

*A spotlight on*

# Changing Places

A new chapter for urban regeneration

As we continue to navigate the pandemic, the Housing, Community and Local Government Select Committee is gathering evidence on the long-term impact to urban centres. Meanwhile, the construction industry continues to focus on mitigating the social and economic impacts, and implement strategies to ensure that urban hubs remain the focal point of local communities.

Typical consumer behaviour in a fast moving world is now augmented by new behavioural patterns that will outlive the current disruptor. The real estate sector has undergone radical evolution overnight, with the pandemic accelerating decades of change over just six months.

The results are all too evident, with the complete eradication of many retail brands and frantic adaptation by others, with a sprinkling of digitally native brands and flexible brands performing well in the bricks and mortar environment.

With average city centre footfall plummeting during the lockdown to 15% of previous levels, and the largest city centres taking longer to bounce back than smaller regional centres, retail and hospitality sectors are starved of consumers and confidence around social consumption remains low.

The current radical shift from an office-based working culture to a blended home/office environment means many companies are considering radical restructuring of their property portfolios as the commercial sector wakes up to the reality that 88% of office workers expect to work from home at least two days per week going forwards.

As social beings who require spaces to come together, urban centres will respond, and eventually recover and thrive. Physical interaction promotes collaboration, innovation and creativity and our urban fabric needs to be re-imagined, reconfigured and realigned to promote this social interaction, offering flexible building forms and places which support our changing needs.

Local and central government have vital parts to play in revitalising urban centres, in both funding and reconsidering previously restrictive systems, from planning to business rates. Good progress is being made in these areas with further support pledged.

**Slow return to the office has clearly impacted urban centre footfall, which is 34% down year-on-year.**

## The challenge of COVID-19 on urban centres

Towns and city centres were already undergoing a period of dramatic change before Covid-19 and the post Covid-19 work from home revolution will further re-shape urban centres completely.

Many large companies are reporting working from home for the foreseeable future with a longer-term shift to flexible working likely, reducing the amounts of office space required - Capita has recently announced plans to permanently close a third of its offices and although Google has recommenced work on its new central London HQ, staff are welcome to work from home until July 2021.

There is much concern that reluctance for office workers to return to offices will further affect reliant businesses. The Confederation of British Industry (CBI) warned that the thousands of local businesses relying on the passing trade of office workers are suffering and that city centres could become “ghost towns” if employees do not return to work. The Government’s latest work from home directive will strengthen these fears.

The Chartered Institute of Personnel and Development (CIPD), has said that it doesn’t believe that workers will be working totally remotely in the future and thinks office spaces will become places where just some staff are based, or that employees work in the office at different times and on different days on a rotation, and that the office space will be used more for face-to-face meetings and collaboration.

This will mean that office space requirements are reduced but it is not the end of the office, but an acceleration of an already established trend for increasing numbers of desk-based workers to work from home.

This slow return to the office has clearly impacted urban centre footfall, which is 34% on 2019 levels, with shoppers returning to local high streets, a resurgence set to stand the test of time, but approaching larger city centres more cautiously.

41 retailers have entered into administration or a Company Voluntary Arrangement (CVA) already this year. There are also wide reports of large space occupiers seeking major rental reductions or to pay no rent at all.



## The evolution of the high street

Data from the Office for National Statistics (ONS) show that there are 7,000 high streets in the UK and in 2018, 16% of the total population lived within 200m of a high street with a higher proportion of 16-64 year olds. Once upon a time these high streets were dominated and driven by retail, but not anymore.

Over the last 25 years, town and city centre regeneration has been dominated by retail-led schemes across the UK – with major conurbations such as Leeds, Exeter, Bath, Cardiff dramatically evolving their retail offering.

Developers came from the private sector and largely responded to Official Journal of the European Union (OJEU) notices with varying amounts of public sector funding added at local and central government levels. The schemes started out as pure retail but over time have moved into food and beverage and leisure, with the majority of the space still being retail dominated.

A blue-print was developed on scheme composition with one, two or three anchor stores, depending on scale of the offering, and tenants largely comprised mega corporations who then offered financial certainty, signing up to 25-year leases.

