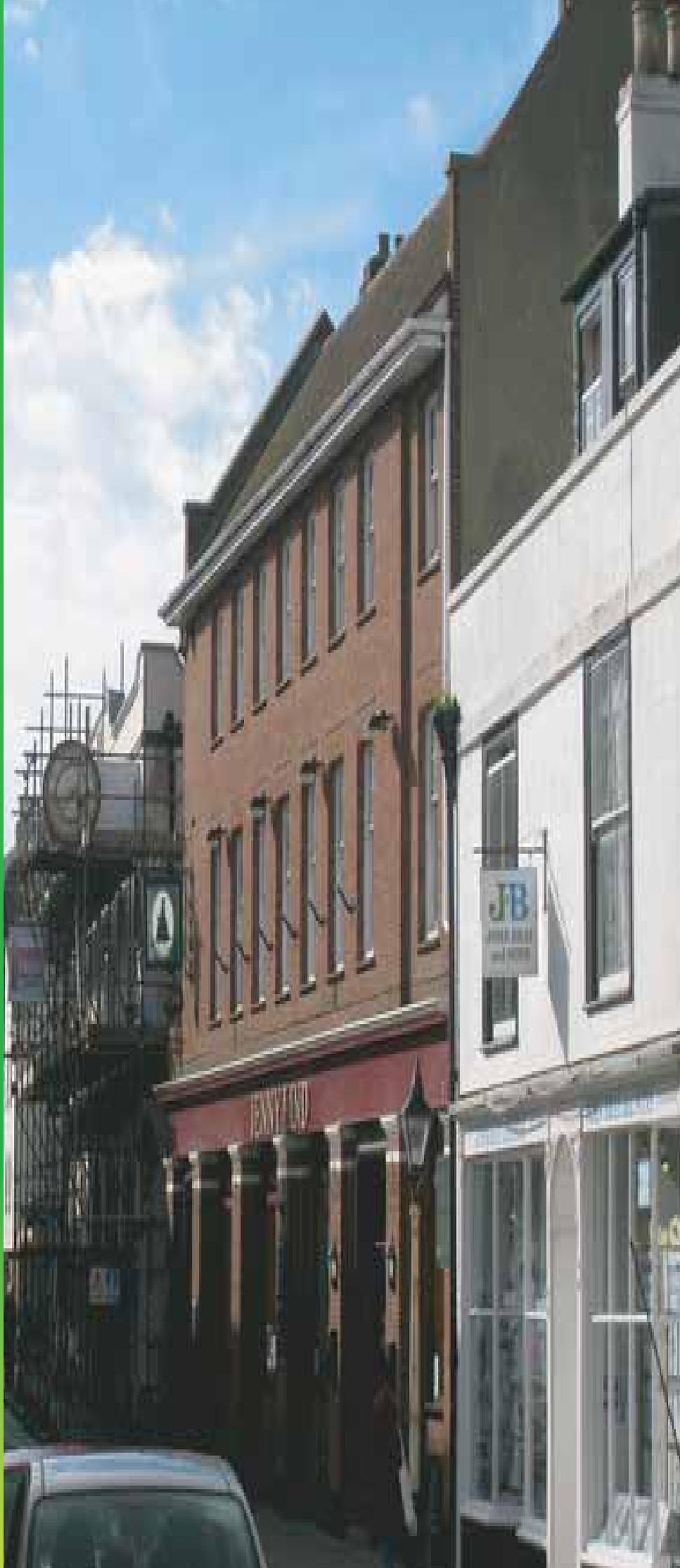




# Affordable homes from empty commercial spaces

Supported by



**Empty Homes – the national campaigning charity – aims to:**

- Raise awareness of the waste of long-term empty homes
- Research, develop and work with others to test ideas for bringing long-term empty homes back into use for those in housing need
- Provide encouragement and advice for those seeking to bring empty homes back into use, or concerned about empty homes
- Campaign for changes to policy and initiatives at national and local levels that will enable more action to bring empty homes back into use for those in housing need.

For more information on the work of Empty Homes – the national campaigning charity visit: [www.emptyhomes.com](http://www.emptyhomes.com)

# Affordable homes from empty commercial spaces

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Empty Homes registered office

70 Cowcross Street

London EC1M 6EJ

Tel: +44 (0)20 31350674

Email: [info@emptyhomes.co.uk](mailto:info@emptyhomes.co.uk)

Website: [www.emptyhomes.com](http://www.emptyhomes.com)

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# Introduction

Empty Homes aims to encourage greater use of empty commercial space to address housing need. Walking around many shopping streets or town centres there seem to be quite a number of vacant offices and shops, as well as empty spaces above retail units. With so many people priced out of decent housing across England these could offer tremendous opportunities to create new affordable homes.

This report takes commercial property to mean office, retail and industrial property as distinct from residential property. We focus on:

- Office blocks that are difficult to let, sometimes because demand is being met by spaces that allow more contemporary workplace designs.
- Shop units that are difficult to sell or let to other commercial uses.
- Unused floors above retail premises that might once have been used as housing (the flat over the shop), as an office or for storage.

However pressing housing needs are, we are mindful that communities need a range of services and activities if they are to thrive. We do not want to make it harder for shops, pubs, offices and other commercial uses to retain their foothold or grow their business in an area. This report is about making the case for converting vacant properties and unused spaces that do not have a likely future in the commercial sector.

While a certain level of vacancy may reflect an effectively functioning market, it is clear that commercial vacancy rates in many areas, and for certain types of property, have remained above that level for some considerable time. In this report we use the phrase ‘long-term empty’ to refer to properties where there is a lack of ongoing commercial demand, although parts of the commercial sector would label these properties ‘structurally empty’.

We focus on the potential for long-term empty commercial properties to contribute to delivering new affordable housing. At the same time, bringing empty spaces back into use can help address neighbourhood blight by improving the look of a street and reducing the impact of empty and deteriorating properties on neighbouring buildings. Attracting people to move into empty commercial properties can also bring a more vibrant atmosphere to a neighbourhood or attract new customers to a high street. By promoting the conversion of empty commercial spaces we also see the opportunity to meet housing and regeneration goals in an environmentally sustainable way.

The barriers to bringing empty commercial spaces back into use rarely involve structural considerations, as a technical solution can usually be found. However, ownership patterns need to be understood. Key considerations include what motivates owners and business occupiers, as well as what might discourage them from entering the residential market.

Realising this potential will not always be easy, but we hope more organisations will be encouraged by the cases featured here. They show that commercial conversions to much sought-after affordable housing can be achieved in very high value housing markets and in places where there are high levels of empty properties (both commercial and residential).

The case studies show that small-scale property owners, large retail chains, investor owners, and those developers who have bought empty property to convert and sell on, can all be inspired to work with local authorities and housing providers to create new affordable homes in empty commercial properties.

We are primarily aiming this report at people working in local authorities, housing associations, and community-led organisations – the last two also being referred to as ‘housing providers’. We hope the report spreads understanding of the barriers, how they can be overcome, and the opportunities for creating more homes from empty commercial spaces, with the case studies showing what has worked elsewhere.

The report also makes recommendations for local authorities, housing associations, community-led organisations, central government, property owners, lenders, and those working in town centre management. We suggest a strategic role for local authorities, rather than the creation of new national bodies, in identifying opportunities and brokering partnerships with the commercial sector.

The second stage of our project will be to encourage organisations to act on our recommendations in order to unlock the potential to provide more affordable housing from empty commercial spaces.

Empty Homes’ intention is to help more organisations to get involved in creating more affordable housing from long-term empty commercial properties, creating an opportunity for people priced out of decent housing across England to get a chance to move into new affordable homes.

## Acknowledgements

Empty Homes is particularly grateful for the support of the Nationwide Foundation<sup>1</sup> in funding our research and the production of this report and its ongoing support for the second stage of the project. We extend particular thanks to Lorna Mackie at the Foundation for her steer, enthusiasm and ideas.

We commissioned work from Ramidus Consulting<sup>2</sup> to explore the opportunities and barriers for converting empty commercial space into residential uses. We have drawn heavily on this unpublished advice throughout this report and want to express our thanks to Rob Harris of Ramidus Consulting for his insights and advice, though we alone must accept responsibility for the interpretation of that advice.

We are grateful for all those who were working for local authorities, housing providers, town centre teams, commercial organisations, and as development consultants, who gave their time to talk to us, show us around schemes, and send us information. Appendix A lists the organisations we spoke to. Their input helped us to ground our analysis in what is happening across England; again, responsibility for the interpretation of these insights is ours alone. We extend our thanks to those that also provided case study materials and for the time they also gave to checking the accuracy of our drafting.

Empty Homes would also like to acknowledge the work of those who have previously championed the conversion of empty commercial spaces, most notably over shops, such as

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1 <http://www.nationwidefoundation.org.uk>

2 <http://www.ramidus.co.uk>

the members of the Living Over The Shop (LOTS) task force.<sup>3</sup> Many of the issues they found still exist and gave us pointers on what to explore. We, of course, looked at the issues in a different context, given the pace of change within the commercial and residential markets in recent years. We also looked beyond empty spaces above shops, at the barriers and opportunities to creating affordable homes in empty offices and retail units.

We would like to thank Empty Homes board member Toby Taper for giving up her time on a voluntary basis to conduct interviews and inform the research approach.

Last, but certainly not least, we are also grateful for the research and drafting input from our research and policy volunteers: Caroline Iles, Julia Norton de Murat Quintella, Mansor Rezaian and Eeva Sarkkinen. More broadly, our volunteers help us to achieve more than we otherwise would in our drive to see more homes created from empty property for those in housing need. We are pleased to attract many talented people through this.

## Methodology

Empty Homes conducted interviews (see Appendix B) of people working in local authorities and housing providers to bring empty commercial spaces back into use as affordable housing in order to identify the opportunities and barriers that they came across, as well as to gather case studies of where schemes had worked. We also spoke to many others working in this field. The organisations we interviewed and spoke to are listed in Appendix A. As mentioned above, we commissioned work from Ramidus Consulting to explore the perspective of the commercial sector on the opportunities and barriers for converting empty commercial space into residential use and drew heavily on this when writing this report.

In addition, we brought our own observations on the barriers and opportunities for bringing empty commercial properties back into use from the many visits we make and the conversations we have each year with local authorities, housing providers and property owners, as well as those concerned to see more empty properties brought back into use to address housing need.

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3 The British Property Foundation and Living Over The Shop were approached by Government to establish a task force and reported on the potential for housing from space above shops in June 2003

# What is the case for bringing empty commercial space back into use as housing?

## Introduction

The drive to meet housing need stood out as the most common motivating factor in bringing empty commercial spaces back into use amongst the people we spoke to in local authorities and housing providers. The case for bringing empty commercial space back into use as affordable housing needs to be made locally by local authorities, housing providers, and others. Below, we look at the overall case for taking action in England and, while local cases may differ in emphasis, we hope that people find our approach helpful.

## The housing need case

The case seems overwhelming when set against the scale of housing need in England. For example:

- It is commonly accepted that England needs about 240,000–245,000 additional homes each year to meet newly arising demand and that nearly one-third of the new homes need to be at below market prices and rents.<sup>4</sup>
- There are about 1.3 million households on local authority waiting lists looking for an affordable home.<sup>5</sup>
- Average house prices in England are 10 times average incomes,<sup>6</sup> rising to 16 times in parts of London.<sup>7</sup>
- As people cannot afford to buy and there are big waiting lists for housing via local authorities, the demand for renting from private sector landlords has increased. Private sector rents are rising significantly.<sup>8</sup>

The organisations bringing empty properties back into use told us there was no shortage of people who want to move into these properties once they are converted or refurbished. There appears to be plenty of demand for previously empty properties, even in areas that were once labelled as ‘low demand’. This is not surprising given that so many people are priced out of buying across England.<sup>9</sup>

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4 Town and Country Planning Tomorrow Series Paper 16, *New estimates of housing demand and need in England, 2011 to 2031*, TCPA and Alan Holmans/Cambridge Centre for Housing and Planning Research, 2013

5 Department for Communities and Local Government, ‘Local Authority Housing Statistics: Year Ending March 2014’ (Department for Communities and Local Government 2014), p.6

6 National Housing Federation, *Home Truths 2015/16, The Housing Market in London* (National Housing Federation, 2016), <<https://www.housing.org.uk/resource-library/browse/home-truths-2015-2016-the-housing-market-in-london/>>

7 Ibid

8 Index of private housing rental prices: February 2016, ONS, <<http://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/february2016>>

9 Shelter, ‘Housing Affordability For First Time Buyers’ (Shelter, 2015) <[https://england.shelter.org.uk/professional\\_resources/policy\\_and\\_research/policy\\_library/policy\\_library\\_folder/report\\_affordability\\_for\\_first\\_time\\_buyers](https://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/report_affordability_for_first_time_buyers)>

## The environmental case

Some argue that new build homes are more energy efficient, but research has found that refurbished buildings can be equally 'green', with the added benefit of lower initial embodied carbon dioxide.<sup>10</sup> Reusing existing buildings requires significantly less energy than demolishing them and building new homes, and could save an estimated 35 tonnes of carbon dioxide per home.<sup>11</sup>

Climate change effects aside, the construction and demolition sector generates around one-third of waste in the UK. The bulk of this is demolition waste, and although much of it is being recycled, the construction sector still contributes over 4 million tonnes of waste to landfill every year. Refurbishing existing buildings reduces the amount of waste and the amount of new building materials needed. It also makes more efficient use of water and produces lower levels of toxins than new construction.<sup>12</sup> Redeveloping existing commercial properties may additionally help prevent urban sprawl, thus easing pressure on greenfield sites. Furthermore, taking advantage of existing infrastructure, such as utilities and roads, is a more sustainable way of using available resources.

From a local regeneration angle, redeveloping empty commercial spaces can bring improvements to urban environments, as explored below.

## The neighbourhood regeneration, social and economic case

Empty properties are often a blight on neighbourhoods. Certainly, the local authorities we spoke to saw how empty commercial properties diminished the appearance of some streets. Many also felt pressure from local communities to act. Often, the local media played a role in bringing attention to abandoned and neglected buildings, with a sense that failure to bring these properties back into use was symbolic of the decline of a shopping centre or the loss of an area's former economic vibrancy. Making the most of empty properties could be said to resonate with residents' wishes to see visual improvements in their area.

In some cases, empty offices and retail units were seen as a hindrance to efforts to rejuvenate a local shopping street or parade of shops on an estate and boost the local economy. To put it more positively, local authorities and housing providers wanted to bring these properties back into use as part of a wider approach to regenerating shopping streets, improving neighbourhoods and generating economic growth. Some of the people we interviewed mentioned how struck they were by the analysis and recommendations of the Portas Review<sup>13</sup> and how this had inspired action in their area to rejuvenate the high street and find new futures for empty commercial property.

We were also encouraged by the importance the Portas Review attached to supporting imaginative uses for empty commercial properties and involving communities in re-imagining what they need and want from their high streets. We were struck by Mary Portas' words:

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10 The Empty Homes Agency, 'New Tricks With Old Bricks: How Reusing Old Buildings Can Cut Carbon Emissions' (The Empty Homes Agency Ltd, March 2008), p.4

11 Ibid

12 Kate Crawford and others, 'Demolition Or Refurbishment Of Social Housing? A Review Of The Evidence' (UCL Urban Lab and Engineering Exchange for Just Space and the London Tenants Federation, 2014) <http://www.engineering.ucl.ac.uk/engineering-exchange/demolition-refurbishment-social-housing/>

13 Mary Portas, 'The Portas Review: An Independent Review Into The Future Of Our High Streets' (2011)

*I want to put the heart back into the centre of our high streets, re-imagined as destinations for socialising, culture, health, well-being, creativity and learning. Places that will develop and sustain new and existing markets and businesses. The new high streets won't just be about selling goods. The mix will include shops but could also include housing, offices, sport, schools or other social, commercial and cultural enterprises and meeting places. They should become places where we go to engage with other people in our communities, where shopping is just one small part of a rich mix of activities.<sup>14</sup>*

In many ways, the work of local authorities to bring empty commercial properties back into use may be linked to wider strategies to boost the economic and social prospects of local communities.

Many of the local authorities and housing providers we spoke to were proud of how their empty property building works had generated local jobs and had a local economic multiplier effect. In some cases they had set out to create training and apprenticeship opportunities as part of the project works. Research carried out by Birmingham University on the impact of the Government's Empty Homes Community Grants (EHCG) programme in the North East and Yorkshire and Humberside highlighted the impact that empty homes work can have on wider agendas such as tackling skills gaps, addressing unemployment, and rewarding volunteering.<sup>15</sup>

## The business case for the owner

While local authorities and housing providers may create new affordable homes in commercial units they have purchased, our case studies also provide many examples of where a commercial property owner leased the property to an affordable housing provider. Property owners are unlikely to do this unless they are convinced that there is a business case for doing so. We also feature cases where property owners agreed to rent directly to someone nominated by the local authority at below the market rent. Again, they saw the financial sense in doing so.

The business case for converting commercial space to dwellings depends on local market conditions in the residential and commercial sectors. Property owners tend to be interested in capital growth, as well as the income earning potential from leasing or letting a property. This dual interest may mean that even if there are positive income returns from renting out a vacant space as housing, for example empty floors above a shop, this will not be considered if it is thought to have a negative impact on the value of the property as a whole. One of the factors that will be taken into account is the extent to which renting out empty space will reduce the potential future options for the use of the property as a whole.

As the business case depends on the difference between the returns through capital growth and the income from leasing/letting in the residential and commercial sectors, this could mean that even in markets where there is a healthy demand and few vacancies in the commercial sector, greater returns could be made by converting the space to residential use. The last thing we want to encourage is property owners evicting existing commercial users

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14 Ibid

15 David Mullins and Halima Sacranie, 'Working Paper 3 – Building A Legacy: The Impact Of Empty Homes Community Grants Programme In The North East And Yorkshire And Humberside' (Housing and Communities Research Group, University of Birmingham, October 2015). <<http://www.birmingham.ac.uk/schools/social-policy/departments/social-policy-social-work/news-and-events/2015/10/housing-and-communities-research-group-launches-working-paper-series.aspx>>

because of the return they anticipate from converting properties into luxury housing, or ruling out new commercial occupiers despite healthy levels of demand for that type of commercial space in the local market. There are some indications that this is happening to shops, pubs and office accommodation in some areas where the anticipated sale and rental returns in the residential market are higher than in the commercial market, even after accounting for conversion costs.<sup>16,17</sup>

Our case studies explore how local authorities and housing providers have helped property owners to consider the business case for creating affordable housing. A number of local authorities and development consultants had well-developed models for making the business case to the property owner to let to a nominee of the council at below market rent, or to lease the property to a housing provider to let as affordable housing. This often involved demonstrating that the income the property owner could earn through such arrangements was not so far behind what the owner could earn if the property was let directly at a residential market rent – taking into account, for example, the management fees that would be charged if the owner let via an agent, and the costs of financing the necessary refurbishment and conversion works.

