly restricted because the city is surrounded by London's green belt, most of which lies in neighbouring planning authorities.

The city needs to provide more housing but there is only a limited amount of land available. The council has been progressively releasing chunks of green belt land under its own control but the urban area cannot grow across the administrative border because most of the surrounding land is also protected, see Figure 13.

PDR take-up has been significant due to this strong residential demand. Since the policy was implemented, 25 office to residential conversions have completed and another 11 are under way. These schemes are attractive to developers, given the high demand for housing within the city. Conversions have so far delivered more than a third of the city's net additional housing between 2015 and 2017, but each one comes at the expense of office space.

Figure 13: Office to residential conversions through PDR in Slough, 2013–2017



Approved or under construction (m ²)	Completed conversion (m ²)	Green belt 2011
● 240–316	● 30–316	●
● 317–1910	● 317–1910	
● 1911–3273	● 1911–3273	
● 3274–6000	● 3274–7122	

Source: Slough City Council

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This is a threat to Slough’s economy. As Figure 9 shows, the floor space lost through PDR is equivalent to 9 per cent of the city’s existing office floor space. The city is concerned that continued losses will prevent businesses finding the space they need, but they are reluctant to apply for an Article 4 exemption as their housing target has not been met.

The challenge for Slough is to find alternative ways to build housing, in order to provide sufficient office space to sustain economic growth. As well as densifying the city centre, they are pushing for a northern extension into green belt land without which they will be unable to meet their housing target. But neighbouring authorities are against the development as they want to protect the green belt. This is just one example of the trade-offs cities face: losing green belt land or threatening the economic success of the city.

Case study 4: London's approach to protecting commercial space

London is experiencing particularly intense competition for space. The city is growing fast: the number of jobs increased by 22 per cent (the third highest city growth rate) between 2010 and 2016 and population grew by 8 per cent (the fifth highest). The population is expected to continue to grow by 70,000 people each year. At the same time, land is restricted by policies such as the green belt and a collection of protected views, which limit the height of new buildings in certain locations.

This combination of high demand and limited space contributes to the capital's high property prices. Average commercial prices are 2.3 times higher than the national average and the average house is worth 17 times the average Londoner's annual wage.

The new draft London Plan expresses concerns about the impact of these pressures on its economy.²² A number of conversions of workspace into housing have taken place, several on the fringes of the Central Activity Zone (the central area of the capital that has an exemption from PDR). Smaller, cheaper offices are particularly likely to be converted due to the higher returns they generate as flats and the city is concerned about the impact this will have on small firms in innovative sectors, such as the technology and creative industries.

To preserve a wide range of office types, the plan proposes workspace lost is offset by delivery of an equivalent amount nearby. In addition, it directs planning authorities to ensure that large-scale developments always include some small business units.

The limitations on land available for housing make it more difficult for the capital to protect workspace and the city is struggling to meet its housing target. Last year London boroughs delivered 39,500 net new dwellings, less than the existing target of 49,000 and significantly less than the new 2017 Strategic Housing Market Assessment target of 66,000 per year.

As growth trends continue the Mayor's commitment to delivering more housing and affordable workspace while continuing to protect the green belt will become ever more difficult. The approach taken so far to preference commercial space in central locations, such as the Central Activities Zone, must be sustained. Increasing the housing stock is also crucial, but this should be mainly focused on suburban areas. To offset rising residential demand the city will need to consider its position on the green belt, conservation areas and protected views.

²² Greater London Authority (2017), The London Plan, The Spatial Development Strategy for Greater London

05.

How policy can better manage competition for space

A number of policy recommendations stem from the analysis above. Implementing these at a city and national level will relieve some of the pressure on city land and improve their ability to manage competition for space.

Recommendations for national government

1. More actively prioritise commercial space in city centres

National planning policy guidance is clear that the planning system must support economic growth, but the emphasis on delivering housing is also strong. The proposed new draft National Planning Policy Framework (NPPF) appears to tip the balance of these objectives towards housing.²³ Cities are under pressure to focus on enabling house building. The use of explicit assessed targets for housing, but not commercial space, furthers this tendency to prioritise residential property.

Guidance should place more emphasis on protecting commercial space in the most economically important locations. The proposed planning guidance emphasises how planning must prioritise “making provision for clusters or networks of knowledge driven, creative or high technology industries”.²⁴ Cities, and more specifically city centres, are where this clustering and networking is most successful, as the analysis above shows. Policy must explicitly prioritise commercial space in city centres in order to support these knowledge-intensive industries and prevent their premises being squeezed out by residential development.