This development approach was of its time - the public sector was cautious and wanted development risk to lie with the private sector, the private sector wanted to develop what it knew and had previously delivered successfully with as much financial risk mitigation along the way as it could build in. This resulted in the development of shiny, new centres which acted as catalysts to development of other areas, but also created massive voids in the existing high street or existing malls. The model worked because demand existed at appropriate rental levels and rewards outweighed risks.

Towns and cities have lost their unique identities as a result of this approach. The same stores sell the same safe bet products with little or no location identity or brand and not fully respecting the history or USP of the area.

## The need for change in regenerating our town and city centres is motivated by:

- Market forces
- A delivery model that is no longer fit for purpose
- The need to inject life, heart and community back into our urban centres and re-establish their identities
- Change of attitudes towards work / life balance and widespread acceptance of flexible working.



## The opportunity for change and growth

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Some opportunities lie in the form of quick wins by converting empty department stores and sub-dividing space to cover service charge and rents.

Retailers such as Primark and Next have been filling department store void spaces and leisure offerings have also been helping to fill the gaps, with activities such as mini golf, rock climbing and gaming. However, this will not be possible in all locations and a recent release from the Local Data Company has shown that 26% of former BHS stores are vacant on the four-year anniversary of BHS' closure.

A building / centre refresh may help in some situations, with improvements to facades, public realm and internal layouts helping to attract new tenants. With the purpose of offices expected to change from daily grind to a place for intellectual osmosis, mentoring and to strengthen brand – layouts may need to change to offer more collaboration / meeting space.

It is expected that there will be a focus on buildings matching a company's ethos and values and this may mean demands for more sustainable buildings with a focus on employee well-being.

In some areas and for the longer-term, more major adaptations need to be made to existing retail and commercial buildings as towns and cities now need to offer more than just places to work, rest and play.

There is opportunity to reinvigorate centres with mixed schemes and diversification of use through the Private Rented Sector, serviced apartments, community, education and medical provision alongside traditional retail / food and beverage offerings. There will also be a rise in land around shopping centres being developed to invigorate city and town centres and increase footfall.

Going forward, retail offerings will increasingly encompass product showcases to complement the online shopping trend. At the moment, the leisure sector has been hard hit by COVID-19, but post-recovery it is expected that these will be an important part of schemes for the experience factor.

With the growth of remote working and flexible working arrangements, there is significant opportunity for local town centres to offer serviced offices – so that people can still collaborate and socialise but without having to travel into city centres. PRS schemes and community offerings alongside flexible workspace will help to create mini mixed-use destinations and revitalise local town centres.

**26% of former BHS stores are vacant on the four-year anniversary of BHS' closure.**

## Planning changes

The recent changes proposed to planning use classes will give more flexibility for the repurposing of buildings and town centres to reflect changing circumstances and to respond to the local community. From 1<sup>st</sup> September 2020 onwards, a new Class E encompasses the previous Class A1 (shops), A2 (financial and professional services), A3 (food and drink), B1 (business) part of D1 (clinics, health centres, creches, day nurseries, day care) and D2 (gymnasiums / indoor recreation). Change of use to another use within Class E will be allowed without the need for planning permission.

New permitted development rights will be introduced from 1 August 2021 and in the meantime change of use permitted development rights under The Town and Country Planning (General Permitted Development) (England) Order 2015 will continue to be applied based on the existing use classes, as they exist on 31 August 2020.

In addition to existing permitted development rights allowing conversion of buildings, the Government has introduced a new permitted development right which allows for vacant commercial and residential buildings to be demolished to make way for new housing. Planning permission will not be required to demolish and rebuild buildings so long as they are re-built as homes. Instead a simplified application is required through the “prior approval” process.

To make use of this permitted development, the existing building needs to fulfil certain criteria including: a footprint of no more than 1,000m<sup>2</sup>; maximum height of 18m; built before 1990; not within a conservation area, national park, area of outstanding natural beauty or a site of special scientific interest and have been vacant for at least six months. The demolition and subsequent construction need to be completed within three years of the grant of prior approval and the new building can be two storeys higher than the old building, to a maximum height of 18m.

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# Constraints and mitigation

The opportunity for repurposing buildings by conversion and extension comes with some potential risks, these are considered below with suggested mitigation strategies.

