Report to	Sustainable Development Panel 22 June 2021	**Item**
Report of	Executive Director, Development and City Services	5
Subject	Article 4 Direction to Remove Permitted Development Rights for the Conversion of Offices to Residential	

Purpose

To update members on the introduction of an article 4 direction to remove permitted development rights for the conversion of offices to residential within Norwich city centre.

Recommendation

To recommend to cabinet that the council proceeds with the introduction of a non-immediate Article 4 direction, and that:

1) delegated authority be given to the executive director of development and city services, in consultation with the cabinet member for sustainable and inclusive growth, to make an Article 4 direction to remove permitted development rights for the conversion of offices to residential within Norwich city centre;
2) if the government change the National Planning Policy Framework (NPPF) to require Article 4 directions to be limited to situations where this is necessary to protect an interest of national significance, delegated authority should be given to cease its introduction without having to seek further authority from cabinet.

Corporate and service priorities

The report helps to meet the corporate priority “A prosperous and vibrant city” and the service plan priority to implement the local plan for the city.

Financial implications

There will be a financial cost associated with the required publicity for introducing an Article 4 direction. It is expected that this will be met from existing budgets. The Ramidus study was funded through Towns Deal funding.

Ward/s: Mancroft, Lakenham, Town Close, Thorpe Hamlet

Cabinet member: Councillor Stonard - Sustainable and inclusive growth

Contact officers

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Background documents

The impact of the Covid pandemic on the office market, with reference to the City of Norwich, Ramidus (May 2021)

Report

Context

1. In July 2020, a report was presented to the Sustainable Development Panel to seek views on the need and possible introduction of an Article 4 direction to remove permitted development rights for the conversion of offices to residential within Norwich city centre. Members unanimously voted in favour of recommending to Cabinet that the council proceeds with the introduction of a non-immediate Article 4 Direction. The report from that meeting (sustainable development panel, 22 July 2020) can be found here along with the minutes of that meeting which can be read here.

2. Following this decision officers proceeded with drafting the direction, producing maps and writing the cabinet report. However before the item was discussed at cabinet new legislation took affect which unfortunately meant that the council had to delay making the direction. A brief summary of the relevant changes are set out below.

3. On 1 September 2020 changes were made to the Use Class Order. Three new use classes were introduced which replaced a number of previous use classes. One of the new use classes is Class E (commercial, business and service). Class E now includes shops, financial and professional services, restaurants and cafes, B1(a) offices, gyms, healthcare, day nurseries/ childcare so class B1(a) offices has now fallen away.

4. Whilst changes had been made to the Use Class Order in September 2020, the relevant legislation which allowed offices to change use to residential without the need for full planning permission was still Class O of the Town and Country Planning (General Permitted Development) (England) Order 2015. Class O referenced "*change of use of a building and any land within its curtilage from a use falling within **Class B1(a) (offices)** of the Schedule to the Use Classes Order*". However the amendments to the Use Class Order which were introducing on 1 September 2020 effectively revoked class B1(a) which meant that the Class O right would become meaningless after the transitional period. Until the General Permitted Development Order was also amended we did not know what would replace Class O and there was nothing therefore that we could refer to in an Article 4 direction. Based on the advice from NPlaw, unless the Council was willing to pay compensation (which could potentially be huge), the earliest it would be possible to withdraw office to residential conversion Permitted Development rights with an Article 4 direction would be 12 months after the Class O replacement/amendment comes into effect.

5. A report was brought to SD panel on 1 October 2020 setting out the implications of the changes in legislation and this report can be found here and the minutes of the meeting are available here. Members of the panel agreed to delay the introduction of the article 4 direction until further details of the changes to the General Permitted Development Order were known.

Recent changes to legislation and the National Planning Policy Framework

6. On 21April 2021 an amendment to the General Permitted Development Order came into force. A new class (Class MA) has been introduced which allows uses falling within Class E (commercial, business and service) to change to residential without the need for planning permission from 1 August 2021. There are a number of conditions to this including that buildings must be vacant for a period of at least 3 months immediately prior to the date of the application for prior approval and that the floorspace of the existing building shall not exceed 1,500 square metres.