In leased arrangements, the housing provider tended to retain a proportion of the rent to cover its management and maintenance expenditure, as well as to cover the costs of financing the conversion works over and above any publicly-funded grant input. Nonetheless, property owners were persuaded of the business case for leasing their property to a housing provider – often because they were guaranteed the return of that property in a good state at the end of the lease period, and in some cases were expecting to enjoy a growth in the value of the property over that time. Arguably, the full growth in value would not have been realised without the conversion or refurbishment works and the ongoing good management of the property. Moreover, as shown by our case studies, many property owners would not have been able to realise the growth in value because they simply could not raise the finance to do the works themselves, leaving them with a space that would have remained redundant and in many cases at risk of falling into further disrepair from neglect and vandalism. From the case studies we featured, owners were only too aware that not making the most of their empty spaces meant forgoing income, whilst racking up costs, such as insurance and ongoing maintenance.

In arrangements where the property owner directly rented below market rents, the business case revolved around their reliance on grant funding from the local authority to convert and refurbish the property and earn a rent, not being able to raise the finance directly to do so.

Often for those leasing empty spaces to housing providers, the tipping point was the consideration given to the benefits of having a housing provider take on the project management of the works and of letting and managing the property. In many cases this was not something the owner was in the business of doing. Housing providers often spoke of taking away ‘the hassle’ from owners.

In residential markets with high capital values and rents it is likely to be more difficult to realise a business case for conversion to affordable housing when the potential capital growth and income returns from market housing are so high. However, our case studies

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16 Local Government Association, ‘Charities And Businesses Evicted Under Government Planning Rules’ (2014) <[http://www.local.gov.uk/media-releases/-/journal\\_content/56/10180/6591087/NEWS](http://www.local.gov.uk/media-releases/-/journal_content/56/10180/6591087/NEWS)>

17 Osborne H Smith, ‘Pubs Facing Last Orders As More Developers Cash In’ *The Guardian* (2015) <<http://www.theguardian.com/lifeandstyle/2015/jan/23/pubs-last-orders-developers>>

show that this has not stopped local authorities and housing providers creating affordable homes through the conversion of empty commercial spaces. Often this was because the business case could still be established as the property owner's could not raise the finances to carry out the necessary conversion or refurbishment works.

Our research suggests that across the country a business case can be made for bringing empty commercial properties and spaces back into use as affordable housing.

### **The corporate social responsibility case for the owner**

Making use of their own empty commercial space to help address affordable housing shortages will help companies demonstrate their commitment to operating ethically and in a manner that takes into account the environmental and social impacts of their business.

Companies' corporate social responsibility programmes often focus on social or environmental contributions, such as improving the local environment, fostering stronger relationships with local communities. So partnering up with local organisations to find new ways to put existing empty commercial spaces back into use could be an innovative opportunity to make a positive contribution. This could simultaneously meet pure commercial objectives by making more efficient use of companies' existing, under-used spaces, such as empty floors above a retail unit or an office building no longer in use.

# What are the opportunities within empty commercial properties?

## Introduction

There is little question that a great deal of commercial property lies empty across England. As long ago as 2003, a Government report drew attention to the scale of the problem and the potential to create homes from empty commercial spaces.

*Even allowing for the property market's operation, it is estimated that, in England alone, empty and commercial properties, including space above shops, have the potential for around 420,000 new homes.<sup>18</sup>*

It is beyond the scope of this project to update that research, but we recommend that local authorities conduct studies to understand vacancy rates in their area and the potential to create new housing supply from long-term empty commercial properties. Such studies can provide the evidence base to devise and implement a strategy to enable more of these properties to be brought into use. There is a wealth of data on office and shop vacancy rates at a local level, as shown below, that such studies could draw on.

Our case studies do give some examples of local authorities conducting studies, for example, the London Borough of Croydon. We also came across instances of local authorities looking into the capacity of empty spaces above commercial units in a particular area, such as York City Council and the London Borough of Camden. In other places, we found empty homes staff actively identifying 'probable empty commercial spaces' and seeking to make contact with the owners.

As we explore below, there has been an increase in surplus commercial space over the last 10 years, although vacancy rates have come down from the peaks seen in the aftermath of the 2008 financial crisis. The reasons for a general increase in vacant commercial space lie in underlying structural changes to the economy, resulting in changing patterns of demand for office and retail space.

We are not suggesting that all empty commercial space is surplus and should be converted for housing. Property markets require vacancies to function, as properties are on the market for sale or rent, or the new occupier is signed up and due to move in. Some commercial properties are empty as owners close office branches or reduce the number of high streets they are present on. In some places, once certain types of empty commercial properties are on the market again, there will be a healthy commercial demand for them. Elsewhere, while there might be no immediate occupier in sight, an economic case could be made for the property remaining in the commercial sector, rather than being converted into housing. For example, some vacancies reflect economic cycles (or retrenchment in one sector) but provide potential opportunities for new business users when the economy picks up. Local authorities developing a strategic approach to bringing empty commercial properties back into use, should be mindful of whether there is a good economic case for the empty property remaining in the commercial sector. Should this be the case, they should consider what they

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<sup>18</sup> Office of the Deputy Prime Minister *Empty Property: Unlocking the Potential. A Case for Action* (HMSO, 2003)

might do to help stimulate commercial demand, given their responsibilities to ensure the economic, social and environmental well-being of the community that they serve.<sup>19</sup> We heard of examples where local authorities were taking this approach. For example, Cheshire West and Chester District Council in Ellesmere Port looked to attract social enterprises to long-term vacant properties.

In this report we suggest that local authorities and housing providers focus their efforts on creating homes in commercial premises that are likely to remain vacant for prolonged periods, either because there is a lack of demand for that type of property from commercial users generally, or because there is a surplus relative to demand in an area.

We look in turn below at the opportunities within the office and retail sectors recognising that vacancies vary widely between different localities.

### Vacancy rates in office property

Lambert Smith Hampton (LSH) noted that UK-wide office availability stood at 51.1 million ft<sup>2</sup> in 2014, representing a 9.5% vacancy rate.<sup>20</sup> Though the amount of office space available fell by 4% between 2013 and 2014, this was largely driven by central London, where office availability fell by 27% over 2014, leaving 10.2 million ft<sup>2</sup> (4.9%) vacant. This fall in London reflected the strength of demand in the office market there and the withdrawal of stock from the office market for alternative uses, mainly residential. By contrast, availability of office space outside central London increased by 3%, to 40.9 million ft<sup>2</sup>, equating to a vacancy level of 12.5%. The following paragraphs examine vacancy rates across the UK, based on the work of LSH.

### The 'big six' city office markets

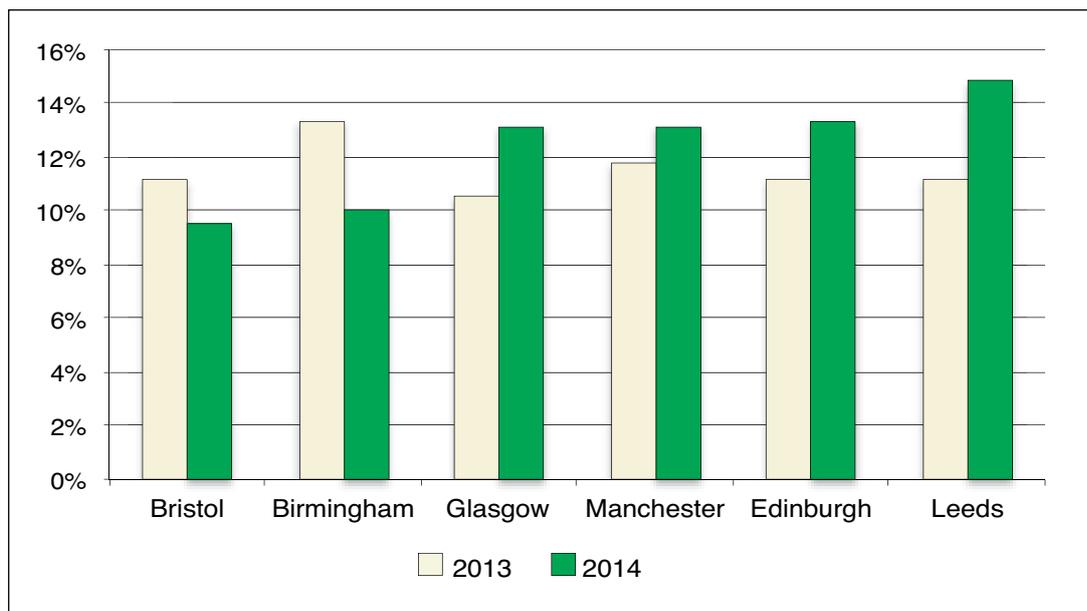
Figure 1 shows that across the largest city office markets (referred to by LSH as 'the big six') office vacancy averaged around 12% in 2014. This seems relatively high given that these cities might be said to be business hubs. It is also of note that the vacancy rate rose in four of the cities (Glasgow, Edinburgh, Manchester, Leeds), between 2013 and 2014. By contrast, the position in Bristol and Birmingham improved somewhat.

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<sup>19</sup> Local Government Act 2000

<sup>20</sup> Lambert Smith Hampton, 'Activating The Workplace: Office Market 2015' (Lambert Smith Hampton, 2015), p.7

**Figure 1 Office vacancy rates, 'the big six', 2014**

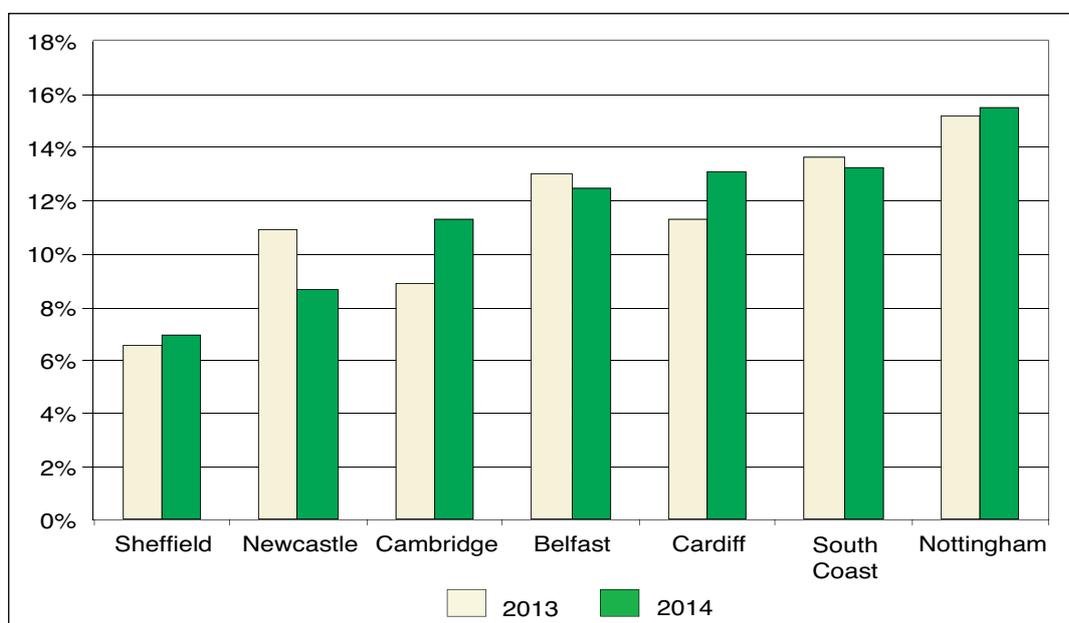


Reproduced with the permission of Lambert Smith Hampton<sup>21</sup>

### The 'mid seven' office markets

Figure 2 shows that the 'mid seven' markets saw a slight reduction in the vacancy rate, falling from 12.0% to 11.7% from 2013 to 2014. Newcastle saw the biggest drop, with vacancy reducing to a 10-year low of 8.7%. At the same time, vacancy rates rose in centres such as Cambridge, Cardiff and Nottingham.

**Figure 2 Office vacancy rates, 'the mid seven', 2014**



Reproduced with the permission of Lambert Smith Hampton<sup>22</sup>

21 Ibid

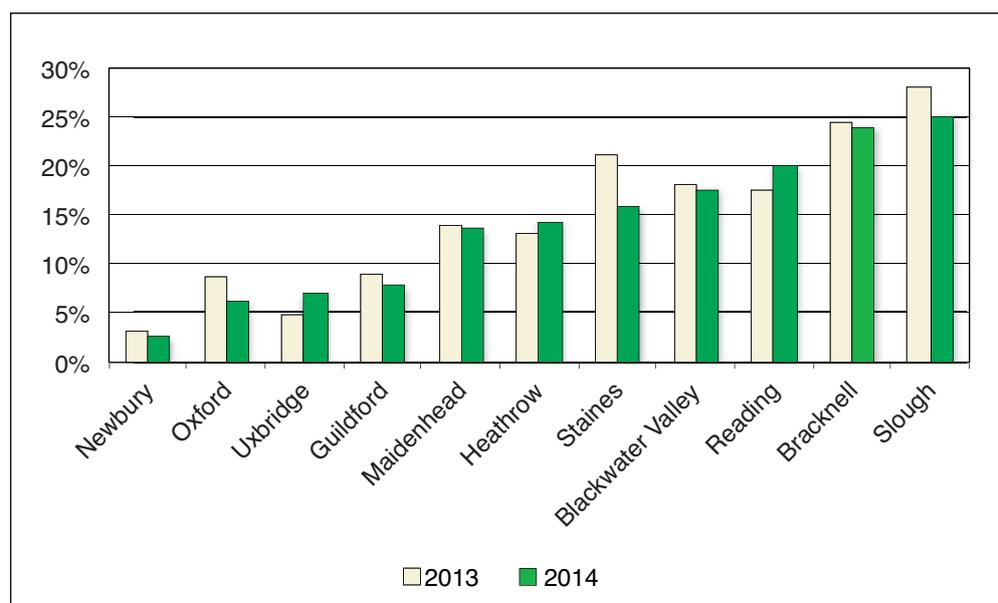
22 Ibid

One of the reasons that vacancy rates may be rising in some of the UK's major cities is that these contain a large stock of office premises that are seen as obsolete due to a change in tastes for office workplace design. Much of the stock of offices in these cities was designed and built in the 1960s and 1970s when specifications were often driven by keeping costs down. It may be too costly to upgrade these spaces to match current office design requirements. There seem to be relatively high vacancy rates within offices in these cities, which could provide opportunities for conversion to residential use. Certainly some of the local authorities and housing providers we spoke to, were looking for potential opportunities to create more homes within such office blocks and were all too aware that they did not necessarily have a future as work spaces.

### Thames Valley market

Figure 3 shows that the overall vacancy rate in the Thames Valley was broadly stable during 2014, edging down from 14.0% to 13.9%. The Thames Valley has traditionally been viewed as one of England's strongest office markets and it is therefore notable that, overall, vacancy rates should be so high. One of the key issues here is that much of the vacancy resides in out-of-town business parks, such as Blackwater Valley, Bracknell, Reading and Slough. It seems likely that much of this office space is not suitable for conversion to housing.

Figure 3 Office vacancy rates, Thames Valley, 2014



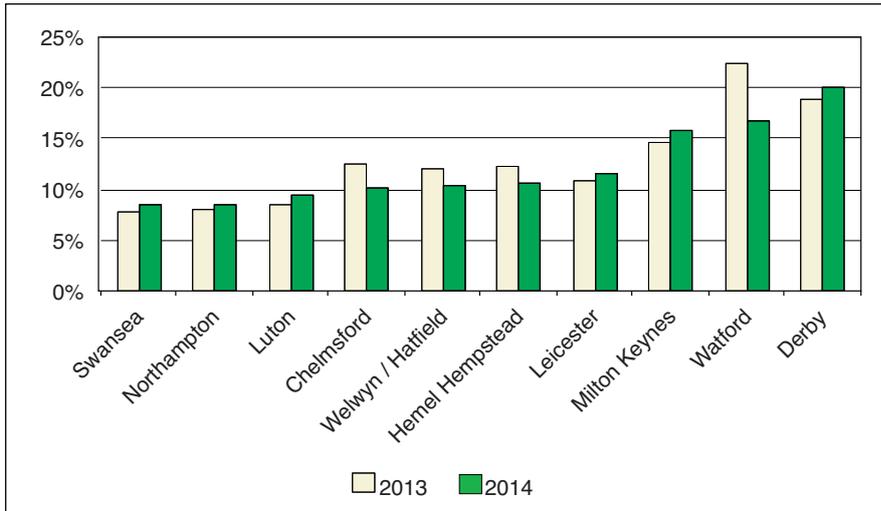
Reproduced with the permission of Lambert Smith Hampton<sup>23</sup>

### The 'rest of the UK' office markets

Figure 4 shows that in what LSH calls 'the rest of the UK', vacancy rose in six of the markets in 2014, albeit marginally.