²³ Bidwells (2018), Retail plays second fiddle to housing. Accessible at: <http://www.bidwells.co.uk/services/planning/planning-alerts/alerts/retail-and-economics-second-fiddle-to-housing/>. Ministry of Housing, Communities and Local Government (2018), National Planning Policy Framework, Draft text for consultation

²⁴ Ibid

2. Offer exemption from commercial to residential PDR to all city centres

PDR removes control from local planning authorities to strike a balance between commercial and residential space in city centres. Given the vital role these areas play within both city and national economies, it is crucial they provide the space businesses need to succeed, in particular high-skilled, knowledge-intensive firms.

For this reason, the number of exemptions from PDR should be increased to include each city centre of England's 55 largest cities from the policy. The exact definition of each city centre, or equivalent commercial district, should be determined by the cities themselves. The current system offers much needed protection to a small number of city centres, but most must go through the difficult process of requesting an Article 4 direction if they require exemption. Instead, all city centres should have the option to be protected from the use of PDR to change use from commercial to residential. Doing so would mean that city planners will again have control over how land is allocated to each property use and the ability to prioritise commercial space.

These exclusions must be subject to periodic review. This is to ensure that the geography of the city centres remains relevant as city economies develop and change over time, and that the most commercially important area continues to be protected.

In addition, the policy should be adjusted so that housing delivered through PDR meets minimum space and quality standards. This is in response to cities' concerns about very poor quality housing being developed through the policy. Minimum standards will ensure PDR makes a sustainable contribution to residential development.

Outside city centres, the policy has facilitated useful conversions of older, vacant commercial buildings into much needed housing by removing some of the red tape around planning processes. By keeping the policy in place these quick conversions can continue to benefit cities, while also recognising and protecting the exceptional economic role played by city centres.

3. Show leadership in relaxing planning restrictions

Many cities face a crucial housing shortage threatening their role as places to live. National government must support these cities as they consider how planning restrictions can be adapted and updated to ensure sufficient homes are built, showing leadership where local authorities face resistance to change.

To significantly increase the number of residential properties available there needs to be a relaxation of planning restrictions. In recent years national policy has been strongly against development on green belt land, making exception only for limited infilling or provision of affordable housing. There has been little change to this approach in the proposed new NPPF, reiterating the importance of

protecting this land. But densification and brownfield development alone will not be enough. Given the knock-on impact these restrictions have on the availability and affordability of commercial space in more central city locations, and areas beyond the belt, these guidelines must be reviewed. Consideration of green belt development must be permitted where pressure to deliver housing within the belt boundary threatens economic growth, in addition to the current exceptional circumstances specified. Doing so would then give implicit support to local authorities to permit development.

4. Devolve missing planning powers to big cities

Each part of a city region has a distinct economic role to play, so the type of property supplied within each should vary. While some authorities are better placed to provide offices, others are more ideal locations for housing.

Planning for these varying roles is straightforward when a city is contained within one local authority. For larger cities in particular this isn't the case, with the physical footprint of the city spanning many local authorities. This means that coordination is required between authorities.

Several UK cities have the power to plan across a wider region:

- 1.** In London, individual boroughs develop detailed local plans, but they must all adhere to the London Plan's guidelines. In addition, the Mayor of London has the power to intervene in sizeable developments, and to veto planning decisions that oppose the city's planning objectives.
- 2.** Four of the new metro mayors – West of England, Cambridgeshire and Peterborough, Liverpool City Region, and Greater Manchester – have strategic planning powers. In each of these areas, the combined authorities' constituent authorities will develop the region's plan together with oversight from the mayor.

But other large city regions are missing from this list, such as the mayoralties of the West Midlands and Tees Valley, and those that have no devolution deal, such as Leeds and Nottingham.

To address this the Government should do two things. The first is to extend planning powers to the two mayors who currently don't have them. The second is to strike devolution deals with other large cities which include spatial planning powers.

5. Use fiscal incentives to encourage cities to prioritise commercial space

Business rates should be reformed to incentivise cities to protect and expand high-quality commercial space. The current design rewards cities who expand the amount of commercial space on offer, rather than improvements in quality,

leading many to prioritise large industrial developments in the suburbs and hinterlands suitable for low-value activities. The focus should instead be on providing the premises for more productive businesses. Reforming business rates to incentivise cities to do this would encourage them to prevent residential development squeezing out vital commercial space in the city centres, because providing higher quality office space would generate a greater financial reward.²⁵

Recommendations for cities

1. Have a local plan which places businesses in their preferred location

It is important that all local areas have a plan in place. Local plans are vital tools used to set out what commercial and residential space is needed, and where each type should go. Every local authority is required to design and adopt a plan but currently only 82 per cent have done so, and not all are up-to-date.²⁶

The local plan should be based on an understanding of the geography of the economy. Starting with knowledge of where each type of business is best located within a city will enable sites to be allocated according to their most suitable use.

In line with the national recommendations above, cities should prioritise commercial property in their city centres and business districts. While there is an increasing preference to live in the urban core, this must be balanced against continuing to provide commercial space.