7. Whist this new MA class now provides clarity, it also causes concern to officers as this confirms that the government still intends to allow changes of use from offices to residential but it also now allows all Class E uses (including retail, financial and professional services, food and drink, businesses, medical and health services, creches and leisure uses) to change to residential without the need for full planning permission which has the potential to significantly impact upon our city centre.

8. Furthermore it should be noted that the government has recently consulted on proposed changes to the National Planning Policy Framework and one of the proposed changes concerns Article 4 directions. The government is considering changing the wording of paragraph 53 of the NPPF. Currently article 4 directions should be limited to situations where this is necessary to protect local amenity or the well-being of the area but it is proposed to change this to only allow article 4 directions to be made where they are limited to situations where this is essential to avoid wholly unacceptable adverse impact or be limited to situations where this is necessary in order to protect an interest of national significance. The government also intends to set out that they should apply to the smallest geographical area possible.

9. The government has not yet published its response to the consultation so there is no indication of when or if changes will be made to the NPPF and if changes are made which of the options they would bring forward. However this does show the government's intention to reduce the level of control Local Planning Authorities will have, and could potentially make article 4 directions much harder or near impossible to introduce in the future.

10. Whilst changes to legislation now mean that we can proceed with the introduction of a non-immediate article 4 direction, due to the uncertainty presented by possible changes to the NPPF, officers have sought legal advice on whether we can still proceed with the introduction of the article 4 direction at this time. NPlaw advised that due to the timing of making of the direction and bearing in mind proposed changes to the NPPF which may make it harder to introduce article 4 directions, it is not without risk of failure. Notwithstanding this they have set out that provided that the officer's report makes Members aware of the risk, it is worth proceeding if the evidence still supports the approach.

11. Officers also contacted Ramidus to provide an update to their study and the information base. Effectively this ensures that the evidence base is updated first to address the issue of whether the COVID pandemic is likely to affect the requirement for office space in the city and that there the figures in respect to the loss of office space is up to date. The findings of this are set out in the following section.

Updated evidence base

12. Ramidus were commissioned in 2020 to produce a report looking into Norwich office accommodation and as part of this was asked to advise on the need for an article 4 direction. A copy of this report can be found here and based on their advice that an article 4 direction was urgently needed we decided to proceed with introducing one. However, since this this study was undertaken in July 2020, the office economy has largely been functioning with people working from home. This has led to much speculation as to whether there is still a need for office accommodation with some commentators suggesting that this could be the end of offices as we know them.

13. We have therefore approached Ramidus to provide a supplementary note to their report, specifically looking at how things have changed in the past 14 months and to give their thoughts on the impact of COVID on the office market, particularly in Norwich.

14. This short report entitled 'The impact of the Covid pandemic on the office market, with reference to the city of Norwich' forms a background document to this report and the main findings are summarised below:

- Covid has demonstrated that people can work from home on a scale and in ways not envisaged by the mainstream before. Post pandemic, working from home will be more prevalent than before the pandemic with many people likely to choose hybrid working i.e. three days in the office, two days at home
- The impact on physical footprint is not clear. Whilst in the past 20 years occupancy densities have risen from c15 sq m per desk to c9 sq m per desk these trends are likely to be reversed due to the search for healthier work environments.
- Changes in the economy and society are bringing about major changes in the demand for offices. Networks will be the defining features of the office economy, underlining the need for the central business district to offer more than office blocks.
- City centres will need to work harder to provide places that people want to visit and enjoy as well as work. Aviva has announced that it will be moving staff back into the city from peripheral business parks. City centres provide services, lifestyle, leisure and networking opportunities that business parks simply cannot match.
- Much has been written about office demand and there have been observations about long-term changes to behaviour around commuting, working patterns, office layout etc. The office has a key social function, not to mention areas such as training, mentoring,

leadership, corporate ethos etc. These needs have not disappeared. The pandemic is likely to have a negative impact overall; however it is difficult to foresee a structural change in the quantum of demand for offices in Norwich city as a direct result of covid, particularly due to Norwich having a diverse base of smaller occupiers who, because of their sheer size, have fewer opportunities to save space through working from home.