23 Ibid

**Figure 4 Office vacancy rates, 'rest of the UK', 2014**

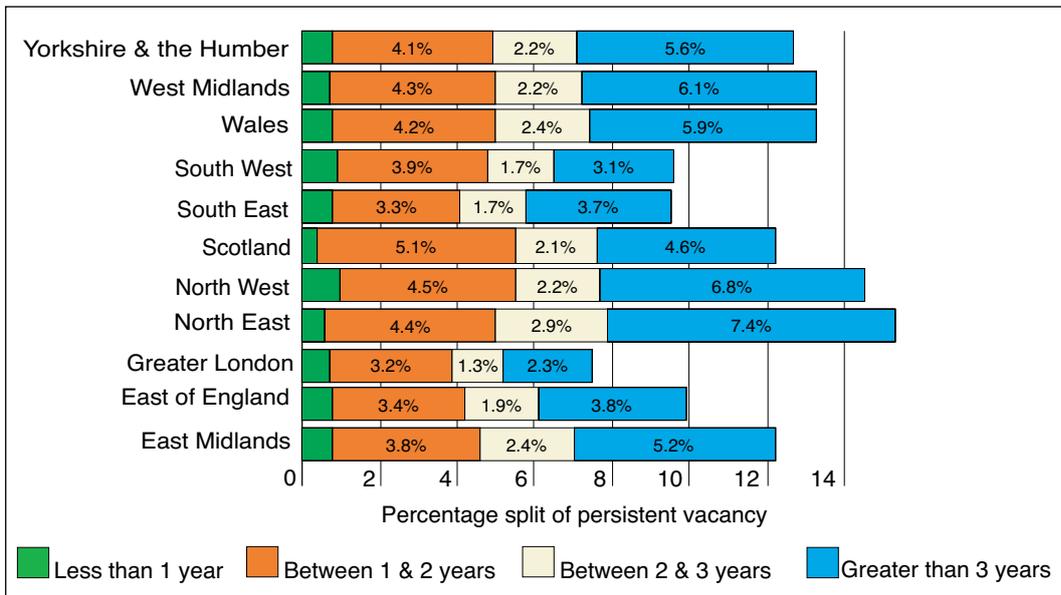


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**Vacancy rates in retail property**

Recent figures from the Local Data Company (LDC) showed the shop vacancy rate to be 12.5% in March 2016, the lowest since January 2010. While the overall retail and leisure vacancy rate was 11.3%. The overall vacancy rate varied by location type from 13.2% for shopping centres to 10.9% for town centres and 6.0% for retail parks.<sup>25</sup> The LDC also looked at 'persistent vacancy rates', and the breakdown it produced by Great Britain's nations and regions is reproduced at Figure 5. The region with the highest percentage of persistent vacancy rates is the North East with 7.4% of its overall units being vacant for longer than three years, compared to a Great Britain average of 4.5%.

**Figure 5 Persistent vacancy rates**



Reproduced with the permission of the Local Data Company<sup>26</sup>

24 Ibid

25 LDC\_Vacancy\_Rate\_March\_Press\_Release\_FINAL.doc, 14 April 2016.

26 Ibid

It can be concluded that there are relatively high persistent vacancy rates in retail units in many places which could provide opportunities for conversion to residential use. Additionally, even in markets such as London, where the overall persistent vacancy rate was low, we were told of secondary shopping streets where there were higher rates of long-term vacancies.

## Empty spaces and floors above commercial premises

In addition to empty offices and retail units, there are empty spaces above commercial units. Some of these spaces may be hidden from plain sight if the restaurant or retail unit below is occupied. Such spaces may once have been the flat over the shop, and more recently used as an office, or for storage or staff changing facilities. The use of these spaces may have changed over time also. Our case studies feature many examples where such spaces were transformed into affordable housing. We also feature examples of how whole floors above retail units that had previously been used for office space were converted into individual flats with some re-configuration of the internal layout.

The British Property Federation and Living Over the Shop (LOTS) formed the 'Housing Above Shops Task Force' that estimated, over 10 years ago, that 300,000 people could be housed in potential living space above commercial premises in the UK.<sup>27</sup> We have not had the capacity within this project to update that estimate.

Detecting such potential spaces can be challenging for those seeking to create more housing. Such spaces are seldom classified as dwellings (even if at one point in history they had been a flat above the shop), and are therefore not readily detected through council tax data which is used by local authorities to record and identify empty homes in their area.<sup>28</sup> They are also not captured by data on empty retail units and offices.

From talking to a number of local authorities, we can see no alternative to local door-to-door surveys that try to identify empty spaces above retail units. From such surveys it is possible to create a long-list of likely empty spaces which can then be refined with further research, for example, through talking to neighbours and contacting the property owners. In some cases local authorities found less empty space that could be converted into housing than they originally anticipated, but still the opportunities to create affordable housing made such studies worthwhile. Research published by York City Council in 2013 and carried out by the North of England Civic Trust, found that 36% of upper floors in buildings in central York were not in use and suggested there was the potential to create 800 one-bedroom properties that could house between 1,000 and 1,500 people in the city centre.<sup>29</sup> This suggests it would be well worth local authorities exploring the potential of all empty spaces above commercial units to provide housing.

## What is happening with regard to office-to-residential conversions?

We explore below the scale of recent conversion from commercial to residential property and the scope of permitted development rights.

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27 Living Over The Shop, a report by the BPF/LOTS Task Force. For the Rt. Hon. Lord Rooker, Minister of State ODPM, Potential Housing From Space Above Shops, June 2003, British Property y Federation

28 Gov.uk, 'Live Tables On Dwelling Stock (Including Vacants) - Statistical Data Sets - GOV.UK' (2012) <<https://www.gov.uk/government/statistical-data-sets/live-tables-on-dwelling-stock-including-vacants>>

29 BBC News, 'Empty Spaces Above York Shops Could House Hundreds, Report Claims' (2013) <<http://www.bbc.co.uk/news/uk-england-york-north-yorkshire-23364787>>

In 2013 the Government extended permitted development rights to allow offices to change to residential use in England without planning permission.<sup>30</sup> This change, which occurred on 30 May 2013, allowed for the conversion of B1a office stock to C3 residential use without any longer needing formal planning consent.

The measures were initially put in place for a temporary period of three years, and the underlying motive was said to be to encourage residential development, particularly in those areas suffering from high rates of vacancy in office stock. The Government highlighted the fact that this new measure would address the housing shortage, as well as create jobs in service and construction industries, and help regenerate town centres.<sup>31</sup> Following a consultation exercise, 33 areas within 17 local planning authorities were made exempt from permitted development rights, including:

- The City of London.
- The London Central Activities Zone, which covers parts of the boroughs of Camden, Islington, Hackney, Tower Hamlets, Southwark, Lambeth, Wandsworth, Westminster, Newham, and Kensington and Chelsea.
- Areas in the borough councils of Stevenage, and Ashford (Kent).
- Areas in the district councils of Sevenoaks and East Hampshire.
- Manchester City Centre.

On 13 October 2015, the Housing and Planning Minister, Brandon Lewis, announced that the temporary permitted development rights measures, set to expire on 30 May 2016, would be made permanent.<sup>32</sup> In addition, he announced that those that already had permission would have three years in which to complete the change of use. At the same time, he announced new permitted development rights to enable the change of use of light industrial buildings and launderettes into new homes.

The announcement also stated that those areas that were currently exempt from the office-to-residential permitted development rights would have until May 2019 to make an Article 4 direction if they wished to continue determining planning applications for the change of use. In the meantime, those areas would remain exempt from permitted development rights.

According to the Government, the temporary permitted development rights 'meant that between April 2014 and June 2015, almost 4,000 conversions were given the go-ahead'.<sup>33</sup>

Research by Lambert Smith Hampton<sup>34</sup> showed that from May 2013 up until its report was published in 2015, over 11 million ft<sup>2</sup> of office space had left the market nationally for alternative uses since the permitted development rights came into force. Put into context, this is equivalent to the whole Reading office market. Of course, this is unlikely to be related solely to permitted development rights, as market factors suggest that the returns to be earned from residential conversions are the most profitable option in some areas.

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30 Department for Communities and Local Government (2013) *Letter to Chief Planning Officers* [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/68937/Letter\\_about\\_permitted\\_development\\_rights\\_for\\_change\\_of\\_use\\_from\\_commercial\\_to\\_residential\\_24\\_January\\_2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/68937/Letter_about_permitted_development_rights_for_change_of_use_from_commercial_to_residential_24_January_2013.pdf)

31 Eric Pickles MP, 'Change Of Use: Promoting Regeneration' (Parliament, 2013)

32 <https://www.gov.uk/government/news/thousands-more-homes-to-be-developed-in-planning-shake-up>

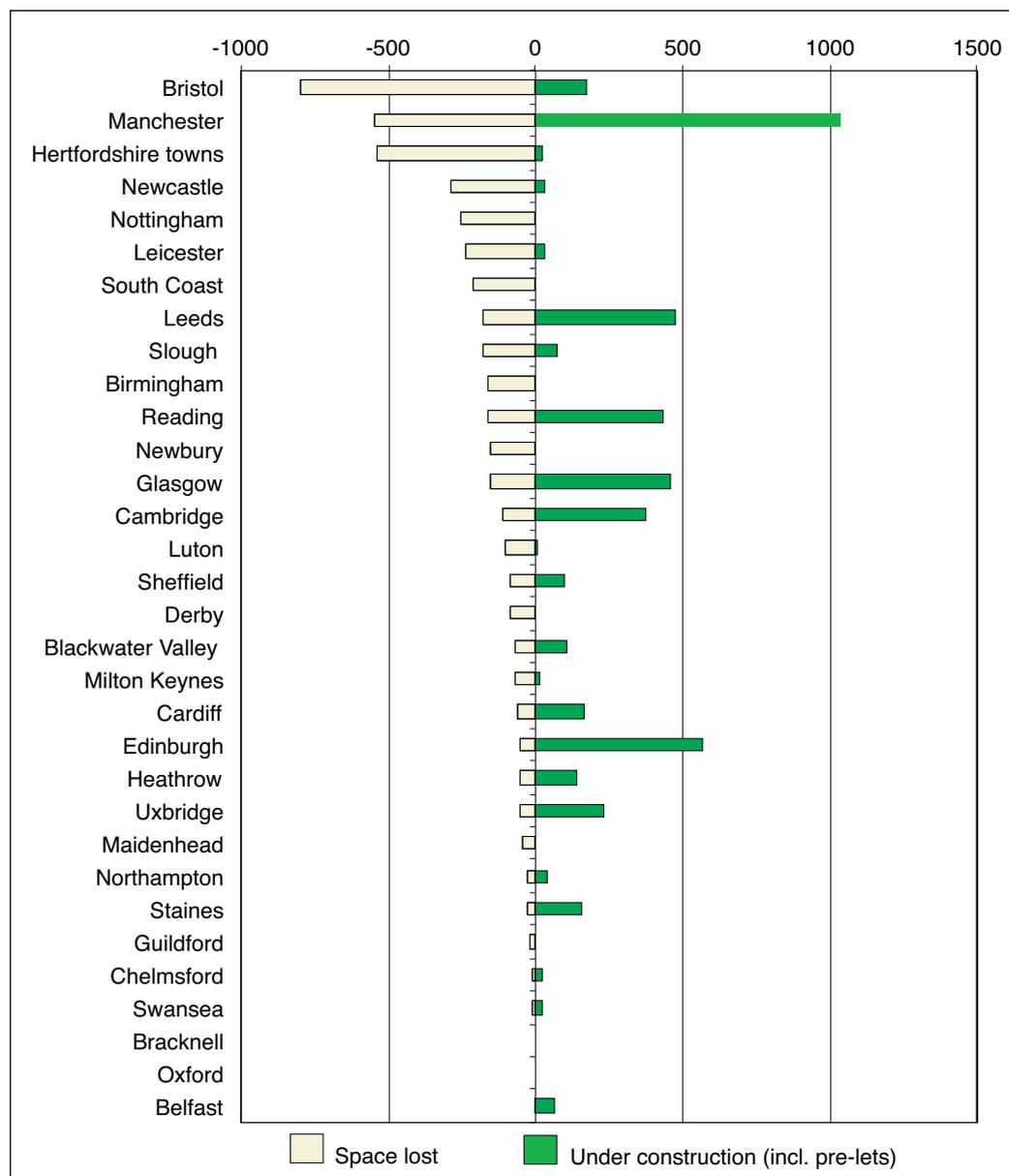
33 Ibid

34 Lambert Smith Hampton (2015), p.10

Nevertheless, activity accelerated in 2014, with 6.8 million ft<sup>2</sup> of office space leaving the market, an area equivalent in size to the Oxford market. This could have reflected the fact that permitted development rights were scheduled to expire in May 2016. Unsurprisingly, London has provided an important focus of activity, particularly outer London, where residential values dwarf those of offices.<sup>35</sup>

Many regional markets have also seen substantial activity following the permitted development rights. In the 34 regional markets monitored by LSH, approximately 8 million ft<sup>2</sup> of office stock had left the market since May 2013, 4.7 million ft<sup>2</sup> of which was in 2014 (Figure 6). Bristol had provided a key hotspot, with over 1 million ft<sup>2</sup> of office space removed, nearly 800,000 ft<sup>2</sup> of which was in 2014.

**Figure 6 Office space lost to residential use in 2014**



Reproduced with the permission of Lambert Smith Hampton<sup>36</sup>

35 Ibid

36 Ibid

Understandably, markets which work well as commuter locations for London have also provided a focus. In Slough, for example, 6% of stock has gone for residential use, while the Hertfordshire markets – including Watford, St Albans and Hemel Hempstead – have collectively lost c.900,000 ft<sup>2</sup> of office space since 2013.

It is likely that permitted development rights have greatly increased the appetite for converting redundant commercial stock to residential use. However, one of the consequences of permitted development rights seems to have been that some owners have emptied occupied commercial buildings, for example by not renewing leases, so that they can be converted into more profitable residential uses. Therefore, while permitted development rights may have encouraged the conversion of some long-term vacant commercial dwellings, it might also have encouraged other commercial stock to be converted to residential.

It is unlikely that the market-led conversions through permitted development rights have contributed greatly to the delivery of affordable housing. Nonetheless, many of the case studies we feature had used the permitted development rights route when creating new affordable homes from empty properties. The people we interviewed who were involved in these schemes, sometimes remarked that the permitted development rights were helpful in speeding up the planning process, rather than being fundamental to their scheme proceeding. At the same time, some expressed concern that permitted development rights schemes did not have to make a planning gain contribution to affordable housing delivery.

### Trends in demand for office space

Changes in the demand for office space would suggest that there will be a growth in vacancies in the office sector in coming years, and more so in some places than others. This is aside from any considerations of the impact of macro-economic cycles.

Average office occupancy densities have risen over the past decade, from around 16 to 17 m<sup>2</sup> per person to around 11 m<sup>2</sup> per person.<sup>37</sup> Meanwhile, it has become common practice to provide fewer workstations than there are workers. Many organisations today plan their space at around eight desks per ten workers, with substantially higher desk utilisation rates in certain parts of their businesses or sectors.<sup>38</sup> The reasons behind this include the spread of home and flexible working hours, aided by technology and business change programmes.

The shift towards higher densities and higher desk utilisation rates indicates that growing numbers of organisations can achieve ‘spaceless growth’ – accommodating growing headcount and output without acquiring or renting further property. One implication is that there will be more vacancies in the office sector.

Another key trend is the demand for a different type of workspace. As explored above, many of the office blocks built in the 1960s and 1970s are not seen as providing the space within which modern design specifications can be readily accommodated. Moreover, the demand for modern designs has been met in new developments. Perhaps these developments have also helped stimulate the demand for a new type of office accommodation. New supply has

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37 British Council for Offices, ‘Occupier Density Study’ (British Council for Offices, 2013) <<http://www.architectsjournal.co.uk/Journals/2013/09/10/c/y/n/BCO-Occupier-Density-Study---Final-report-2013.pdf>>

38 Future Workstyles and Future Workplaces in the City of London by Ramidus Consulting Limited published by the City of London Corporation and the City Property Association, March 2015, <http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/Future-workplaces-and-workstyles-in-the-City.aspx>

been concentrated in larger schemes – whether these be city centre regeneration projects (such as Brindleyplace in Birmingham or Spinningfields in Manchester), or edge- and out-of-town business parks (such as Westwood at Coventry or Emersons Green in Bristol). Such schemes have arguably soaked up a great deal of demand, offering modern interior specifications in master planned schemes with support services and other facilities, such as leisure and car parking. This has impacted on the demand for older office buildings.

At the same time, far fewer companies own their workplaces today. Property has become more akin to a rented commodity in many business operations and therefore there is arguably less identification between any one building and an organisation.

It is these trends, rather than short-term pressure in the economy, that are causing so much commercial office space to become redundant – a factor that is likely to grow rather than recede in the short- to medium-term. Indeed, LSH concluded that the demand for office space is entering into a gradually downward trend.<sup>39</sup>

There is an important spatial dimension to this overall conclusion. It can be reasonably expected that Central London, and the central areas of the major cities (Birmingham, Leeds and Manchester, for example) will continue to witness healthy and possibly growing office markets. It will be in other office markets that the most severe aspects of office rationalisation will be felt.

### Trends in demand for retail space

Changes in the demand for retail space suggest that there will be a growth in retail sector vacancies in coming years, and more so in some places than others. This is aside from any considerations of the impact of macro-economic cycles.

Throughout the 1990s, UK retail saw a massive shift of food and bulk retail to out-of-town and edge-of-town retail parks. The Department of Business Innovation & Skills (BIS) reported in 2011 that only 42% of all retail sales took place in the high street, down from 50% in 2000.<sup>40</sup> BIS expected this share to fall to 40% by 2014.

Furthermore, according to the Office of National Statistics (ONS) Annual Business Survey (2013), non-specialised stores (supermarkets, convenience stores and department stores) made up 20% of retail businesses but 51% of retail *turnover*.<sup>41</sup> Such stores were the foundation of the high street and their loss put many town centres and high streets under huge pressure. While some centres were able to respond, for example by moving upmarket, most struggled.

The demand for retail space was subsequently hit by two other changes driven by technology: just-in-time delivery systems greatly reducing the need for in-store inventory, and internet sales. Evolving technology and an ever-increasing number of interactive devices may accelerate the trend towards out-of-store purchases and put further downward pressure on the demand for retail space.

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39 Lambert Smith Hampton (2015), p.10

40 GENECON LLP and Partners, 'Understanding High Street Performance' (Department for Business, Innovation and Skills Understanding High Street Performance, 2011), p.17. <[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/31823/11-1402-understanding-high-street-performance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31823/11-1402-understanding-high-street-performance.pdf)>

41 Cited in: Chris Rhodes, 'Briefing Paper Number 06186, The Retail Industry: Statistics And Policy' (House of Commons Library, 2015), p.5

Other trends may reinforce this downward trend, for example:

- Consumer spending levels remaining weak, especially on discretionary goods.
- Business costs continuing to rise, increasing not only variable costs but also fixed, central costs.
- Intensifying competition through a shrinking market and an increasing number of players from other sectors or other countries.<sup>42</sup>

There is a greater concentration of retail units into larger centres facilitated by their accessibility. For example, Westfield Stratford's catchment area was estimated in 2009 as being over 4 million people with a total spend of £3.24 billion.<sup>43</sup>

The Centre for Retail Research predicted that the number of retail stores will fall from just under 282,000 in 2012 to 220,000 by 2018, and that 41% of town centres will lose nearly 28,000 stores within five years.<sup>44</sup> This helps to explain the observation above that a high proportion of vacant retail premises, particularly in some locations, have been vacant for more than three years. This points to opportunities to create new homes from properties that are unlikely to be re-occupied as shops.