In cities with competition for space, a local plan is an especially important guide to use when making development decisions that will affect the balance of residential and commercial property. It is also a source of information for businesses, helping them fit their ambitions around the built environment of the city, giving them the confidence to make long-term decisions.²⁷

2. Relax planning restrictions

Since competition for space is a result of high demand but not enough space, making more land and property available will relieve some of this pressure. As discussed above, each planning restriction presents a trade-off between development and preservation, the costs and benefits of which change over time.

²⁵ Bessis, H (2017). Business rates: maximising the growth incentive across the country. London: Centre for Cities

²⁶ Planning Inspectorate (2018), Local Plans. Accessible at: <https://www.gov.uk/guidance/local-plans>. A full set of plans is defined here as every constituent local authority in the PUA having a local plan

²⁷ Ibid

Each periodic review of a city's planning restrictions should consider how the trade-offs have changed over time. Rather than a focus on whether or not assets are sufficiently protected, periodic reviews should re-consider the balance between the benefits to the city of protecting heritage and the costs of reduced development.

For several cities this means being open to strategically releasing green belt land. As discussed above, by preventing residential development on the outskirts of the city competition is worsened in the centre. Strategic release around transport nodes in particular will ensure the most accessible land is used. Previous research by Centre for Cities has shown that releasing just 5 per cent of green belt land close to train stations for low-density development could provide 1.4 million new homes where they are needed most.²⁸

Cities have a choice to make between preserving the green belt and losing important commercial space needed for economic growth, or releasing small amounts of land to protect these properties. The situation in Slough is a current example of this trade-off (see case study 3).

Each planning authority should evaluate the quality of its green belt land. Not all green belt is of equal environmental significance. By evaluating each piece of land, cities can make an informed judgement about which sites should be protected and which should be considered for development.

Planning should also accommodate densification wherever possible. This is an essential tool for urban areas to accommodate the demand for both home and business space. Dense developments will take a different form in each location and is in no way restricted to towering glass buildings, with mid-density suburban development also being a key way to accommodate more housing.²⁹

²⁸ Clarke, E, Nohrova, N, Thomas, E (2014). Delivering change: building homes where we need them. London: Centre for Cities

²⁹ Missing Middle Housing. Missing middle housing, responding to the demand for walkable urban living. Resource is accessible: http://missingmiddlehousing.com/wp-content/uploads/2015/04/MissingMiddle_Slides_OpticosDesign.pdf

06.

Conclusion

Cities play three important roles. They are places of production, places of consumption and places to live. These competing demands create competition for how space is used. This is particularly the case in city centres, where the benefits of proximity have led to a boom in both city centre working and living in places such as Manchester and Leeds in recent years. For policy makers, this urban revival means that increasingly choices and trade-offs have to be made over how to allocate space in these centres.

In making these decisions it is important to understand the relationships between the different roles that cities play. The growth of jobs in many city centres has been driven by the desire of higher-skilled, service-based industries to be located in dense city centres. In turn, by both providing better access to jobs and driving up demand for amenities, such as shops and restaurants, this growth in jobs has sparked a revival in city centre living in successful city centres. But this comes with a risk – give too much land over to residential space and land for commercial space becomes squeezed, with implications for the ability of a city centre economy to continue to grow and create jobs in the future. In turn, this has implications for productivity, wages and prosperity.

Currently national policy risks squeezing the commercial heart of cities. The National Planning Policy Framework and policies such as permitted development rights rightly focus on tackling housing shortages. PDR, in particular, has played an important role in delivering new houses in certain parts of the country, converting disused commercial space into residential use, and has allowed the market to guide these decisions. But it does this by converting commercial space to residential, rather than encouraging new homes to be built. The challenge in city centres is that what may make financial sense for an individual developer may not be the right decision for the city centre as a whole, and could cause a restriction in the commercial space available.

For this reason, policy should be amended to reflect this challenge by allowing city centres to be exempted from PDR conversions and giving them special status in the NPPF. The growing importance of city centres as places of

production is not just important to the future of city economies, but to the national economy too. Extending existing exemptions to apply to all city centres will allow a wider view to be taken on the best use of land and property, in order to strike the right balance between commercial and residential development.

It will also be crucial that policy continues to support the role of cities as places to live. This will require both building up and out in our most successful cities. Currently a number of policies, such as conservation areas, London's protected views and the green belt restrict this, squeezing the amount of new space available and stoking competition between different land uses. A relaxation of these rules at the local and national level that allows densification within cities and strategic development of the greenbelt is needed if we want to both supply the homes we need and ease the pressure on commercial space in the centres of cities.



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Centre for Cities

Second Floor
9 Holyrood Street
London SE1 2EL

020 7803 4300

info@centreforcities.org

www.centreforcities.org

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