- The emerging role of the office is to provide a dynamic, experiential, healthy, lower density, welcoming and functional environment; one that focuses on connectivity, collaboration, socialising and learning. One benefit of working from home is the avoidance of lengthy and expensive commutes. But this is not really a feature of the Norwich market which has a more compact urban morphology.
- The pandemic is likely to be used by property owners to justify conversion of offices to residential on the grounds that office demand is in decline. But the best that can be said about this position is that it is unproven, driven by transient land values rather than well-established understanding of urban geography, and the city's valuable strategic stock of space should not be gambled on a hunch.
- The impact of the pandemic on demand for office space is likely to be less than is generally referred to in the media. This applies to cities generally, and to Norwich in particular. There will be an impact, there will be more working from home and office workplaces will evolve to suit changing preferences. But the headline quantum of demand is unlikely to fall precipitously. It is because of this generally positive outlook for offices in Norwich that there continues to be the belief that there remains a requirement for an Article 4 Direction in the city centre to protect office uses from conversion to residential use.

15. As part of the evidence base, data was collected on the number of prior approval applications and full planning applications that involved the change of use of offices to residential. Previously the data went up to December 2019. An update has been made and now includes all approved applications up to the middle of May 2021 and a summary of the findings are as follows:

- Whilst only one prior approval application was approved between April 2019 – March 2020 there has been a significant increase in applications in 20/21 with a total of 14 prior approval applications approved between April 2019 and March 2020 which if all implemented would provide 192 homes and result in a loss of 11,740 sq m of office floorspace. However, some of these have been resubmissions of previous applications and if these are discounted to avoid double counting then the total number of homes to be provided are 89 and the total loss of floorspace is 4,960 sq m.
- Since the introduction of permitted development rights for office to residential conversions in May 2013 the total number of residential units permitted through this route is 1069 and the total loss of floorspace is 72,398 sq m.
- Whilst a number of the most recent prior approval applications have been on small sites, one notable application is Vantage House, Fisher Lane. This was identified within the Ramidus report as a strong

possibility for a digital hub and identified as a building which needs article 4 direction protection as soon as possible. Whist the Council has now focused on Townsend House for a digital hub, the study highlights that this is an important office building which should not be lost to residential.

- In terms of full planning permissions a further 5 applications have been approved since December 2019. This would provide a total of 29 homes and result in a loss of 2,503 sqm of office floorspace. This means that since May 2013 a total of 793 residential units have been permitted and this has the potential to result in the loss of 51,634 sqm of office floorspace if all built out.
- Since May 2013 the total loss of office floorspace (if all implemented) is 124,032 sq m and the total number of residential units provided is 1,862.

16. The above would suggest that there is still very much a need to introduce an article 4 direction to enable the Council to protect offices of strategic importance. An article 4 direction does not prevent offices changing to residential but instead it enables the Council to control it and to consider all material planning considerations including the impact that the loss of offices will have upon our economy.

Risks

17. Whilst officers feel that we should still proceed with the introduction of the article 4 direction there is a risk of failure. The government appears intent on reducing the level of control the Local Planning Authorities have which has not only been demonstrated through the increased use of permitted development rights but also through the recent consultation on the NPPF which if brought forward will make it much harder or near impossible to introduce article 4 directions for change of use to residential. As noted above at present we have no indication of if or when these changes will be made.

18. There has been much written about this within the planning press with some commentors believing that this is the end of the road for article 4 directions and that councils will not get them and there will not be any exemptions.

19. Notwithstanding the above, it should be noted that the government has extended the period in which existing article 4 directions can be used up until 31 July 2022. The timeframe does enable those authorities that currently have an article 4 direction in place, to go through the process of introducing a new article 4 direction which can then refer to the new use class order and general permitted development order. So long as these authorities press ahead and introduce one quite swiftly, then they should be able to confirm the new one before the old one becomes defunct.