It is worth noting that shrinking store numbers is not a new phenomenon. The Centre for Retail Research shows that, since 1950, the number of stores has halved, with the greatest falls occurring in the 1960s and early 1970s.<sup>45</sup>

One of the greatest impacts on the volume of empty retail space is the ongoing evolution and expansion of the online market. As recently as 2007, internet sales accounted for just 2.7% of total retail sales; but even by 2012 that had risen to 12.7%.<sup>46</sup> AXA Real Estate suggested that as consumers continue to shift to purchasing online, they progress from purchasing lower-value comparison goods such as DVDs and books to higher-value, larger items including home, garden and DIY categories.<sup>47</sup> Similar trends are likely to be observed across other retail markets, subject to the evolution of appropriate delivery systems. Taking these future technological and behavioural shifts into consideration, AXA suggested that the frequently-cited figures expected for online retail market share in 2020 – of almost 25% – could be an under-estimate. AXA also argued that the proportion of each sales category that could shift online over the same time period could be around 30%, supported in particular by the growth of m-commerce (mobile) and continued consumer price sensitivity.<sup>48</sup>

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42 Deloitte, 'The Changing Face of Retail: The Store of the Future: The New Role of the Store in a Multichannel Environment' (Deloitte LLP, 2011), p.3. <[http://www.rasci.in/downloads/2011/The\\_Store\\_Future.pdf](http://www.rasci.in/downloads/2011/The_Store_Future.pdf)>

43 Grimsey Review, 'An Alternative Future For The High Street' (Grimsey Review Team, 2013), p.13. <<http://www.vanishinghighstreet.com/the-grimsey-review/>>

44 Joshua A. N. Bamfield, 'Retail Futures 2018: Shop Numbers, Online And The High Street' (Nottingham: Centre for Retail Research, 2013), p.1. <<http://www.leeds.gov.uk/docs/CD9-3%20Retail%202018%20MayReporto.pdf>>

45 Bamfield (2013), p.10

46 Bamfield J A N (2013), *op cit*

47 AXA Real Estate, 'Market Edge: Retail Will Never Be the Same Again' (AXA Real Estate Investment Managers, 2013), p.6. <<http://www.propertyweek.com/journals/2013/02/18/t/v/g/axa-market-edge-jan-2013.pdf>>

48 Ibid

This shift of sales online is reducing sales per unit area in physical stores. In order to maintain profitability, retailers will be forced to reduce occupancy costs. This is likely to lead to more vacancies.

In the retail sector, there are distinct differences between shopping centre, retail park and high street formats. The first two tend to be under integrated ownerships, where the owners manage the space through managing agents. The assets are valued as single purpose assets. Therefore conversion of a unit within a shopping centre or retail park to a non-retail use, is seen as a 'dilution' of this profile that would likely result in a reduction in the overall capital value of the property. This is aside from considerations of whether these settings would make attractive housing options. This suggests that there will be limited opportunities for conversions to residential accommodation within shopping centres and retail parks, and none of our case studies feature these scenarios.

By contrast, in the high street, there is a far more disparate and fragmented pattern of ownership. While large institutions might get involved with large prime city centre buildings, smaller investors will own smaller, sometimes single, properties. Though diminishing in number (see below) some high street retailers will be owner occupiers. All of this means that conversions from retail to residential accommodation are more likely to occur within high streets, either in a town or city's main shopping street or one of its secondary shopping areas.

## Conclusions on opportunities

The high level of vacancies within both retail and office units would suggest that there are opportunities to meet demand for housing from within these existing buildings. Market forces, possibly aided by extended permitted development rights, would suggest that more properties will exit these sectors for conversion to residential. However, the current levels of prolonged vacancies in a number of localities would suggest that more could be done to stimulate the conversion of long-term vacant retail and office units to housing. Our case studies explore how local authorities and housing providers can create opportunities for affordable housing from these vacancies. By bringing together funding and expertise in development and housing management, they can help owners unblock some of the barriers they face in bringing these properties back into use.

Clearly not all vacant buildings could be converted to housing, but we came across few examples of where the building layout or extent of works made this difficult to achieve from a design perspective. We are saying that there are untapped opportunities that could provide the space in which to provide more affordable housing in an environmentally sustainable way, while bringing new life to old buildings and reinvigorating streets and neighbourhoods.

# Barriers to bringing empty commercial property back into use

## Introduction

A number of the people we interviewed spoke of their frustration that despite identifying empty commercial spaces, they could not inspire more property owners to convert them into housing. They felt that this was an obstacle even when there was a clear business case for doing so. We investigated the barriers people told us about (see below) to see what might be deterring organisations and individuals in the commercial sector from realising conversions of long-term vacant commercial properties. We hope this will assist those creating new homes from empty properties in the dialogues they seek with the commercial sector and give pointers on where there might be more fruitful opportunities. We are struck by the need to promote a greater understanding across sectors, given many people see a rigid demarcation between those operating in the commercial property sector and those working in the residential property sector. Moreover, business users are often focused on their business operations, rather than how best to utilise empty space.

Just as we explored how changes in the demand for office and retail space are creating opportunities or imperatives to find new uses for surplus commercial space, we look at how trends in the office and retail sectors also create new hurdles for those seeking to create affordable homes from these spaces. Some of these hurdles relate to trends in ownership patterns – for example, the growth in investor owners and an increase towards leasehold arrangements and leases of shortening lengths of term.

The people we interviewed sometimes spoke of their frustration with the speed of processes covering planning, building control and listed building consents. These were not seen as absolute barriers, but they could add to costs and delays. To unblock such issues, we recommend that local authorities not only take a strategic approach to bringing empty commercial spaces back into use, but also designate an officer to co-ordinate the delivery with external partners and internal departments.

There were additional challenges for those seeking to create affordable housing relating to the availability and terms of funding, and also because of attractive levels of returns from open market sale or rental in some areas.

Our case studies are a cause for optimism as they show that local authorities and housing providers can forge partnerships with the commercial sector and overcome barriers to creating affordable housing in empty commercial spaces. It will be no surprise that the case studies we feature tended to include arrangements with individual or small-scale property owners who owned the property outright. Nonetheless, the studies also show that it is possible to engage investor owners with large-scale property portfolios, and high street chains. We make recommendations for local authorities to take a strategic approach to exploring these opportunities so that more new affordable homes can be created from empty commercial spaces.

## Growth of leaseholding and the nature of leasehold arrangements

Over half of the UK's commercial property is occupied by lessees, and this has risen in recent years as many businesses are reluctant to commit capital and management time to the owner-occupation of their property and, with investors having a healthy appetite for the acquisition of commercial buildings, renting has grown significantly during the past decade.<sup>49</sup>

Furthermore, the average length of leases has fallen sharply across the retail, industrial, and commercial sectors (Figure 7). The average length of a new lease, reported by the Property Industry Alliance to be 4.5 years in 2013 is substantially lower than 10 years prior to that when it stood at 6.8 years.<sup>50</sup> The shortening of retail lease lengths over this time is particularly noticeable. Over 80% of new leases were for a term of five years or less, compared with 63% in 2003. Larger tenants, occupying bigger units, tend to hold relatively long leases – although these have shortened significantly over the last decade. This gives a pointer to where the most fruitful possibilities for residential conversions could be found.

Figure 7 Average length of leases, 2003 and 2013

Average length of new leases (years)	2003	2013
All	6.8	4.5
Retail	8.8	5.3
Office	5.3	4.5
Industrial	4.7	3.2
SMEs	5.0	4.1
Large companies	9.5	5.2
% new leases 1–5 years duration	63	81

One of the factors that has driven the increase in leasehold arrangements is the trend among retailers and office occupiers to focus on their core business, such as selling clothing. Consequently, they have outsourced responsibility for acquiring, managing and disposing of property. Related to this has been a trend for sale and leaseback arrangements where the business that owned the properties (such as a national chain of shops) has packaged the units into a single vehicle and sold them to an investor, while taking leases in the buildings from the new owner. This has been regarded as a means of realising value, while shedding responsibility for the time-consuming process of property management. The outcome has been that today far fewer businesses own the premises that they occupy than was the case 20 years ago. Between 2000 and 2005, companies such as Boots, Debenhams, Kingfisher and Marks & Spencer sold hundreds of stores.<sup>51</sup> Another key period came towards the end of the same decade when Tesco and Sainsbury used sale and leasebacks to fund land acquisition.

It can no longer be assumed that large retail chains own their store buildings and have full discretion on how they are used. There are more stakeholders to take into account if one is looking to inspire the conversion of empty floors above commercial units.

49 Property Industry Alliance, 'Property Data Report' (Property Industry Alliance, 2014), p.6. [http://www.bpf.org.uk/sites/default/files/resources/PIA-Property-Data-Report-2014-are\\_0\\_0.pdf](http://www.bpf.org.uk/sites/default/files/resources/PIA-Property-Data-Report-2014-are_0_0.pdf)

50 Property Industry Alliance (2014), *ibid*, p.7

51 'Sale And Leasebacks Losing Their Sparkle' [2015] *Property Week* <http://www.propertyweek.com/3-july-2015/20684.issue>

These trends would suggest that many occupiers of commercial properties with surplus space, for example unused floors, would not hold a lease of sufficient length to make it financially viable to convert the space for residential use. Not least because the period over which income could be earned would not allow for full cost recovery of the works required. This is aside from considerations of whether the freeholder would grant permission for sub-letting the empty space, or for the necessary works to be done.

We heard of examples of potential conversions falling through because the freeholder would not agree to the change in use. A contributory factor might be that there is often no direct financial benefit to the freeholder of permitting a change in use to go ahead, as the leaseholder is in any case responsible for rental payments on the whole of the leased property. We were also told of examples where the leaseholder wished to surrender the lease because their business had failed, or no longer needed or could afford, so much space. However, the property owner would not agree to this and showed no concern about the impact of the empty property on the high street.

### Remote and disinterested investor owners

With the shift away from owner occupation in the commercial sector, there is an increase in investor owners. A number of the people we spoke to suggested that it was very difficult to engage investor owners, not least because they often did not have a presence in the area or even in the UK. Even if they received a response from the organisation, they sometimes found it difficult to identify the right person to speak to. However, it should be noted that the data below suggests that investor owners are concentrated in the most high value markets.

It is worth understanding the type of investor owner of any empty property, as some will be easier to identify and engage with than others. Investor owners range from private individuals (who might own a particular property as part of their pension plan), to global investors who are driven by yields and returns across huge property portfolios. Figure 8 provides Property Industry Alliance data on the ownership of UK property by investor type.<sup>52</sup>

**Figure 8 Holdings of commercial property by investor type**

Investor type	£bn 2013	% change 2002-2013	% of total
Overseas investors	94	129	24
UK institutions	75	-16	19
UK collective investment schemes	63	134	16
UK REITS & listed property companies	55	38	14
UK private property companies	53	6	14
UK Other	18	-4	5
UK traditional estates/charities	17	24	4
UK private investors	10	20	3
<b>Total</b>	<b>385</b>	<b>34</b>	<b>100</b>

Retail and offices are the largest sectors held by investors, each accounting for 40% of the total value of the commercial property that was owned by UK and overseas investors in

<sup>52</sup> Property Industry Alliance (2014), *ibid*, p.11

2013.<sup>53,54</sup> It is worth noting that 46% of commercial investment ownership is concentrated in London, where there is an even higher proportion of the overseas investors' market.

The motivations of investor owners vary considerably. A private investor who owns a small portfolio of space to underpin their pension, for example, may have a completely different set of drivers to a sovereign wealth fund. Even individual owners cannot be considered homogenous. They range from small local owners of a row of shops in a small market town, to high net worth individuals who behave in many senses like global investors. It is likely that many smaller investors are looking for commercial property to provide them with a steady, if not spectacular, source of income. You might expect this group to be easier to engage.

Larger investors may also be particularly difficult to engage in conversations about empty spaces within their portfolio. Partly because they may have little knowledge of what property is within the portfolio. They may receive reports concerned with the overall performance of their investment portfolio (including equities and gilts), rather than what is happening in any one area.

It is possible that the recent forays of pension funds and insurance companies into the private rented sector market might open up opportunities to discuss converting empty spaces within their commercial portfolios. We feature one case study where the Goodwin Development Trust negotiated a ninety-nine-year lease with Aviva Insurance. We hope to inspire many more examples.

## **Rigid demarcation between the commercial and residential property sectors**

Many of the people we talked to said that the option of converting empty commercial space to housing is not something on the radar of people in the commercial property sector. To quote one interviewee 'it's not something they see themselves in the business of doing'. Many people mentioned that they felt one of the barriers to opening an organisation's eyes to the possibilities of converting vacant commercial space to homes, is the rigid division between those organisations that own and develop commercial property and those that own and develop residential property. Traditionally, commercial owners and developers have not involved themselves in the residential market.

The reasons behind this demarcation reflect the ways things have been done over the years. The differences in contractual relationships within the commercial and residential sectors are likely to be a factor in this continued demarcation between commercial and residential property ownership and management. Owners of commercial property tend to deal with corporate occupiers who take leased space on relatively long-term (if reducing length) leases. These leases also place most of the responsibility for the day-to-day maintenance and condition of the space on the leaseholder. Residential owners, by contrast, let to multiple occupiers and, under landlord and tenant law, retain more obligations with regard to repairs and management. It might be said that commercial owners (and their agents) are not keen to acquire the knowledge and skills, or invest the time required in managing residential properties.

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53 IPF Research Programme 2011-2015, 'The Size And Structure Of The UK Property Market 2013: A Decade Of Change' (Investment Property Forum, 2014), p1. <<http://www.ipf.org.uk/resourceLibrary/the-size-and-structure-of-the-uk-property-market-2013--a-decade-of-change--march-2014-.html>>

54 According to the IPF, around an increase of 27% since 2003

However, our case studies show that local authorities and housing providers can convince commercial owners to convert empty commercial properties to residential accommodation. One of the ways they have been able to do so is by leasing the accommodation and taking on the letting and management of the property for residential use. In the case studies we feature, this was often cited as a critical factor in reaching agreements with property owners to convert the property to a residential use. Our case studies also show how local authorities seized the opportunity to discuss the possibility of converting the space to affordable housing when the owner sought planning permission, or stepped in quickly to talk to a property developer who had just bought an empty commercial property.

### The role of the property agents

Another barrier that people told us about is that discussions normally take place through property agents acting as intermediaries. Many suggested to us that these property agents reinforce the rigid demarcation between operating in the commercial or residential market. Perhaps this is due to the fact that their skill sets and knowledge lie in brokering commercial leasehold arrangements with corporate clients and they are not keen to see property transfer to residential usage where they do not see themselves operating.

Some respondents told us that, with property agents acting as ‘gatekeepers’, it was difficult to talk directly to the property owner and gauge whether they might be interested. However, our case studies show that it can be done; for example, York City Council successfully engaged a family who owned a former city centre hotel via its agent.

### Owner and occupier priorities

One of the reasons that commercial owners and leasehold occupiers may not be interested in exploring the potential of residential conversions, is that they have many other day-to-day priorities and pressures.

As a result, local authority officers told us they sometimes found it difficult to get far in discussions about alternative uses, even where it was apparent that the space had not been in use for some time and appeared to be surplus to current business requirements. This might be because the user did not want the hassle of raising the issue with the property owner, especially if they expected an outright refusal. It could also be due to the fact that reducing space is a relatively low priority for some businesses, as space or rent and rates account for a relatively low share of total business costs. The Property Industry Alliance showed how office rents at £14 billion per annum are proportionately very low relative to occupiers’ staffing costs of £189 billion.<sup>55</sup> The rental costs of retailers, at £18 billion, are a third of the level of staff costs (£50 billion) and represent only about 5% of their turnover. Still, business rates add around 40% to the cost of renting retail and office property and have become a more significant property cost in recent years.

Our case studies give many examples of business users being persuaded to bring surplus space back into use as housing. Often, local authorities and housing providers told us of the importance of taking on the project management of the works in such a way as to minimise the demands on the business user’s time, enabling the latter to carry on with their day-to-day business, for example, running a shop. Our case studies also illustrate how commercial owners were attracted to leasing their property to a housing provider, as they did not then need to take on its letting and management.

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55 Property Industry Alliance (2014), p.8

## **Owners' and occupiers' perception that residential and commercial uses are incompatible**

Some of the people we spoke to felt that commercial property owners and occupiers tended to believe that residential and commercial uses do not fit well together. It is worth exploring the reasons for this, so as to consider where it might be easier to pursue opportunities for conversion to residential accommodation.

For commercial owners, there are considerations of how residential units would impact on the future demand from commercial users for the property, and therefore future income earning potential and capital values. This is more likely to be a factor in shopping centres and retail parks than high streets. As we explored above, the conversion of a unit within a shopping centre or retail park to a non-retail use, is seen as a dilution of this single asset profile that could result in a reduction in the overall capital value of the property. This can also be a factor where there are empty floors above a commercial unit and therefore, in effect, a partial conversion to housing is being considered, as opposed to a whole property.

Nonetheless, our case studies show many examples where a property owner agreed to convert some floors to affordable housing and retain the ground floor for commercial usage. Critical factors for success often included the retention (or creation) of separate access that made no inroads and did not affect the size of the ground floor commercial units – thereby lessening any negative impact on the income earning and asset growth potential of the remaining commercial space. It should be noted, however, that we did come across examples where space was taken from the ground floor retail units to afford access and create housing above.

For commercial occupiers, there are also considerations of how people living above their business, or in the same street, would affect their day-to-day business operations. For residents, there are considerations relating to noise, safety and smells. Even so, the case studies show how, with careful design, floors above retail units and former shops can make good quality housing that is sought-after, where commercial and residential users can become good neighbours and not disrupt each other's day-to-day living and business operations.

Of course, some commercial activities might be particularly noxious and incompatible with residential neighbours, but they are few and far between and unlikely to be found in many high streets or town centres in the 21st century.

Security is sometimes given as a reason that residential conversions would not be considered by business occupiers. Yet our case studies show plenty of examples of successful conversions of empty floors above banks and retail units taking cash, where the occupier has been satisfied that the design meant that the residential use did not pose a threat to the security of their takings.

## **Owners' and occupiers' perceptions that works would be disruptive**

We were also told of cases where business users simply did not want the disruption of works around them. As one respondent put it 'they simply could do without the additional hassle of a housing development'.