Constraint	Mitigation
Consideration of current occupiers and neighbouring properties during works	Carefully consider escape routes and servicing, consider phasing of works
Existing structure's suitability for conversion of use	Consider lightweight extensions, mixed uses can be met by a mixed approach of remodelling and new build depending on load requirements
Ensuring Building Regulations compliance and approval	Understand what the requirements are for the project – e.g change of use, extension, or a combination and how these can be met
Perception of “poor quality” conversions, particularly residential	Buildings need to be good quality to attract future residents, opportunity to improve performance of the building
Viability and changing traditional delivery methods	Public and private funds coming together to bridge viability gap

## Consideration of current occupiers and neighbouring properties during works

Through repurposing of space during a challenging economic climate, ensuring tenants receive advice on maintaining business operations is essential, particularly with consideration to:

- Carefully considering escape routes and servicing requirements of each occupier to ensure that these are not impacted during the works.
- Phasing of the works and hoarding / management of space to ensure that their work / trading is not adversely affected.
- Understanding sprinklers and other services to ensure that supply is not affected and so that any diversions can be planned if required.
- Planning contractor logistics requirements with pedestrian routes and entrances.
- Consideration of noisy works and working hours.

## Existing structure's suitability for conversion of use

- Review the existing structure and understand what loads can be taken. It may be that the existing structure will work for some uses and not others; a hybrid of refurbishment / remodelling and new build can be considered where a mixture of uses are planned. These works can then be phased to minimise vacant periods.
- Beware that some levels / structural elements (e.g. columns) may not tie up and will need reworking; allow an appropriate risk allowance for working with an existing building.
- Lightweight extensions can be planned to reuse and add to the existing structure – these need to be carefully considered with the height of the building to meet Building Regulations.

## Ensuring Building Regulations compliance and approval

- Beware of the requirements depending on the nature of the project – if an extension is planned it will need to comply fully with Building Regulations; for a conversion / change of use project particular parts of the Building Regulations will apply. There may be a hybrid of requirements depending on the project make-up.
- When extending a building vertically there needs to be a consideration of how the extension may adversely affect the building below. The existing structure needs to be considered both from a fire resistance viewpoint and from a disproportionate collapse aspect. Other requirements such as means of escape, firefighting access, ventilation, thermal, and security aspects need to be addressed.
- Depending on the height of the building there will be particular requirements, for example fire suppression (sprinkler or water mist) would be required to extensions above 11m and external wall non-combustibility requirements would be required to the whole building if it is above 18m high.



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## Perception of “poor quality” conversions, particularly residential

- Reusing an existing building gives opportunity to improve its sustainability credentials by retrofitting improved services and enhancing thermal and energy performance.
- Buildings need to be attractive to future occupants – particularly true for PRS and commercial spaces to meet rental levels and occupancy rates.

## Viability and changing traditional delivery methods

- The reliance of retail anchoring our urban centres is, by necessity, changing. Without the historic retail golden nugget, many schemes won't pass the viability test so reliance on the private sector to deliver these schemes in isolation is no longer a reality. The need to bring together public and private sector in true partnership with shared vision and purpose is the key to unlocking developments and creating vibrant and sustainable locations.
- For the Local Authority motivation beyond re-establishment of pride in their urban centres is pushing back against declining business rates and addressing local unemployment levels to prevent further deterioration and decay.
- £3.6bn pot of public sector funding is on offer through Towns Funds and Future High Street Fund as well as support and guidance through the High Street Task Force - central government have clearly acknowledged the reality of too many decaying urban centres and therefore whilst the funding may only be starting point, it is a declaration of intent to improve.

## Deliverables

For a project to be deliverable it will need to be viewed holistically and address three key areas:

Does the scheme meet needs of the local community? **Is it authentic to the area, its existing identity and does it acknowledge projected demand?**

Does the project provide desired returns for the relevant parties? **Is the project structured in a way to access the required funding needed?**



Are the risks of the project too great or allocated to a party who cannot accept or manage them? **Are the risks and potential returns not aligned?**

## Final words

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There has never been a more important time to bring effective public / private partnerships to life and help reshape urban centres to improve local economies as the UK navigates its way through 2020 and beyond. Through clear vision and the funding available, the acceleration of change caused by the pandemic can pave the way for smarter, community-led urban centres which will help our country to thrive.

## Talk to an expert

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