20. In summary therefore, whilst there is a significant risk that the article 4 direction may fail, our case is supported by overwhelming evidence and is geographically limited (as shown in figure 1) and we feel that we have the

evidence base to satisfy the current wording of the NPPF and potentially the option which requires their use to be limited in order to avoid wholly unacceptable adverse impacts. Our concern however is that if the NPPF is changed we would not be able to demonstrate that the loss of offices will affect something of national importance and therefore the recommendation to cabinet should be that we will cease work on the introduction of the article 4 direction if this is the case.

21. Furthermore given the majority of work has already been done, the further financial resource implications are relatively minimal. It should however be noted that at this current point in time we have no evidence to put in place an article 4 direction to prevent the change of use from other town centre uses (including retail) to residential and the article 4 direction should only refer to Class E (g) (i) (an office to carry out any operational or administrative functions).

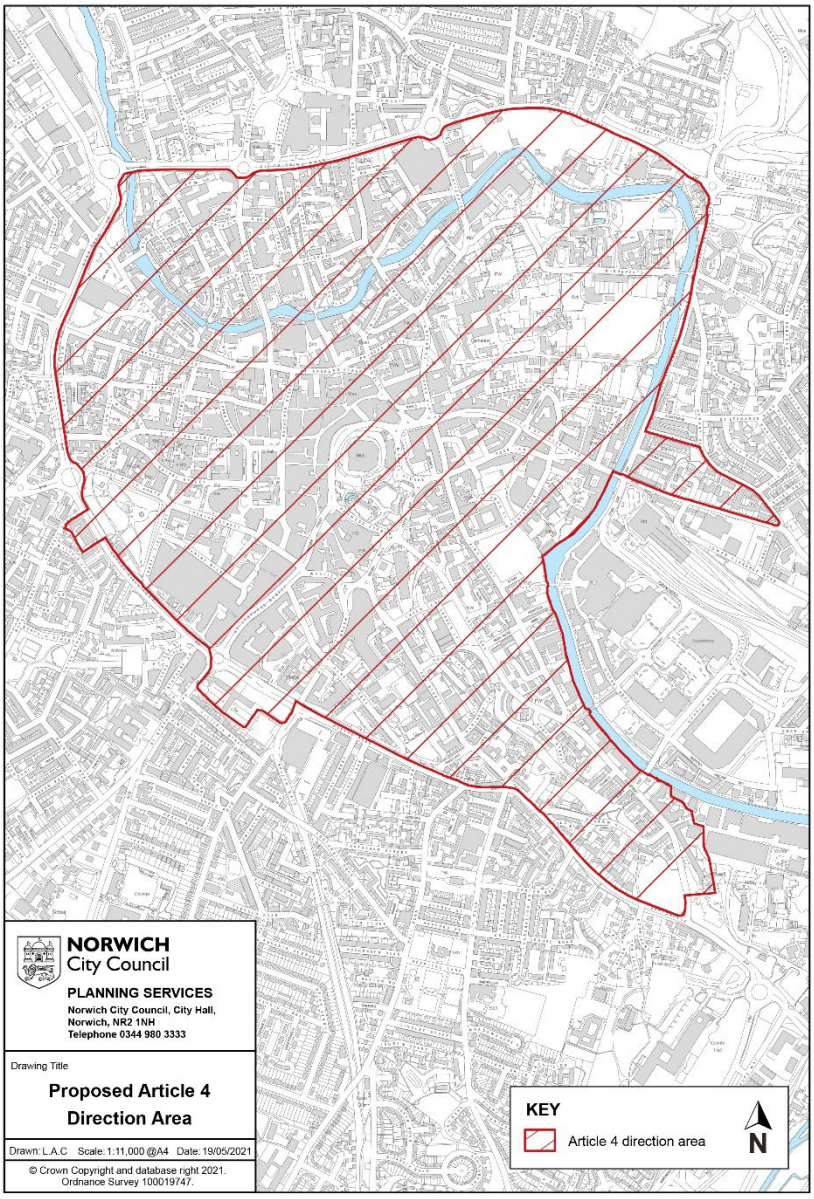


Figure 1: Proposed article 4 direction area

Timescales

22. The timescales for introducing a non-immediate directions are quite lengthy due to the need to give 12 months' notice of its introduction in order to avoid compensation claims. Below is an indication of the likely timescale for the introduction of the article 4 direction.