Our case studies show how owners and occupiers were persuaded, nonetheless, to go ahead because they knew the local authority and housing provider would project-manage the works and were experienced in doing so, resulting in no or little extra work for the owner.

In our case studies, we show how local authorities, housing providers and their contractors liaised with the commercial occupiers to plan the works so as to minimise disruptions to their business; often going the 'extra mile' to do so.

We heard of examples of where the contractors negotiated temporary access through the ground floor commercial space that remained in use, or agreed to arrangements via shared access roads or the back access, in order to complete the conversion works. Such arrangements may be easier to agree to if the occupier of the ground floor also controls the empty space on the higher floor(s) and so is a direct beneficiary from the rental income or capital growth of the empty commercial space being brought back into use. Nonetheless, the case studies feature many examples where the remaining commercial occupier was leasing its floor(s).

## Lending practices

A number of respondents spoke of the barriers that lenders can put in the way of residential conversions, even where it would seem to be in the lender's interest to proceed. Standard clauses in mortgage agreements forbid the letting of residential properties other than by way of an assured shorthold tenancy with a maximum fixed term of 12 months. In effect, this means that the property owner cannot explore the option of guaranteeing a longer tenancy period. This is particularly, but not exclusively, an issue for those wishing to lease a property to an affordable housing provider. Such housing providers are generally looking to lease properties from between 5 to 99 years and want to ensure that they can offer a degree of security to someone in housing need, and offer value for money for any public subsidy going into the creation of the new affordable home.

We recommend that lenders agree that property owners can lease the property to affordable housing providers with the confidence that they bring professional management expertise. Such arrangements should also put the owner (particularly owners of individual properties or small portfolios) in a better position to repay any mortgage and maintain the asset value of the property which is, after all, the lender's collateral. Some lenders already do this.

Respondents also advised us of a number of cases where owners wanted to convert a commercial property to residential use and had even bought the property with that express development purpose, only to be stalled by an inability to raise loans or other finance. Another potential hurdle is the fact that loans for conversions from commercial to residential are treated as commercial loans with a common loan to value ratio of 60%, relative to the 80% loan to value ratio commonly agreed for works to residential properties.

We saw how local authorities can make a difference by helping property owners fill the funding gap through making grant payments directly payable to the property owners, often in return for nomination rights for a period of time. In addition, some local authorities make loan finance available to property owners to create new homes from empty properties and we feature a case study where Kent County Council had provided such a loan.

We make recommendations below that lenders amend their practices, where they have not done so already, to allow local authorities and others running publicly-funded loan schemes to place a second charge on a property when making a loan. This is because such loan schemes offer important gap funding where property owners cannot attract the funding they are looking for from other sources.

## Lack of join-up between town centre management and housing strategies

Many people we spoke to saw how creating new homes in empty retail units or empty spaces above retail units could 'kill two birds with one stone', by addressing both the blight of empty commercial property and the need for housing. In addition, some of the people we spoke to mentioned how bringing more people to live in a neighbourhood could help generate more demand for existing businesses – new tenants might become new customers too. At the same time, new residential occupants might bring 'new eyes and ears' on the ground, which could deter crime and antisocial behaviour impacting on how well a shopping street is doing. As a result, creating new homes from empty commercial properties was seen as helping to create more sustainable high streets by meeting housing needs, alongside creating a new future for buildings and spaces lacking commercial demand.

In some areas highlighted by our case studies, we saw how local authorities were linking strategies to rejuvenate the high street with empty property strategies. Some mentioned the challenges in doing so when there are so many players involved, not just the local authority, but also the many organisations and people owning and renting both commercial and residential units. However, we feel that much more could be achieved if there was a more cohesive approach between those working in town centre management and those working in housing and neighbourhood regeneration to help realise dual goals in a united manner.

We took note of the analysis and recommendations of the Portas Review<sup>56</sup> on the importance of town centre teams that were 'a visionary strategic and strong operational management team for high streets'. We were struck by Mary Portas' words that:

*The one – perhaps the only – thing everybody I have spoken to is agreed on is that for a high street to survive and grow it must have a very clear vision of where it wants to get to. And it needs co-ordinated planning and management to get there. If the high street was in single ownership, like a department store, it would have a vision, a high level strategy and direction, it would choose what it wanted in a particular space to fit with a vision and proactively target the businesses and services that were missing. It's up to local areas to decide what works for them, but a Town Team could include key landlords, large and small shopkeepers, council representatives with specific knowledge of planning and development, the mayor or MP, other local businesses and service providers, and local residents.*

However, it was clear from our research that town centre teams were far from widespread and that they were often more focused on the day-to-day management of the high street, such that converting empty commercial space into residential property was not high on their agendas.

We make recommendations below for town centre teams to consider whether empty commercial properties would have a better future converted to housing and to join up with those working at local authorities and elsewhere on empty properties to achieve this. And to see this as part of re-imagining the high street, alongside attracting other new uses and stimulating commercial demand.

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56 Mary Portas, 'The Portas Review: An Independent Review Into The Future Of Our High Streets' (2011) [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/6292/2081646.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6292/2081646.pdf)

We also make recommendations for local authorities to trigger joint working with town teams and others working in town centre management and those working to create new homes from empty properties.

### **Difficulties of creating separate access for residential users or works**

A number of respondents told us that the physical challenges (or the costs and time of creating separate access) were barriers to the extent that, in a few cases, schemes to convert commercial properties could not proceed. However, we feature case studies where a means had been found even if it led to taking up some of the footage of the ground floor retail unit. Of course, in some cases this might not be an option the property owner would favour, as it could restrict the options for re-letting the property as well as the future income stream and capital value of the property. However, set against this are considerations of the income stream that could be earned from converting and renting out the property, or the more immediate return from selling the newly created residential properties. This suggests it would be easier to do if the person or organisation that controls the remaining commercial space is the same as the owner of the space being converted into housing.

### **Time and costs of meeting building regulations**

A number of respondents talked of the physical challenges, or costs and time required, in meeting building regulations, for example for sound or fire insulation between existing commercial units and new residential units above. None suggested that building regulations should be diluted, and we are certainly not suggesting they should be. Many respondents talked of local authority building control departments not having the capacity to approve measures as quickly as they would have liked in order to advance conversion and refurbishment works. Whilst this was not an absolute barrier to schemes going ahead, it could add to the scheme costs and create real difficulties where this impeded the ability of a housing provider to meet the grant funding deadline.

We make recommendations on how local authorities should take a strategic approach to bringing empty commercial spaces back into use and designate an officer to co-ordinate the delivery with external partners and internal departments.

### **Time and costs of meeting planning requirements**

Some respondents, including those working for local authorities, talked of local planning departments not having the capacity to agree to planning permission as quickly as they would have liked in order to get on site. Whilst this was not an absolute barrier to schemes going ahead, it could create real difficulties where this affected the developer's ability to satisfy the grant funding deadline or where time costs money.

A number of the schemes we featured had gone through under the new permitted development rights as explored above. However, people have expressed concerns about permitted development rights. Firstly, because of a desire to see local authorities retain control of determinations of changes of uses so that they can maintain a strategic overview of a balance of use in an area. Secondly, because of concerns that permitted development right permissions did not allow the local authority to require affordable housing contributions as part of the permission to proceed.

Some respondents raised the additional challenges that they had faced when a building was listed. Sometimes, they felt the officer concerned was placing unnecessary requirements on the scheme design, with both cost and time implications. On other occasions, there was not so much an issue with the requirements, as a frustration at the length of time it took to

establish and approve these. We heard of a couple of examples where the listed building consent requirements rendered schemes unviable as affordable housing, such that they did not go ahead. In some cases, they were nonetheless converted into highly popular market housing.

We make recommendations that local authorities take a strategic approach to bringing empty commercial spaces back into use and designate an officer to co-ordinate the delivery with internal departments.

## **Lack of funding for neighbourhood regeneration and private sector renewal**

A number of people we spoke to, particularly those in northern areas, were tackling high concentrations of empty commercial properties. They reported areas with very high levels of long-term vacancies in shop units, with many abandoned and boarded up properties either within the town centre, or concentrated on certain secondary shopping streets, including in parades on social housing estates. The respondents often pointed to how low income levels and job losses in the area impacted on local spending and the sustainability of local shops and businesses. These considerations were in addition to the underlying structural changes to the economy that we explore above as leading to changing patterns of demand for office and retail space.

In the same areas, the people we spoke to often also recorded high levels of empty homes, frequently linked to poor standards of accommodation in the private rented sector and a high turnover of residents. This corroborates our previous analysis of where empty dwellings are concentrated, which also looked at how there were high levels in areas with relatively low house prices, high levels of deprivation, and places with a long history of having empty homes.<sup>57</sup>

We have met many people determined to address the blight of empty properties in these areas and improve the housing and retail offers for existing residents and to attract new people.

Some local authorities, such as Hull City Council, had concentrated work in particular areas to reap a neighbourhood improvement impact. We heard of examples of where the work carried out by housing providers or local authorities to bring empty properties back into use had incentivised private owners to improve their properties. Sometimes, the local authority carried out external enveloping work to the frontages of homes and retail buildings, or improved the streetscape and external environment to help kick-start this. In some cases the local authority was taking enforcement action, such as seeking compulsory purchase orders or empty dwelling management orders where the owners would not engage in action to bring their properties back into use.

Some local authorities with high concentrations of empty properties had successfully attracted grant funding via the various empty homes programmes running from 2011 to 2015, including the Clusters of Empty Homes Funding Programme (Clusters Programme) to create new homes from empty properties. Some people we spoke to also looked back at what had been achieved through previous regeneration programmes, or when there was more investment in private sector renewal schemes. Many were concerned about their future

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57 'Empty Homes In England' (Empty Homes – The National Campaigning Charity, 2015) <<http://www.emptyhomes.com/statistics/>>

capacity to tackle empty homes given that dedicated empty homes programmes ended in March 2015.

We recommend the creation of new dedicated empty homes programmes, and see this as the surest way of ensuring that the capacity of vacant empty properties can be unlocked at scale to deliver new affordable homes. However, there are still opportunities to create new supply through empty properties. Our studies provide examples of local authorities and housing providers who have already attracted funding through the 2015-18 Affordable Homes Programme (AHP) to continue their work of creating new affordable homes from empty properties. They also show how some local authorities continue to fund empty homes work directly through, for example, the use of Right to Buy receipts.

At the same time, so much more could be achieved if there were new funding programmes that supported neighbourhood regeneration and the development of local initiatives to tackle the underlying causes of empty properties and the other issues that local communities in these areas face. Without neighbourhood regeneration approaches being replicated across a number of areas, the risk is that people in some neighbourhoods are, in effect, abandoned to live in sub-standard housing in poor street environments, alongside empty and boarded up properties, with a lack of facilities within their reach.

We make recommendations on the need for dedicated funding programmes to support areas with high concentrations of empty homes to take a community-led neighbourhood regeneration approach.

# What are the additional barriers to bringing the property back into use as affordable housing?

## Competition from private sector competitors

Those working to create more affordable housing often face stiff competition in areas where there are good returns to be made on renting out properties at the full market value. In these markets, there are developers in the business of converting empty commercial properties for sale or rent in the residential market. You could argue that where the market is bringing empty properties back into use it should be left to do its job. However, we also see the housing need case for ensuring that affordable housing can be delivered in all local authority areas.

The people we talked to who search out these opportunities for local authorities and housing providers, including development consultants and staff, told us is that there was a lot of work in chasing commercial conversion opportunities. Some discussions led nowhere, often after quite a lot of time and money had been spent on developing proposals. As one person said 'you have to kiss a lot of frogs before you get a prince...but the rewards are great...great sustainable locations hugely popular to live in'. For some small community organisations resourcing this work was a particular challenge and they were often very reliant on market intelligence from their partner local authorities as to which owners might be interested in converting empty commercial space.

Many respondents suggested that the reason discussions sometimes failed to secure a lease was that the property owners had unrealistic expectations of private sector rental values, having picked up a skewed view from the media that did not always apply in that local market or for that property type.

Nonetheless, our case studies show how those working on affordable housing can have a niche role, even in high value residential markets where you would expect to see stiff competition from private sector developers. Their selling points to property owners are that they:

- Bring the funds to refurbish or convert the spaces (recognising that some owners cannot raise the finance to do so).
- Contract or directly deliver and project manage the works and are experienced at this (taking the hassle of this away from the owner).
- Are willing to lease the property commonly for between 5 and 20 years and can often guarantee a payment for the whole or part period of the lease.
- Let and manage the property for the whole lease period (taking the hassle of this away from the owner) and covering all the ongoing management and maintenance costs.
- Are professional housing managers.
- Guarantee the property will be returned to the owner with vacant possession and in good standard at the end of the lease period. Often with an uplift in the value of the property related to the works to convert or refurbish the property at the outset.

As a result, there is often no significant difference between the net income the property owner could earn through leasing to a housing provider and letting out directly to a tenant. Especially when you take into account the costs of financing the conversion and refurbishment works, and of letting and managing the property directly, or employing an agent to do so. This difference is significantly less than would be suggested by the headline differences between the income the housing provider would offer and the headline market rent. Furthermore, when the owner considers the savings in time and the hassle factor of contracting works and managing properties then the difference may well make it worthwhile entering into an arrangement with a housing provider.

Our recommendations are designed to support affordable housing through conversion of commercial properties in all local authority areas. We do, however, recognise that there are some neighbourhoods that are so expensive the opportunities to do so are limited.

### **Limited funding for bringing empty homes back into use as affordable housing**

In gathering the case studies, we were struck with the drive of those making residential conversions work to meet local housing needs, and in many cases to also support the regeneration of neighbourhoods. With more money they would have done more and would achieve more in the future.

A number of our case studies are a tribute to the impact of the funding assigned to empty homes during 2011-15 as we explore below.

People have told us of their concerns about the ending (from March 2015) of grant funding specifically assigned to empty homes, or that could be accessed by non-registered housing providers, although they recognised that registered providers could still bid for grant funding to create homes from empty properties through the AHP. Some were concerned that those bids would not fare well compared to bids for new build housing. The AHP 2015-18 prospectus states 'there is no separate funding for empty homes, homelessness accommodation...or for the provision of traveller pitches. However these are all legitimate forms of affordable rent provision that could be included in 2015-18 AHP bids'.<sup>58</sup>

Our case studies, nonetheless, show that some local authorities and housing associations had already bid successfully, or were intending to bid, for funding under the 2015-18 AHP for creating new homes from empty properties, including empty commercial property.

We make recommendations on how local authorities and housing providers can still bring funding to the table. We also make recommendations to ensure that Government continues to invest grants in supporting local authorities and housing providers to create new affordable homes from empty properties. We think creating new homes from empty properties is needed, alongside building new homes, to address housing needs, and at the same time can help make the most of existing assets and meet environmental and regeneration goals.

We also make recommendations for ensuring that community-led organisations can continue to play an important role in bring empty properties back into use. This includes ongoing financial support from local authorities and the transfer of empty property assets from local authorities and housing associations.

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<sup>58</sup> Homes and Communities Agency, 'The Affordable Homes Programme 2015-18 Prospectus' (Homes and Communities Agency, 2014)

### **Housing associations do not see it as their role**

Some respondents told us that housing associations in their area were not interested in bringing empty properties back into use, other than within their own stock. They often cited a focus on new build as the main reason. Respondents also said that some housing associations were put off working in empty properties because, when compared to new build, the costs and timescales were less certain and therefore delivery against grant conditions and business plan projections more difficult.

We make recommendations for Government and the public sector bodies to whom it has devolved money and powers to manage its AHP (i.e. the Homes and Communities Agency (HCA) and Greater London Authority (GLA)) to manage grant funding flexibly and in a way that recognises that there are differences between delivering affordable housing through new build and the refurbishment and conversion of empty spaces.

Nonetheless, our case studies feature some housing associations who are very active in creating new affordable homes from empty properties outside their own stock and we would like to see more do so. We make recommendations for housing associations to adopt a strategy for bringing empty properties (outside their own stock) back into use. In doing so they can not only meet housing needs, but have a wider impact on the look of neighbourhoods and people's quality of life in an area. We recognise that some currently do focus on this work and that many more started out or have a history of doing so.

# Some of the factors in place where new affordable homes were created from empty commercial spaces

## Introduction

We have tried to distil the success factors that were in place in the case studies we included and in other schemes we have visited. Not all the case studies or schemes exhibit all these success factors, but we feel these give some pointers on how to deliver successful schemes and how to scale up this work. They informed our thinking in developing recommendations.

## Leadership of a cabinet member or other local authority councillor

In local authorities where we observed a priority being given to bringing back into use empty commercial space, the interest of a councillor (often the cabinet member covering housing) was often apparent. In some cases the officers felt that the interest of a councillor had kick-started the work, or ensured the allocation of resources to bring empty commercial spaces back into use as housing.

We make recommendations on the leadership role of councillors.

## Local authority adopting a strategic approach

In many local authorities taking a strategic approach to empty homes was well embedded in their ways of working and was a priority issue. In some of our case studies, a specific strategy was in place for the conversion of empty commercial spaces to housing. We think such an approach tends to enable a council to scale up this work and make an impact by recognising the ways in which bringing empty commercial spaces back into use could differ from work to bring empty homes back into use.

We make recommendations on developing strategies and taking a strategic approach to converting empty commercial properties within local authorities.

## Drive of a local authority officer or team

Time and time again, we saw how the drive and determination of a council's lead officer for empty homes, or regeneration or development staff working at the local authority, seemed central to making things happen. We found this not just from talking to these officers, but also their partner organisations. The officers themselves tended to cite the importance of the back-up they received from senior managers and the political will within the authority that gave them the revenue resources and support to play an enabling role in tackling empty properties.

We make recommendations about the need to resource this enabling work within local authorities.

## Drive of community-led organisations

We also came across many examples of where the drive and determination of staff at a community-led organisation seemed central to making things happen. These organisations saw the EHCg programme as an opportunity to meet the housing needs of their client group directly. For some, it was their first foray into housing development; for others, a chance to

buy or lease more properties. These organisations developed considerable expertise and enthusiasm for bringing empty properties back into use. Many are determined to continue this work even though, they no longer have access to Government-funded grant with the ending of the EHCG programme in March 2015. Some can bid for AHP money having become registered providers for that purpose.

We make recommendations that would support a continuing role for non-registered community-led organisations.

### **Strong partnership approach**

We came across a great deal of mutual respect, clear demarcation of roles, and a common sense of purpose across housing associations, community-led organisations, and local authorities working to bring empty commercial spaces back into use. Some established partnerships were well placed to do more together in the future if they could attract and allocate the funding required.

Our recommendations as a whole are intended to support such partnership working into the future.

### **Availability of grant funding**

A number of our case studies are a tribute to the impact of the funding assigned to empty homes that came through the AHP during 2011-15. This funding was allocated through the HCA and GLA. Funding for creating affordable homes from empty properties was designated from the outset under the AHP 2011-15 and at a later date in what the HCA labelled as 'round two empty homes'. In this report, to depict these two strands we have adopted the terms 'round one' (though that term was not used officially for the first tranche) and 'round two' empty homes programmes or collectively called them the empty homes programmes. This is in recognition of the fact that these terms are commonly used and understood amongst those working to create homes from empty properties. The bidding guidance for both these rounds made it clear that the funding covered creating homes from surplus commercial properties.<sup>59</sup> Particular encouragement was given in the bidding guidance for round two for bids for 'putting surplus empty commercial property into use', including in areas of high demand and from the 27 Portas Pilots<sup>60</sup> and 326 town teams<sup>61</sup> working in partnerships with local authorities and registered providers.<sup>62</sup>

Our case studies feature local authorities and housing associations who were successful in attracting funding for commercial projects under both these rounds. Some respondents told us how the bidding guidance for round two specifically inspired their organisations to find commercial conversion projects, or to bring forward projects they had long wanted to see.

Other case studies are a tribute to the impact of funding for community-led organisations that came through the EHCG programme that also operated during 2011-15.

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59 Homes and Communities Agency, 'Bringing Empty Homes Back Into Use Bidding Guidance' (Homes and Communities Agency, 2011) and Homes and Communities Agency, 'Bringing Empty Properties Back Into Use As Affordable Housing: Bidding Guidance' (Homes and Communities Agency, 2012)

60 Portas Pilots: English towns participating in a scheme to reinvigorate their high streets arising from the Portas Review. Government gave £2.3 million to the areas involved in the programme as well as a package of support. A full list of these towns can be found in Appendix C

61 Town teams are towns which applied to be part of the Portas Pilots scheme but were not successful in their bidding. These were then given access to their own support package, worth £5.5 million nationwide

62 Homes and Communities Agency (2012)

In our discussions, housing providers and local authorities saw grant, or some form of subsidy, as necessary in ensuring properties were brought back into use as affordable housing. This is in common with new build developments.

For some local authorities, the availability of grant sparked off not only action on those schemes that attracted funding, but an interest in taking a more strategic approach to bringing empty commercial properties back into use. However, with no dedicated grant funding streams available for 2015-18 many respondents raised fears that this work would fall back again. We make recommendations for further rounds of dedicated grant programmes for creating new homes from empty properties. At the same time, we show how local authorities and housing providers have attracted funding from the AHP 2015-18 and how local authorities are supporting empty property work through other funds. We are also struck by the determination of many people working at local authorities and housing providers to continue this work. This is cause for optimism, though we recognise that much more could be achieved with funding support through national housing programmes.

### **Willingness of local authority and housing providers to allocate additional resources to capital works**

Many local authorities have been supporting the conversion of empty commercial spaces by identifying local funding, for example, sums generated through Right to Buy receipts or commuted planning gain sums. In some cases this has been added to schemes with some funding through the AHP or EHCG programme, and in other cases has been the sole source of public funding being invested in an empty property scheme. It is good to see some local authorities still allocating such funds to bringing empty properties back into use, despite a difficult funding climate and the many calls on their resources. It is also good to see local authorities, such as Leeds City Council, continue to invest in non-registered community-led organisations who cannot access funding through the AHP 2015-18. We make recommendations that local authorities look to allocate local funding to empty properties work.

At the time of writing, it is too early to say whether the availability of local funding will be affected by the changes set out in the Housing and Planning Bill 2015-16.<sup>63</sup> These changes require local authorities to make a payment to the Secretary of State based on the value of their vacant high value assets to help fund the grants Government will make to registered housing providers in order to cover the Right to Buy discounts they make under the 'Right to Buy on a voluntary basis'. It is also too soon to determine whether the provisions in the Bill that place a general duty on local authorities to promote the supply of starter homes, will impact on the availability of commuted planning gain sums allocated locally to empty homes projects.<sup>64</sup>

Our case studies illustrate how housing providers were able to stretch public funding by bringing their own resources to the table, including sums raised via private finance and social investment. We make recommendations to ensure this is continued.

### **A strategic approach to managing empty commercial property assets**

A number of respondents spoke of how converting their own empty commercial properties to housing was driven by the twin aims of rationalising commercial stock holdings and meeting housing need. Many local authorities had a strategy to rationalise their own office stock

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63 Publications.parliament.uk, 'Housing And Planning Bill (HC Bill 75)' (2015) <[http://www.publications.parliament.uk/pa/bills/cbill/2015-2016/0075/cbill\\_2015-20160075\\_en\\_1.htm](http://www.publications.parliament.uk/pa/bills/cbill/2015-2016/0075/cbill_2015-20160075_en_1.htm)>

64 Ibid

related to the need to find budget savings, loss of some jobs, and a demand for less space per employee in line with wider trends in office working patterns.

In a number of local authorities, council-led activity to convert empty commercial buildings to affordable housing had been concentrated in council-owned properties. One of the advantages of such schemes was that the local authority could be more certain of progressing the scheme within the timetable required by grant funding, whereas negotiations with private owners to sell or lease their properties took time.

Sometimes conversion of council-owned commercial stock was happening on a small scale, with efforts concentrated on converting empty local estate offices that, in some cases, had started life as a dwelling anyway. But in other cases there were plans to bid for grant funding to convert council-owned empty commercial property on a larger scale.

We make recommendations for local authorities and housing providers to take a strategic approach to managing their own empty commercial stock and to consider as part of that the opportunities to create new housing supply in that stock.

### **A desire by local authorities to develop homes once more**

For some local authorities the empty homes programmes enabled them to ‘dip a toe back into development work’, as one person described it to us. They were partly motivated by establishing a track record that would enable them to secure more funding via the AHP, to build new homes as well as bring empty homes back into use.

Our recommendations are intended to support those local authorities that, in addition to being enablers, also want to be developers of new housing, including that created from empty properties.

### **A drive to regenerate neighbourhoods or the high streets**

In a number of cases work to bring empty commercial properties back into use is part of a wider strategy to improve a neighbourhood or high street. Sometimes the commercial properties targeted for conversion were seen as flagship buildings whose return to use would have symbolic importance to the local community and would be an outward symbol that the neighbourhood was improving.

Often, local authorities were driven to target streets or parades where a high concentration of retail units had been empty for some time. We found cases where these properties were concentrated on social housing estates, often ground floor units with flats or maisonettes above. In Ellesmere Port, Cheshire West and Chester Council had proactively attracted community organisations, such as an art project and a credit union, to empty ground floor shop units. This was done in recognition that the council could not always attract viable business to some shopping parades, and in an effort to support community organisations who were working with the local area.

A number of people we spoke to talked of how being designated a Portas Town had sparked the interest of the local authority and other partners in taking action. Moreover, round two of the empty homes programme encouraged bids from Portas Towns for creating affordable homes from surplus commercial properties, as explored above.

We make recommendations that more linkages are made between opportunities to meet housing need in empty commercial properties and strategies to rejuvenate the high street.

## Case studies

### Amber Valley Borough Council and Futures Homescape Partnership

#### What was achieved and what was the history of the empty property

A former pub on the edge of the high street in Langley Mill in Amber Valley was converted



into six affordable homes for rent from Futures Homescape on the upper floors, with commercial units on the ground floor. The units have now been let at affordable rents to people from the council's housing waiting list or at risk of homelessness. The ground floor commercial units are under renovation.

The pub had been empty for a number of years and had been repeatedly set fire to and vandalised. Amber Valley BC assessed that there was no apparent demand for a new pub in the same building and sought to explore alternative uses with the new owner. The council had persuaded the previous owner to sell the property, reflecting the concerns of local residents that the property had been vacant for some time with no plans for bringing it back into use.

#### What happened to bring the property back into use

The new owner agreed to lease the upper floors to Futures Homescape, having already secured planning permission to convert the pub into a mixed-use development. Futures Homescape attracted £42,000 of grant funding from the HCA's AHP empty homes programme round one, which funded part of the residential conversion works, alongside funding from the council. The works were started in September 2013 and completed in January 2015.

Amber Borough Council felt that the owner was attracted to leasing the residential units, because Futures Homescape would manage them, return them at the end of the lease in a good state of repair, and because the owner could earn an income stream from the arrangement. This income has helped the owner to grow a business investing in other residential conversions and development.

#### Background and future plans

The council and Futures Homescape saw how tackling the blight of a large empty pub on the high street contributed to the wider regeneration of Langley Mill as part of a local drive to revive its high street and tackle long-term empty properties (both residential and commercial). Langley Mill had seen a population decline (although it had since stabilised) and still faced other issues linked to the loss of traditional jobs in mining and other industries. The council reported that the area still had high turnover in its private rented sector housing, some of which was in poor condition pre-1919 terraces. The council was keen to improve housing opportunities in the area and tackle empty homes as part of its wider strategies.

Amber Valley Borough Council and Futures Homescape were actively looking for other opportunities for converting long-term empty commercial properties into housing. Futures Homescape had previously used funding from the AHP to convert a pub into 16 one-bedroom flats and had delivered a flats above shops project.

## Cheshire West and Chester Council with Access 2 Training & Employment (A2T)

### What was achieved and what was the history of the empty property

Six homes for affordable rent were created on Whitby Road, Ellesmere Port in a row of two empty retail units with capacity for flats above, by A2T, a community interest company. The project provided 4 one-bedroom flats and 2 studios, alongside two new shop units. The whole property had been empty for five years, and a fire upstairs had caused damage to such an extent that major repairs were needed. The landlord lived abroad and did not have the means to refurbish the property. The owner had been failing to maintain the properties and pay the business rates due.



The flats have all been let by A2T to people on the council's housing waiting list. Cheshire West and Chester Council grant-funded the refurbishment of the ground floor flats. The council attracted P3 charity on a two-year peppercorn rent to one of the shop units, from which they run a floating support service for people at risk of losing their home. The other shop was let to West Cheshire Credit Union on a two-year peppercorn rent, from which they run their fair money lending business to the local community, competing with loan sharks and commercial moneylenders.

### What happened to bring the property back into use?

Works began in January 2014 and were completed by July 2014. A2T was able to take the property on a 'lease to purchase' and refurbished the property itself with funding support from a council grant to refurbish both ground floor retail units. The grant was funded through commuted planning gain sums (through a section 106 agreement) with a 50% grant percentage rate to a maximum of £15,000 per retail unit. A2T received another council grant to create the six residential flats, with a 50% grant percentage rate and a maximum of £10,000 per unit. A2T leased the property from the owner while carrying out the refurbishment works and only paid the owner for the sale when the works were done. This enabled A2T to keep the expenditure low at the start, and get a mortgage from a bank on the back of the uplift in value of the refurbished property in order to pay the landlord. Reducing the floor space of the two shop units was required to create front access to the flats from the high street.



### Background and future plans

The council saw attracting social enterprises to empty commercial properties as a way of stimulating demand on the high street of Ellesmere Port, which lacks inward investment. Furthermore, it considered creating opportunities for social enterprises to be a positive manner of supporting them and the work they do to provide much needed services for local

people. The approach had started two years previously when the council let an empty shop to the Paperboat Gallery community interest company.

The council saw its work on empty commercial properties in Ellesmere Port to be about regenerating the high street. It reported that over the two-year period after it had started this work, the vacancy rate in one part of Ellesmere Port, where the council focused its work on privately owned commercial properties, fell from above 20% to under 10%. The council considered that the economic sustainability of tertiary high street properties in the North West can stem from the letting of flats as an alternative to the letting of shops – resulting in a high street with residential flats above ground floor community organisations, rather than ground floor retail spaces with storage above.

Cheshire West and Chester Council combined its regeneration and housing focus on mixed-use properties on the high street of Ellesmere Port. The council also has a broader empty homes strategy for empty privately owned properties. The local authority provided grants to property owners of up to £10,000 for bringing their property back into residential use. Residential property owners were required to let their property to someone on the local authority waiting list in return for this. In total the council had a budget of about £150,000 per annum for this. Further projects are in the pipeline.

## Chesterfield Borough Council

### What was achieved and what was the history of the empty property?

A property owned by Chesterfield Borough Council that had been used as a housing office was converted into two properties, a two-bedroom house and a six-bedroom property both let by the council at affordable rents. The buildings had originally been constructed as three houses, before having been converted to provide a local housing office. The decision not to reinstate the original layout related to the relatively high demand within the borough for two-bedroom properties and the desire to create a tailor-made property to meet the needs of a large family on the council's waiting list.



The council had closed its local offices some years before, and though it had since rented the property to a charity, the offices had been empty since 2012 and it felt there was no obvious ongoing commercial demand.

### What happened to bring the property back into use?

The council accessed £30,000 from the HCA's AHP for the scheme and added £108,000 from its housing revenue account. The conversion works were relatively straightforward, as the property had previously been individual houses; the scheme went through under permitted development rights. The work was carried out by the council's direct labour organisation, starting in December 2013 and completed by March 2014, with the external environmental works carried out in the following financial year. One of the factors that made the scheme relatively uncomplicated was the fact that the property was already within the council's ownership.



### Background and future plans

The council had since looked for further opportunities to convert other redundant commercial spaces within its own stock and further conversions using the HCA's empty homes programmes were completed in each of the next two financial years. This built on a history of the council and its partner housing associations having used commuted planning gain sums (through section 106 agreements) to create new homes from empty spaces above flats and bring long-term empty homes back into use.

The council has reviewed its commercial assets across the borough and found that very little was suitable for conversion and the majority had a long-term future in the commercial sector.

The council believes that whilst opportunities to bid for further AHP funding exists, the resources required to deliver are not certain at the time of writing.

## Coast & Country Housing with Redcar and Cleveland Borough Council

### What was achieved and what was the history of the empty property

Coast & Country Housing leased and refurbished an empty pub to create ten one-bedroom homes for social rent at 192 the High Street, Eston in Redcar and Cleveland. All the flats



were let to council nominees and the concentration of one-bedroom properties in the development reflected the demand for smaller properties linked to the social size criteria (commonly known as the bedroom tax).

The new flats proved easy to let as they were on the high street, close to the main bus route. This was despite being let at a social rent level that was higher than the local housing allowance, which reflected the low private rented sector rents in the area.

The pub had been empty for over 10 years, during which time it was vandalised and targeted by local youths. The pub had the added complication of a take-away restaurant at the rear. This remained in use. This did make the refurbishment a bit more difficult, but by working with the owner of the business, his operating times were not affected.

Redcar and Cleveland Borough Council had been working with the property owner for a considerable amount of time in an attempt to convince it to bring the property back into use, and were considering enforcement action due to the lack of progress.

### What happened to bring the property back into use?

Funding was provided from the HCA and Redcar and Cleveland Borough Council to bring the empty pub back into use as 10 self-contained, one-bedroom apartments.



The council had provided Coast & Country with the funding up-front to cover the architect fees as well as any associated professional fees on bringing the scheme forward. Coast & Country saw this as helpful as it covered the risks of it incurring fees should the scheme have faltered. The council arranged for the owner to legally agree to repay the fees if the scheme did not go through.

The main risk associated with the scheme was securing the funding required to bring the property back to a decent homes

standard. Coast & Country agreed to repay the council if the scheme proceeded, as it would then be able to recover its costs over time from the rental income.

The works started in July 2012 and were completed in March 2013. These were major works which included rewires throughout the property, providing partitions and walls, as well as a central heating system, new electric and water meters in all units, new kitchens, and new bathrooms (including shower cubicles). A parking area was also provided for up to six cars.

Coast & Country leased the property for ten years and the arrangement allowed for it to recover 80% of the costs of the refurbishment works as well as ensure the owner earned sufficient income to be attracted to the scheme.

Coast & Country was able to offer employment and training opportunities on the scheme by using its own workforce and allowing for two paid work placements for people who were unemployed. They worked on the whole project and went on to get jobs. This reflected the general approach that Coast & Country took to providing employment and training opportunities in its development work.

### **Background and future plans**

Coast & Country had traditionally done quite a lot of empty commercial conversions supported by funding through the HCA's AHP. This includes creating 47 homes in Darlington (from an old tax office, rented privately), 42 in Middlesbrough (from an old Department of Social Security office, subsequently bought by a private owner) and 29 in Washington (from a property that had been derelict for 20 years). All of these units are now completed and have residents living in them.

This was part of a focus on empty properties, and over a period of four years Coast & Country had created 340 homes from empty properties outside of its own stock. This was split between 134 commercial and 206 residential. Coast & Country saw its empty homes work as part of its partnership work with local authorities, for example, in Redcar and Cleveland, Stockton, Darlington, Scarborough, Newcastle and Sunderland. It recognised that these local authorities were driven by the housing need and regeneration cases for doing more, and the added imperative of addressing the decline of the high street in some areas. Coast & Country anticipates doing a further 300 lease and repair schemes to create affordable homes from empty properties over the next three years.

In addition to the lease and repair properties Coast & Country attracted funding to purchase 135 long-term empty homes to repair and bring back into use as affordable housing. It will continue to purchase a further 89 properties by March 2018, and will look to work in partnership with a number of local authorities to ensure they purchase properties that, once repaired, will provide the type of affordable accommodation that is needed.

## DISC Housing with Hull City Council

### What was achieved and what was the history of the empty property



One shared home for two people at an affordable rent was created in the space above a barber's shop in Hull, with the shop remaining in operation. The space had been empty for over two years.

DISC leased the property from the owner for 10 years, with a break clause allowing either party to bring the arrangement to an end after five years.

### What happened to bring the property back into use?

Hull City Council was very supportive in identifying empty properties and passing on the contact details, and this was how DISC came to approach the owner of the barber's shop. DISC felt the main reason the private owner was interested was because it was difficult for the owner to be able to raise enough money to carry out the work required to bring the property up to a lettable standard. In other words, they could not rent out the property because it was in poor condition, and could not refurbish it in order to rent it out.



DISC attracted, with the support of Hull City Council, £100,000 in year one to refurbish ten properties from the DCLG's EHCG programme. DISC spent about £18,000 to bring this particular property back into use. DISC identified local traders who were willing to work with DISC volunteers and worked with More Time, which is a social enterprise company, to undertake most of the work.