SD panel report	22 June 2021
Decision made by cabinet to make the direction	7 July 2021
Notice served to land owners/occupiers affected (if practicable)/ site notice/ press advertisement giving at least 21 days to make representation	July 2021
Copy of direction and notice to Secretary of State	July 2021
End of consultation period	August 2021
Consideration of representations	September 2021
SD panel report	18 November 2021
Cabinet report	8 December 2021
Direction confirmed	December 2021
Notice served to land owners/occupiers affected/ site notice/ press advertisement confirming the direction	December 2021
Copy of direction and notice to Secretary of State	December 2021
Intended date of coming into force	July 2022

PREPARED FOR NORWICH CITY COUNCIL

The impact of the Covid pandemic on the office market, with reference to the city of Norwich

Supplementary note to: *Review of Office Accommodation in Norwich* (July 2020)

It is now 14 months since the first Covid pandemic lockdown measures in March 2020. Since that time, the 'office economy' has been largely functioning with people working from home. This has been perhaps the largest ever closure of normal business in peacetime. In the early stages there was widespread speculation about the hollowing out of city centres and the collapse of office work as we know it. A year later, and there is emerging a more sober assessment and consensus around the future office market. A switch from 'revolution' to 'evolution'. This brief note summarises my thoughts on the current debate about the impact of Covid on the office market, with reference to Norwich.

Working from home

One thing that the Covid pandemic has demonstrated above all else is that people can work from home on a scale, and in ways, not envisaged by the mainstream before. There is no evidence of companies that have disappeared as a result of not being able to access their offices for normal work; and even very large finance houses, accountants, lawyers and so on have managed a form of business as usual throughout the period. Indeed, some are reporting increases in productivity.

The key questions are around the degree to which this will happen and what impact it will have on companies' physical footprints. For example, one of the mainstream predictions is that many companies will move to 'hybrid working', whereby people will spend an average of three days in the office and two days elsewhere. The logic of this suggests that companies will need only 60% of the space they previously occupied.

There seems to be little doubt that, post-pandemic, WFH (and its variant working from anywhere) will be more prevalent than before the pandemic. However, agile working and flexible working had been on the increase before the pandemic and, in some senses, it has simply acted as an accelerant to this established trend. The specific achievement of Covid has been to break, permanently, the management by presenteeism model; organisations will no longer be able to insist that everyone is in the office together, nine-to-five.

Impact on footprints

The impact on physical footprints is less clear. Many observers are suggesting a reduction in demand by anything between 20% and 40%. But it is clear that a more nuanced response is required. For example, while occupancy densities have risen from c15 sq m per desk to c9 sq m per desk over the past twenty years, and while many organisations have introduced at least an element of hot desking, these trends

will need to be reversed in the search for healthier work environments. Furthermore, there will be additional net demand for space allocated to socialising, collaborating, meeting and so on.

A report from KPMG in April 2021 showed that between August 2020 and March 2021, the number of global companies intending to cut back on office space had fallen from 69% to 17%. Indeed, announcements from major employers have been very mixed. For example, Facebook, HSBC, Microsoft, Nationwide, Société Générale, Twitter have all announced long-term and widespread WFH strategies. By contrast Amazon, Goldman Sachs, Google, JP Morgan and Morgan Stanley are all encouraging staff to return.

Evolution of the office economy

Office work and office occupation have been undergoing rapid change for the past two decades in response largely to digital technology; but also in response to wider pressures including: cost efficiency, sustainability, health and wellbeing, personal choice over workstyles and competition for skilled staff. As stated in our report for Norwich City Council (*A review of office accommodation in Norwich*, July 2020) , changes in the economy and society are bringing about major changes in the demand for offices. Economic, business, technological and social pressures are pushing on the 'knowledge economy', bringing about change in the amount of space required; the nature of buildings; workplace design and workplace management. As firms adopt more agile, networked approaches, offices will become 'less generic' and less single purpose, and will work harder to provide choice and flexibility.