The work started in November 2012. During this time, four volunteers worked on this particular property and one person gained full-time employment with More Time. The refurbishment of this property took eight weeks to fully complete. Two people who worked on the property as volunteers had been identified as being in housing need and were offered the property. They moved in to it in January 2013.

### Background and future plans

As a registered housing provider, DISC saw the potential of round one and round two of the empty homes programme to add to its accommodation-based services for people with support needs. DISC attracted funding in Hull (round one); and County Durham, Hartlepool, and Hull again, for round two. DISC held a drug treatment contract in Hull and the service users helped refurbish the property featured in this case study. This built on DISC's other employment and training schemes, as well as its housing and support services. In addition, some of the service users went on to move into the empty homes DISC refurbished in Hull.

DISC spent £12,000–£18,000 on each property, completing 10 in total in the first year. £10,000 was allocated from the grant money per property for the refurbishment works and DISC contributed the rest.

In total, DISC and More Time refurbished 35 properties and created 70 potential bed spaces. DISC purchased 11 properties, increasing its own property portfolio. Forty people became volunteers and 11 went on to full-time employment.

## Goodwin Development Trust with Hull City Council

### What was achieved and what was the history of the empty property

Sixteen flats were created in Queen's House in the centre of Hull by Goodwin Development Trust for letting at affordable rent. Providing 2 studios, 6 one-bed and 8 two-bed apartments above a Lloyds Bank.

The Queen's House building had a former life as job centre, but had been empty for more than ten years. Goodwin Trust agreed to a 100-year lease with Aviva Insurance on the three upper floors that were to be converted for residential development. Aviva continued to lease the ground floor to Lloyds Bank.



### What happened to bring the property back into use?

Goodwin employed local building contractors KWL to carry out the works. Works started in September 2014 and were completed in March 2015. KWL worked hard to liaise with Lloyds Bank, who leased the ground floor, to minimise disruption during the works and to ensure it was satisfied that the development in no way undermined its business usage. £800,000 was received from the HCA's round two empty homes programme. This was supplemented by Goodwin's own reserves.

### Background and future plans

Goodwin had used the opportunity of the EHCG Programme to achieve housing and regeneration goals by creating over 70 homes for affordable rent from empty properties in West Hull, working in partnership with Hull City Council.

Goodwin has since become a registered housing provider able to bid for AHP funding. It is currently in discussion with Hull City Council about an innovative scheme to recycle Right to Buy capital receipts into further acquisitions of empty properties to be refurbished and let as affordable community-owned housing.

## Havebury Housing Partnership with St Edmundsbury Borough Council

### What was achieved and what was the history of the empty property

In 2013, Havebury created 35 one- and two-bedroom homes, including 23 for affordable



rent and 12 for shared ownership sale by buying, renovating and remodelling a former maltings in Bury St Edmunds. The bedroom size mix of the rented properties reflected housing demand in the area, partly related to the demand for households to downsize in the wake of the social size criteria (commonly known as the bedroom tax).

The grade two listed building had been a maltings and more recently a furniture shop,

but had stood empty for about 15 years.

Havebury was pleased that the development made such good use of what was seen as an iconic building. The shared ownership properties all proved very popular, with all selling before the completion of the renovation work.

### What happened to bring the property back into use?

The total project costs were about £4 million, with £1 million from the AHP 2008-2011 and the balance from some capital funding from Havebury's surpluses, added to by the private finance it could bring to the project and cover through rental payments.

Havebury reflected that St Edmundsbury BC had been instrumental in bringing it into the project and was keen from the outset to see something happen to this iconic building. In addition, the ongoing senior level enthusiasm at the council for the project, helped ensure that different parts of the council were all doing helping the scheme progress, from planning, heritage and the strategic housing department.

The work started on site in April 2011 and completed in March 2013, with delays in completion as the main contractor went into administration. Havebury had been involved since 2011 from site acquisition through planning permission to get the development on site.

### Background and future plans

Havebury saw itself as very active in bringing empty homes back into use and had become more involved in bringing empty commercial properties back into use. For example, it was also working on re-modelling a former magistrate's court into 14 flats and creating 6 flats in a former goods shed in Thetford. This has led Havebury to actively seek opportunities for converting empty commercial buildings in its drive to create new homes to meet housing needs. Any conversions were to be delivered as part of Havebury's overall development programme, partly funded through the AHP 2015-18.

Havebury recognised the linkages of its work to the drive of St Edmundsbury BC and other local authorities: Forest Heath, Mid Suffolk and Breakland to regenerate high streets. In doing so, Havebury felt that some councils were very sensitive to the need to protect some empty commercial properties for new commercial uses, as the retail market picked up, whilst assessing in other cases, that there was a lack of commercial demand and a compelling regeneration case for converting to housing.

## Hull City Council (HCC)

### What was achieved and what was the history of the empty property

Hull City Council has created 18 affordable one-bedroom homes in what was previously a parade of largely empty shops with disused offices above, on its Orchard Park estate. The scheme was designed to help the council to meet the demand for smaller properties.



The majority of the parade of shops with offices above had been vacant for a number of years. The council put this down to a lack of commercial demand for shops or offices in the area. The council had previously used one of the units as a housing office, but no longer required so much administrative space. Originally, the upper floors had been built as maisonettes above the shops, but these had proved difficult to let as homes in the 1990s and had been converted into offices. The local housing market had since changed and the council was confident of the current demand levels for newly refurbished flats with investment in new build and extra care being channelled into the area.

The occupier of the one shop in use was, in any case, keen to move out and the council agreed to buy him out, allowing the scheme to proceed as a whole.

### What happened to bring the property back into use?

The works were partly funded by the council, directly attracting £720,000 from the HCA's empty homes programme. Though, as one of the shop units had not been long-term empty it was not covered by the grant funding and works to this property were funded from the council's Right to Buy receipts. The council felt that this scheme and its other work to create new affordable homes from empty commercial properties would not have got off the ground without grant funding.



Hull City Council appointed Kingstown Works Limited, its wholly-owned company, to carry out the works, and NPS Humber designed the scheme.

The scheme took approximately 12 months to complete and the flats were let in April 2015. The scheme required fire- and sound-proofing between the ground floor shop units and the floors above. The outside deck access had to be completely replaced, and additional works were also required because of fire damage in some of the units. The scheme required planning permission, given that the conversion of ground floor units from commercial to residential required a change to the shop frontage.

The council judged that it would not have been possible to complete the works if the ground floor shop units had been occupied, in which case it would have had to look at the option of compensating the owners to move out temporarily.

## Background and future plans

The scheme was part of a larger drive within Hull City Council to attract funding from the HCA's empty homes programmes to address the council-owned empty commercial properties. The programme involved converting offices to residential accommodation, creating flats over shops and homes from empty shops. In total the council completed 9 conversion schemes generating a total of 53 affordable homes.

This work is part of the wider empty homes strategy within the council that takes a neighbourhood regeneration approach working with individual property owners and supporting community-led organisations to buy or lease and refurbish long-term empty properties with grant support and bring them back into use for people in housing need. The council also reported that private property owners had refurbished and sold or re-let properties that had been empty for years, on the strength of other properties being brought back into use in the area and the wider improvements that the council's neighbourhood regeneration approach brought about. In recent years, this work was supported by the Government's Clusters of Empty Homes Fund as well as the Government's EHCG programme and the empty homes programmes within the HCA's AHP.

Hull City Council has attracted AHP 2015-18 funding for empty homes work, and has allocated additional local resources from, for example, Right to Buy receipts. It hopes to be able to create 100 new affordable homes, 75 through purchase and repair and the remainder for lease and repair, or involving an empty dwelling management order.

## Kent County Council, with Maidstone District Council and Hyde Housing Group

### What was achieved and what was the history of the empty property

A property that had been used previously as offices but had been empty for five years, was converted into 6 two-bedroom flats and a single one-bedroom flat in Bedford Place, Maidstone. In addition, 2 three-bedroom houses were built at the rear. The owner developers progressed the work with a loan from Kent County Council's No Use Empty (NUE) initiative. Once the works were completed, it was sold to the Hyde Group housing association, which let the properties at affordable rents.



Part of this Grade II listed building dated back to 1633, with extensions having been added in later years. The property was in a poor condition and was set out as offices. The listed building status added another dimension, but as many of the features as possible were maintained and built into the development.

### What happened to bring the property back into use?

No Use Empty provided a loan of £175,000 in March 2014, which was required to be repaid by the end of March 2017. The loan was repaid in December 2014, with the sale of the development to Hyde Group. The loan terms included securing a charge on the property which was valued at £400,000 in its original condition. The total cost of the refurbishment was £503,898 (supported by a RICS valuation). The loan applicants bought the property directly from the market. They provided evidence of funds, in addition to the loan, to complete the project. The value of the completed development was £1,095,000. The applicants were also able to demonstrate to NUE that they had the knowledge and skills to manage and deliver the project. One of the applicants advised NUE that 'the loan has been fantastic and I will certainly be using it again'. The applicant was looking for further opportunities to bring empty homes back into use.



Recently the developer, in partnership with another investor, completed another office conversion into 9 units. NUE provided £175,000, this levered in £149,000 of private sector leverage. The loan was approved in May 2015. Works were completed and properties sold to another housing association in October 2015, with the loan repaid at that date.

## Background and future plans

Kent County Council's NUE initiative was established in 2005 and continues to operate in partnership with all 12 district councils in the county. It aims to substantially increase the numbers of long-term empty properties returned to use as quality housing through a range of interventions, including financial assistance to owners. By 2015, NUE had awarded 226 loans totalling £14.1 million helping to create 669 new homes from empty properties. These schemes also levered in a further £21.7 million from private finance, providing a total of £35.8 million total investment through the loan scheme.

No Use Empty has found the average refurbishment costs of schemes it has supported to be £48,000, with the average investment required from Kent County Council being £20,890. The actual cost of bringing a unit back into use through the loan scheme is £3,100 (loss of interest, opportunity and administration). No use Empty calculates that every £1 spent on interest and administering the initiative, translates to £20 being spent in the local economy.

No Use Empty supported schemes that attracted £1.8 million AHP funding from 2012 to 2015 with a focus on the conversion of larger commercial buildings with a local regenerative impact. Developers were able to apply for a secured interest-free loan over five years, working with AmicusHorizon who let the homes at an affordable rent. AmicusHorizon provided property management and guaranteed the property owners a rental income.

The first project in Shepway was completed in May 2014, delivering seven homes. A further eight projects were completed by the end of March 2015. Together, these commercial conversion projects provided 42 new affordable homes.

At the time of writing, Kent County Council was in the process of making additional bids, including one in Dover, to provide 10 units. If necessary, it will support the Dover scheme through its own resources.

No Use Empty continues to recycle the repayments of the loans as it makes new loans. The scheme has further developed a range of other products, including interest bearing loans, and analysing the potential of providing loans to empty commercial units.

## London Borough of Camden

### What was achieved and what was the history of the empty property

A former warehouse with a commercial unit on the ground floor in Greenland Place was converted into four flats. The property had been empty for more than five years and was in a poor state, having been squatted for a long period of time.

All the flats were renovated to a high standard. The properties were leased for 10 years to a housing co-operative and let directly to people in housing priority need nominated by the borough at the local housing allowance rate.



### What happened to bring the property back into use?

Works initially started in 2011 but were abandoned shortly afterwards. Following Camden's intervention, the works recommenced in October 2014 and were completed in March 2015. The grant offered was a combined source of the borough's empty homes supply grant and the GLA's empty homes programme. The amount was £152,000 in return for 10 years' nomination rights. The terms of the grant agreement required the owner to let the properties to Camden nominees for five years; however, the council was able to secure the properties for 10 years.



Camden reported that the availability of grant funding was an essential ingredient in attracting the owner to bring the property back into use.

### Background and future plans

The borough had surveyed local high streets to explore the extent of empty spaces above shops, as part of its wider work to bring empty homes back into use. Where there appeared to be unused floor, the owners of the properties were contacted and, through this, 14 owners were encouraged to create new flats in Camden High Street, about half of which were grant funded by the borough. The funding came from the borough's Housing Supply Grant for empty properties. In return, Camden received three years' nomination rights to the properties in order to house people in priority need. In other high streets, there was less potential due to the lack of separate access for the floors above the retail units.

In addition, Camden has worked with a number of small housing providers, such as Mace Co-op and Atlantic Housing, to help them to find long-term empty properties to lease and refurbish and bring back into use as affordable housing. This work was supported by targeted grant funding for empty homes through the GLA's AHP. From 2012 to 2015, about 21 new affordable homes were created in the borough through this route.

## London Borough of Croydon

### What was achieved and what was the history of the empty property

Five one- and two-bedroom affordable homes for rent were let out to people on Croydon's waiting list, following the conversion of a former public house after it was leased by the borough.



The pub had been closed for a number of years and was becoming derelict. With a good supply of entertainment facilities in Croydon, it was recognised that there was a lack of demand for this type of premises and conversion was approved by the planning department in February 2013. Structural problems were discovered in the building which added to the conversion costs and slowed the project.

### What happened to bring the property back into use?

The owner leased all five flats to the borough for five years. Overall the cost of the conversion works was approximately £300,000 of which £125,000 was funded via the GLA's AHP targeted empty homes funding. The conversion works started in September 2013 and were completed in March 2015. The building is owned by a limited company set up specifically for the conversion and refurbishment project.



The owner was originally approached by Croydon's empty homes team as part of a survey of all commercial premises with vacant living accommodation. The survey was to determine owners' plans for the future use of their buildings. The borough believed that the owner of this property was attracted to the scheme as the income yield was close to what

could have been made through open market renting when the costs of employing a letting agent were factored in. This was aside from any consideration of the owner's ability to raise the finance and fund the costs of the conversion works.

### Background and future plans

Croydon had an active approach to looking at the potential for creating homes from empty commercial property and staff thought the interest of the cabinet member for housing had been instrumental in this. This work was seen from the outset as part of the borough's wider empty homes strategy. The borough sought to attract resources through the GLA AHPs and allocate its own resources to supplement grant funding for the costs of refurbishment works and to cover revenue expenditure, such as empty homes staff costs. The strategy also ensured that staff were active in engaging property owners in exploring the options and taking enforcement action where necessary. In turn the empty homes strategy was seen as part of a broader strategic approach to meeting housing needs in the borough.

Croydon had conducted a door-to-door survey of commercial premises within each business centre in its area to look at the potential of converting empty commercial spaces, including empty spaces above shops, but found less potential and interest than it had anticipated (it found potential for 21 dwellings in 2,285 properties surveyed). The borough thought this

reflected the relatively buoyant commercial demand for office and retail units in the area and the reluctance of owners and occupiers to consider residential uses for empty or under-utilised spaces above their units.

The borough has agreed to provide a further £1 million to continue this work over the next two years.

## Phases with the London Borough of Lewisham

### What was achieved and what was the history of the empty property

Three flats were provided for affordable rent above and behind a café in a busy secondary shopping street in Brockley, in the London Borough of Lewisham, by Phases. A one-bedroom flat and a two-bedroom flat were provided in the space above, with a studio flat at the rear. The accommodation had been empty for over 20 years, though it had previously provided three flats.

The property was leased to Phases for 15 years by the individual property owner. The flats have all been let via the Lewisham's Fresh Start scheme, which is open to residents who are in priority need or otherwise in overcrowded conditions.

### What happened to bring the property back into use?

An entire re-fit was required, in addition to work on the flank wall to provide support where a chimney had to be removed.



The project received funding of approximately £50,000 through the EHCG programme. An additional £140,000 unsecured finance was raised through the Big Issue Invest.

Phases thinks the relationship it built up with the owner helped to make the scheme a success. The owner was willing to waive any rent for the first two years and then take a much reduced rent for the next five years. The owner was attracted to the scheme as he was unable to fund refurbishment works to bring the flats back into use and would benefit from the works once the lease came to an end and the properties were returned to him. Phases concluded that he could see a clear business case for being involved.



Phases employed a local builder to do the works, who was committed to supporting the trainees that Phases brought to the project in furtherance of the organisation's social purpose. Trainees were involved in all aspects of the works, including making stud walls; plastering; roof repairs; and carpentry. Phases also employed a site liaison worker who not only managed the trainees but also maintained good relationships with the owners of the café, who continued trading throughout. For example, arrangements were made to ensure that all waste went out through the back of the building

and all materials came in that way too, so as not to disrupt footfall.

### Background and future plans

The success of this project has inspired the owner to work with Phases on a new build project where Phases will build new homes on his vacant car lot plot.

Phases attracted £235,000 from the first round of the EHCG programme and with that created 9 flats between 2012 and 2015 across the London boroughs of Lewisham and

Southwark. Under a second round of funding it purchased 4 empty properties in the Worthing and Littlehampton areas and under a final round it purchased 2 empty four-bedroom properties in the London Borough of Newham. All properties have now been refurbished and let out at affordable rents.

Phases now has ambitions to create more affordable homes from empty properties and through new build. It is determined to raise the finance to do so despite the ending of grant programmes that are open to non-registered providers such as itself. Relationships have been developed with two lenders – Big Issue Invest and Unity Trust Bank – and Phases considers that such lenders are likely to be key to future projects. In addition, local authority grants are still available in some boroughs in London.

Phases sees creating new affordable homes from empty properties as a much needed response to the housing crisis in London, and as aiding its objectives of helping ‘a range of disadvantaged people to improve their lives through construction and environmental projects’. After an initial training period, Phases ensures its trainees ‘get stuck in’ to real building projects, such as the one above, alongside professional builders. Subsequently, trainees are supported to enter the construction industry, either as employed or self-employed contractors. Each year approximately 15 trainees pass through workshop training and about half of these secure employment within 12 months.

## Plymouth City Council with Chapter 1

### What was achieved and what was the history of the empty property

The former job centre, partly above a Co-op food store in Notte Street, Plymouth, was purchased by Chapter 1 Housing from the Co-op Group and converted into 30 flats for affordable rent to people on Plymouth City Council's waiting list. This provided 24 one-bedroom properties and 6 two-bedroom properties for affordable rent. The first tenants moved in on 26 October 2015.

### What happened to bring the property back into use?

Construction started on site in the third quarter of 2014 and was completed in October 2015. Chapter 1, with support from the city council, attracted about £650,000 from the HCA's empty homes programme funding. In addition, the council provided £150,000 funding from commuted planning gain sums (through a section 106 agreement), while Chapter 1 funded the remainder.

The council believed that its previous track record of working locally with the Co-op Group to bring empty spaces above its commercial premises back into use, helped to start negotiations in regard to the Notte Street project. In turn, the Co-op was able to understand the potential and benefits of being involved – although the personnel were different and new working relationships had to be developed.

### Background and future plans

Plymouth had previously worked with the Co-op Group in Devonport, when five flats were created above its store in Marlborough Street. A further two flats were created from the empty space above a newly renovated retail unit, also owned by the Co-op in Devonport. This work built on the earlier work of the council, carried out in partnership with the Devonport Regeneration Community Partnership and a housing association partner, to deliver ten flats through a Living Over The Shops scheme focused on two shopping parades in the Devonport area of the city. Funding was obtained through the New Deals for Communities Programme and the then Housing Corporation. In most cases, the owners of the empty flats were willing to invest 60% of the work costs on the strength of 40% grant funding being available.



The council viewed this work as part of its long-term strategic approach to working with individual property owners to encourage them to bring properties back into use, including the leasing of properties to the council for those in need of temporary housing.

In addition to the Notte Street conversion, another property – which had been empty for three years – was brought back to use under the HCA's Empty Homes Programmes, providing a much-needed home for a large family.

Plymouth City Council was working with Chapter 1 to attract national AHP funding for 2015-18 to buy and lease empty property (both residential and commercial) in order to create new homes for those in housing need.

The council is currently exploring new initiatives to meet the objectives of its Plan for Empty Homes 2015-19.

## City of York Council, CoHo and Thirteen Housing Group

### What was achieved and what was the history of the empty property?

A former city centre hotel has been converted into 18 flats for affordable rent above new retail units by a partnership between City of York Council and Thirteen Housing Group.

The White Swan, a former hotel in the centre of York, had one ground floor retail unit let to Sainsbury's. This was required to underpin the viability of the whole development, and the second unit has now been converted to a restaurant and bar – the Pavement Vaults.



Two of the flats are two-bedroomed, with the remaining 16 having one bedroom.

The layout and size of the apartments was constrained by the historical nature of the building, but the city centre location lends itself well to this mix. The apartments were let at intermediate rents to tenants on lower incomes and are managed by Thirteen Housing Group.

The 100 year-old family-owned hotel had been empty for nearly 30 years as various efforts to bring it back into use had stalled. The property had been squatted at several points during its history and there had been a series of local press campaigns to bring it back into use, highlighting it as a blight on the high street.

### What happened to bring the property back into use?

When the owners approached the council for planning permission, officers took the opportunity to open up a conversation with the planning agent about supporting affordable housing in the development.

The original application was for ground floor commercial units with 14 flats on the first floor, leaving the second floor empty. Following discussions, led by local property consultancy CoHo, the owners agreed to more flats in the upper two floors and to lease them for 15 years to the council's housing association partner, Thirteen Housing Group.



The project was funded with £450,000 from the HCA's empty homes programme. The works started in January 2014 and were completed in February 2015. Having been empty for so long, the building needed significant structural works, including a new roof. Energy efficiency works, including photovoltaic panels and mechanical heat recovery ventilation systems, enabled the building to meet BREEAM's (Building Research Establishment's environmental assessment method) Very Good rating. The character of the building was retained, including its half-timbered facade and the eccentricities of its internal layout.

The owner's contractors RH Fullwood & Co carried out the work, with CoHo providing client project management to work on the residential element on behalf of Thirteen Group, and to ensure that works were completed in accordance with the HCA's grant conditions.

This grant funding effectively enabled Thirteen Group and the owner to create the business case for working with the council to create more homes than originally envisaged. At the time of writing, the owners are considering extending the lease to Thirteen Group beyond the original 15 years, having seen the value of having a housing association manage the residential parts of the property and removing sales risk from that section of the development.

### **Background and future plans**

City of York Council commissioned the North of England Civic Trust to carry out a study which identified the potential for creating 800 one-bedroomed homes from empty floors above retail units in the city centre. The council then developed a strategy which recognised that it needed to put time and effort into generating interest among owners and their agents. Along with Thirteen Housing Group, the council jointly funded CoHo to seek opportunities to take forward. This focus was driven by the council's wider housing strategy and the acute shortage of affordable housing in the city.

This builds on the council's history of bringing disused floors above retail units back into residential use. Housing association flats have been created above some of York's historic streets including Micklegate and Shambles.

The private sector has also been active in the conversion of upper floors in the city centre, especially as the sales market for apartments has improved. However, this buoyant market of high values and rents makes the opportunities for affordable housing more difficult to realise. Nevertheless, both the council and Thirteen Group continue to have an interest in pursuing further schemes along the lines of the White Swan.

# Recommendations

## Introduction

Empty Homes' recommendations come from what we learnt when we discussed the barriers and opportunities with people involved in bringing empty commercial spaces back into use, reviving or regenerating high streets, or working in the commercial sector. We have also drawn lessons from the case studies in making these recommendations.

We recognise that some organisations will not wish to adopt all our recommendations, perhaps because of resource constraints and competing priorities. Nonetheless, we hope more organisations will recognise the case we have set out and prioritise action to bring empty commercial spaces back into use as affordable housing. We hope our recommendations will help them play that role.

## Local authorities

- 1 Develop and adopt an empty commercial spaces strategy to include the action you will take to create and stimulate affordable housing within long-term empty spaces. Be clear on the role of different departments and allocate resources to deliver it. Consult and involve local people and organisations in this. Allocate a councillor to champion the strategy.
- 2 Conduct studies to understand commercial vacancy rates and assess the potential to create new housing supply in these spaces to inform the strategy. Be mindful of when there is a good economic case for an empty property remaining in the commercial sector and take action to stimulate such demand.
- 3 Ensure the empty commercial space strategy links to wider work to ensure the economic, social and environmental well-being of the community you serve and strategies to deliver affordable housing, tackle empty homes, regenerate neighbourhoods, revive the high street, and support jobs growth.
- 4 Promote the establishment (where not in existence) of an operational management team for your high streets and a strategy for those streets. Ensure your empty commercial space strategy informs and is informed by high street strategies.
- 5 Liaise with any existing town centre teams to explore how you can work collaboratively to meet shared objectives, such as a joint vision for attracting new uses. Swap intelligence on vacant spaces.
- 6 Designate an officer to co-ordinate the delivery of affordable homes from empty commercial spaces by opening up and progressing opportunities with property owners; enabling partnership work with housing providers; and liaising with departments within the council to unblock any issues impeding delivery.
- 7 Market to property owners the business case for bringing empty commercial spaces back into use as affordable housing. Set out how you might be able to support conversions to affordable housing, including options for leasing or selling the property to the local authority or a housing provider.
- 8 Directly attract resources, or support housing providers to do so, (for example, from the AHP) for purchasing or leasing and converting empty properties for affordable housing.

In addition, allocate funding by identifying council budgets to support this work, for example, by deploying Right to Buy receipts or commuted planning gain sums.

- 9 Assess the scale of empty commercial space across the council's property portfolio and carry out options studies to consider how to bring those spaces back into commercial use, or convert to homes to meet local housing needs. Reflect in the wider empty commercial spaces strategy.
- 10 Transfer (through lease or sale) council owned (or acquired) empty property to community-led organisations who have the funding and drive to convert those spaces into affordable housing.

### **Housing associations who are registered providers**

- 1 Assess the scale of empty commercial space across the association's property portfolio and carry out options studies to consider how to bring those spaces back into commercial use, or convert to homes to meet local housing needs.
- 2 Transfer (through lease or sale) your empty property to community-led organisations who have the funding and drive to convert those spaces into affordable housing.
- 3 Adopt a strategy of bringing back into use empty properties outside your own stock. If working across a number of areas, ensure the strategy sets out where you intend to focus this work. Be clear on the role of different staff/departments within the association and allocate people and other resources to deliver it.
- 4 Work in partnership with local authorities to explore how best to make a contribution locally. Ensure your work links to any empty commercial spaces strategy within an authority and links to its wider work (as explored above).
- 5 Attract resources (for example, from the AHP) to purchase or lease and convert and refurbish empty properties into dwellings for affordable housing. In addition, bring additional funding to schemes, for example, through cross-subsidies from market developments, or through raising private finance.

### **Community-led organisations**

- 1 Adopt a strategy for acquiring or leasing empty properties and bringing them back into use as affordable housing. If working across a number of areas, ensure the strategy sets out where you intend to focus this work.
- 2 Work in partnership with local authorities to explore how best to make a contribution locally. Ensure your work links to any empty commercial spaces strategy within an authority and links to its wider work (as explored above).
- 3 Attract resources such as capital funding from a local authority, grant funding from charitable trusts, and corporate donations. In addition, raise private finance where the organisation has the financial capacity and asset base to do so. Make the case to local authorities and housing associations to transfer assets where that would enable you to convert those spaces into affordable housing.

### **Government and public sector bodies to whom it has devolved money and powers to manage its Affordable Homes Programme**

- 1 Recognise and use the power the Government has to encourage the conversion of empty properties into affordable housing and adopt measures to encourage this as part of wider initiatives aimed at stimulating housing supply, supporting the regeneration of the high street and neighbourhoods.

- 2 Re-establish dedicated grant programmes for bringing empty properties back into use as affordable housing, with encouragement given to bids for converting long-term empty commercial space.
- 3 Re-establish dedicated grant programmes for areas tackling high concentrations of empty properties that promote community-led neighbourhood regeneration approaches.
- 4 Allow some flexibility in grant terms to recognise that the costs and timescales are less certain at the outset when converting empty properties (compared to new build schemes), with particular issues around the discovery of unseen works. Recognise when assessing the value for money of empty property projects, relative to new build schemes, that there are environmental benefits to be gained in making the most of existing properties and minimising the take of green fields, as well as wider neighbourhood or high street regeneration benefits.
- 5 Simplify VAT so that all housing renovation work is charged at 5% VAT.<sup>65</sup>

### **Large-scale commercial property owners (or those with sufficiently long leases)**

- 1 Develop and adopt an empty commercial spaces strategy across the corporate property portfolio, or within targeted geographic areas, as a starting point. As part of that strategy, understand the amount of long-term empty commercial properties within the organisation's control and carry out options studies to consider the opportunities for bringing those spaces back into commercial use or converting into housing. Consider, as part of the strategy, the business case and corporate social responsibility case for ensuring some of that housing is affordable. Set out the action you will take to bringing empty commercial spaces back into use.
- 2 Allocate or commission project management resources to deliver the strategy and ensure that colleagues and the property professionals you work with understand where this is a change in business direction and practice; what you are aiming to achieve; and the role they can play in supporting you.
- 3 Talk to different local authorities about the role they can play in enabling you to bring these empty spaces back into use as housing.
- 4 Be open to approaches from local authorities and housing providers looking to purchase or lease and convert empty commercial spaces into affordable housing. Support them to progress schemes speedily by allocating a contact who can help co-ordinate responses within your organisation.
- 5 Take the learning from one area to another where the organisation has empty commercial space.

### **Small scale commercial property owners (or long leaseholders)**

- 1 Consider if you have any empty commercial space where there might be a business case for converting to housing. Consider whether you have the capacity and skills to carry out refurbishment and conversion works, and explore options for selling or leasing the property to housing providers who do.
- 2 Talk to the relevant local authority/ies about the role it/they can play in enabling you to bring these empty spaces back into use as housing.

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<sup>65</sup> Currently, a 20% VAT rate applies to much of this work but there are occasions when a 5% VAT applies, including on dwellings that have been empty for at least two years and the conversion of some commercial buildings

- 3 Be open to approaches from local authorities and housing providers looking to purchase or lease and convert empty commercial spaces into housing. Support them to progress discussions and schemes speedily by allocating a contact.

## **Lenders**

*Please see above for recommendations for lenders in their role as property owners*

- 1 Adopt policies and management systems that enable your staff to agree that the businesses and individuals it is lending to can lease their property to a local authority or affordable housing provider. In doing so, recognise how having a property let and managed by an affordable housing provider can help maintain the value of the asset (and your collateral), as well as ensure the business/individual has an income stream from which to repay you.
- 2 Adopt policies and management systems that enable staff to agree that a local authority may place a second charge on a property where you have a first charge and where the local authority loan would enable the mortgagee to bring an empty property back into use.

## **Town centre managers and those working in town centre management**

- 1 Liaise with the local authority officer/team responsible for co-ordinating work bringing empty properties back into use and explore how you can work collaboratively to meet shared objectives. This might include town centre managers counting empty spaces above shops alongside their more routine surveys of empty retail units, or passing information to the local authority about individual long-term empty properties, or helping local authorities to market opportunities to property owners for converting empty commercial spaces into housing.
- 2 Promote and establish (where not in existence) an operational management team for your high streets which has a vision and strategy for the high street with a plan of how to get there.
- 3 Ensure any strategy involves local people and organisations, including those working to create homes from empty properties, in re-imagining the high street, and actively looks to attract new uses to vacant commercial spaces, including housing and particularly affordable housing.

## **Recommendations or next steps for the Empty Homes Agency**

- 1 Disseminate this report widely to stimulate more action to ensure that affordable housing can be created in empty commercial spaces.
- 2 Adopt and implement an advocacy plan to seek to influence all the above types of organisations into adopting the report's recommendations.

## Appendix A – List of contributors

Association of Town Centre Managers  
Amber Valley Borough Council  
British Property Federation  
Cheshire West and Chester Council  
Chesterfield Borough Council  
City of York Council  
Coast & Country  
CoHo Ltd  
Developing Initiatives for Support in the Community (DISC) Housing  
Havebury Housing Partnership  
Hull City Council  
Kent County Council  
London Borough of Camden  
London Borough of Croydon  
London Borough of Lewisham  
Mace Housing Co-operative Ltd  
The Nationwide Foundation  
Plymouth City Council  
Ramidus Consulting  
Thirteen Housing Group  
Wolverhampton One (WV One)

# Appendix B – Semi-structured interview guide

## Fill in at start of interview

Name of local authority or housing provider

Person interviewed

Name:

Role/job title:

Telephone number:

Email:

Date and time of interview:

Interviewer:

## Introductions

Hello my name is..... and I'm phoning from Empty Homes. Thank you for agreeing to take part in our research which is looking at how empty non-residential properties and spaces above shops (I am going to call them commercial properties for shorthand) could be brought back into use for people in housing need.

For the first stage of this research, we are conducting interviews with local authorities and housing providers who have been working to bring empty commercial properties back into housing use.

The aim of these interviews is to collect information so that we can:

- showcase successes in bringing these empty spaces back into housing use;
- identify the success factors, as well as the barriers and how these were overcome;
- understand the barriers generally to bringing more of these empty commercial spaces back into housing use, and suggest policy solutions.

As we mentioned in our letter, the interview should last under an hour.

We hope to produce a report next year which will include findings from these interviews. I would like to stress that any organisation featured in our research will get the opportunity to comment on the relevant draft text to ensure that we have fully understood your approach and accurately reported your activities and views.

Can I also check that I can record the interview? This is just to make sure that we have accurately recorded what you said when we are drafting our report. We will not publish any recordings or transcripts from these interviews.

I'd like to start with some questions about your organisation.

## Semi-structured questionnaire

If local authority

Approximately how many people live in your local authority area?

And how big is your area's housing stock? (PROBE for social housing – LA, HA, private – owner occupier, rented)

If housing association or community-led organisation

Approximately how many homes does your organisation own and manage?

Approximately how many local authority areas does your organisation work in?

All from here onwards

Now I'd like to ask you generally about the work your organisations undertakes to bring empty commercial properties, including spaces above shops back into housing use.

*PROBE for number of empty commercial properties brought back into use (if possible since 2011) by this organisation, including with partners. If HA, which LA was it/were they in? Did organisation, or its partners, receive funding for any of this work through any of these programmes: affordable housing, community grants or cluster. How much funding from which programme(s) and for what?*

I'd like to ask you specifically about the scheme/one of these schemes where empty commercial properties were brought back into housing use. We are particularly interested in examples on high streets and/or above shops. Please could you describe the/one scheme.

**INTERVIEWER:** If more than one on high street, then ask for one which appears to be different to others recorded so far in other interviews.

*PROBE for information on number of properties involved; previous use of the properties and its/their ownership; if HA, which LA was it in? Any partner(s) in the scheme, and their role(s); how the scheme was funded; number of homes created; who was housed; and type/amount of rent charged.*

*ASK for follow-up information, including photos and plans, to be sent by email.*

Thinking about the specific scheme you told me about, in what ways did it fit in with and/or link to any of the wider work your organisations undertakes to bring empty commercial properties back into housing use?

And in what ways did this scheme fit in with and/or link to any other initiatives (by your organisations and/or any others?) to revive the high street, regenerate neighbourhoods and/or tackle empty homes in the area?

What would you say worked well about the scheme?

And what would you say worked less well? What were the main difficulties and/or barriers to overcome in bringing these empty commercial properties back into housing use? Were these overcome, and how?

*PROBE for financial – funding; property owner willingness and lender flexibility if outstanding mortgages and/or loans involved; and the respective roles of partners, planning, etc.*

Thinking generally about your local authority area/housing association, in your view, what are the main barriers to bringing empty commercial properties back into housing use?

What do you think could be done to overcome those barriers?

*PROBE for by whom – central government, local government, other national/local organisation(s), private owners, other(s), etc.*

Has your organisation done any work to estimate the scale of the potential contribution of empty commercial properties in meeting housing needs in your local authority area/s?

*PROBE for work done, and results – number(s), proportion(s), etc.*

Finally I'd like to ask you whether your organisation has any future plans for bringing empty commercial properties back into housing use?

*PROBE for what plans, other organisation(s) involved, numbers involved, etc.*

*CONFIRM agreement to send more detailed information by email.*

THANK, AND CLOSE

## Appendix C – List of Portas Towns

Ashford

Bedford, Bedfordshire

Bedminster, Bristol

Berwick

Braintree

Brighton (London Road)

Chrip Street, Watney Market, Roman Road (London Borough of Tower Hamlets)

Croydon, Greater London

Dartford, Kent

Forest Hill, Kirkdale and Sydenham (London Borough of Lewisham)

Hatfield

Leamington (Old Town)

Liskeard, Cornwall

Liverpool (Lodge Lane)

Loughborough

Lowestoft

Margate, Kent

Market Rasen, Lincolnshire

Morecambe

Nelson, Lancashire

Newbiggin by the Sea, Northumberland

Rotherham

Stockport, Greater Manchester

Stockton on Tees, Teesside

Tiverton

Waterloo – Lower Marsh and The Cut (London Borough of Lambeth)

Wolverhampton, West Midlands