Larger, hierarchical, task-driven corporate islands had begun to change and build networks of organisations, individuals and specialists, each bound together by a common sense of purpose and shared interest. Business ecosystems will involve large and small companies working together, with contingent workers and specialists across extensive and collaborative relationships. Networks will be the defining feature of the office economy, underlining the need for the CBD to offer more than office blocks.

City centres

In the post-pandemic era, city centres will need to work harder to provide places that people want to visit and enjoy, as well as work. They will need to become safer and cleaner, and provide experiential, amenity-rich and public transport oriented places.

In an era when job mobility has never been higher (nor, perhaps, job security, lower), and when small businesses, contract workers, contingent workers and specialists all rely on rapid and frictionless transfer between contracts, city centres provide broad, deep and accessible job markets. In Norwich, Aviva has announced that it will be moving its staff back into the city centre from peripheral business parks, reflecting a trend that had been evident in some cites before the pandemic. City centres provide services, lifestyle, leisure and networking opportunities that business parks simply cannot match.

Office demand

Much has been written about this, including the 'end of the office' narrative and observations suggesting long-term changes to behaviour around commuting, working patterns, office layouts and so on. In reality many of the changes being discussed have been a feature of the direction of travel in real estate over the past two decades. But the office has a key social function, not to mention areas such as training, mentoring, leadership, corporate ethos and so on. These needs have not disappeared. While the pandemic is likely to have a negative impact overall, it is difficult to foresee a structural change in the quantum of demand for offices in Norwich city as a direct result of COVID-19.

Large, corporate occupiers and SMEs procure and occupy space in subtly different ways. Norwich does not have a large base of large office employers, who are the most likely to institute footprint reductions as a result of the pandemic. Instead, Norwich has a more diverse base of smaller occupiers who, because of their sheer size, have fewer opportunities to save space through WFH; and for whom the 'business park option' is much less attractive than for larger firms.

Flexible workspace

Long-term, inflexible and capital intensive real estate has been yielding to a commodity model for several years, in the form of the flexible space market; space is turned on and off as required by customers, while receiving value adding service from a provider. This aspect of the office market is likely to be in the ascendency post-pandemic. It is also an aspect of how property owners manage their risk in the post-pandemic market, by leasing space longer term to intermediary service providers.

The office workplace

The changes described in this paper add up to a re-definition of the role, or purpose of the workplace. Its previous role was as a relatively static backdrop to process-dominated work, with a rigid, hierarchical workforce. Undifferentiated workers were managed within a one-size-fits-all approach in which cost minimisation was paramount.

The emerging role of the office is to provide a dynamic, experiential, healthy, lower density, welcoming and functional environment; one that focuses on connectivity, collaboration, socialising and learning. It will help define and express the values of the employer. There is also likely to be more focus on how air circulation is handled. Specifically air will need to be drawn up (away from staff) and out of the building, with much less recirculation. Not all buildings will be amenable to this, but many town centre offices with natural ventilation, in a city such as Norwich, will be very attractive to smaller occupiers in particular.

Physical concentration and mass transit connections (which are increasingly sustainable) will endure as a model for urban development. One of the oft-cited

benefits of WFH is the avoidance of lengthy and expensive commutes. But this is not really a feature of the Norwich market, with a more compact urban morphology.

Overview

The pandemic is likely to be used by property owners to justify conversion of offices to residential on the grounds that office demand is in decline. But the best that can be said about this position is that it is unproven, driven by transient land values rather than well-established understanding of urban geography, and the city's valuable strategic stock of space should not be gambled on a hunch.

I believe that the impact of the pandemic on demand for office space will be less than is generally referred to in the media. This applies to cities generally, and to Norwich in particular. There will be an impact, there will be more WFH and office workplaces will evolve to suit changing preferences. But the headline quantum of demand is unlikely to fall precipitously. It is because of this generally positive outlook for offices in Norwich that I continue to believe there remains a requirement for an Article 4 Direction in the city centre to protect office uses from conversion to residential use.

Dr Rob Harris, Principal
Ramidus Consulting Limited
17th May 2021