



**ROYAL BOROUGH OF KENSINGTON & CHELSEA
PERMITTED DEVELOPMENT RIGHTS**

This note provides additional information to supplement the findings of Section 9 of the RBKC Employment Land Study (July 2021) ('ELS') which assessed the risk of existing office floorspace being converted to residential under Permitted Development rights. The ELS concluded that there is a medium to high probably of conversion of existing office floorspace to residential in many parts of the Borough.

The Council is concerned that there may be significant losses of existing retail floorspace unless it is able to introduce an Article 4 Direction to remove Permitted Development rights for these uses. To support this proposal, the Council has commissioned us to review relevant data on the residual land values generated by residential development and to compare this data to values of existing retail floorspace. Using this data, we have provided advice on the probability of conversion of existing retail floorspace to residential.

Major retail centres

There are 11 major retail centres in the Borough within six categorisations, as summarised in Table 1.1.

Table 1.1: Major retail centres

Type of centre	Location of centre	CIL zone
International Centres	Knightsbridge	A/B
Major shopping centres	Kings Road East/Sloane Square	B
	Kensington High Street	C
Special district shopping centres	Portobello Road	B
	Westbourne Grove	B
District shopping centres	Kings Road West	B
	Brompton Cross	B
	South Kensington	B
	Earl's Ct Road	D
	Fulham Road	D
	Notting Hill Gate	B

Neighbourhood shopping centres

There are 33 neighbourhood shopping centres, as summarised in Table 1.2.

Table 1.2: Neighbourhood shopping centres

	Location of centre	CIL zone		Location of centre	CIL zone
1	World's End	D	18	Warwick Road	E
2	The Billings	D	19	Napier Road	E
3	Fulham Road (Old Church St)	D	20	Holland Road	E
4	Elystan Street	B	21	Holland Park Avenue	B
5	Sloane Avenue	B	22	Clarendon Cross	B



	Location of centre	CIL zone		Location of centre	CIL zone
6	Walton Street	B	23	Latimer Road	B
7	Lowndes Street	A	24	Ladbroke Grove Stn	A/B
8	Pont Street	A	25	All Saints Road	B
9	Old Brompton Road (East)	D	26	Westbourne Park Road	B
10	Old Brompton Road (West)	D	27	Talbot Road	B
11	Gloucester Road (South)	B	28	St Helen's Gardens	F
12	Cromwell Road Air Terminal	B	29	North Pole Road	F
13	Gloucester Road (North)	C	30	Barlby Road	F
14	Thackery Street	C	31	Ladbroke Grove North	F
15	Earl's Court Road (North)	C	32	Golbourne Road North	F
16	Stratford Road	C	33	Golbourne Road South	F
17	Pembroke Road	E			

Neighbourhood centres

We have examined sales of retail properties across the Borough over the past 24 months to establish the probability of change of use, as summarised in Table 2.1. If the value of existing retail floorspace is low relative to the residual land values generated by residential development, there will be a high probability of conversion. Conversely, if residential residual land values are lower than the value of retail floorspace, then the probability of conversion is low.

The ELS has already established the residual land values generated by residential development (paragraph 9.17 and Table 9.4 of the ELS). Table 9.4 shows these residual land values on a per square metre basis for ease of comparison with the values of other existing properties. As can be noted in ELS Table 9.4, the residual land values are shown as a range (low to high) and for the purposes of comparison, we have adopted the **lowest** end of the range. This reflects the best case scenario for the purposes of establishing the probability of conversion (i.e. level of risk of conversion is at the lower end of the range).

Table 2.1: Values of retail properties (transactions completed within past 24 months)

CIL Zone	Retail cap value - Ave secondary psf	Retail cap val - Highest psf	Retail cap val - Lowest psf
A (Belgravia)	£1,105	£3,777	£811
B (Chelsea)			
B (Notting Hill)	£932	£5,583	£490
C (Kensington)	£1,104	£1,943	£945
D (West Brompton/Earl's Ct) and G (Earl's Ct Exhibition Centre)	£761	£2,038	£391
E (West Kensington)	£877	£1,096	£1,096
F (North Kensington) and H (Kensal)	£656	£2,744	£346

We have appraised residential conversion schemes ranging from 5 to 20 flats, to reflect potential conversions of existing retail floorspace, using the same inputs as those identified in the Employment Land Study paragraphs 9.14 to 9.15, except for the following:



- Build costs – changed from BCIS new build to conversion costs (£2,139 per square metre);
- Professional fees – reduced to 5% to reflect the more limited scope for design and planning input;
- No Section 106 and CIL, on the assumption that there will be no increase in floorspace;
- Profit – 10% of GDV to reflect reduced risk.

The residual land values generated by four flatted development typologies are summarised in Table 2.2 and in Table 2.3, we convert these residual land values to square feet (i.e. the residual land value generated by each typology divided by the gross internal floor area of each typology).

Table 2.2: Residual land values generated by conversion schemes (£ millions)

Description	No of units	Zone A Belgravia	Zone B Chelsea	Zone B Notting Hill	Zone C Kensington	Zones D and G West Brompton including Earls Court	Zone E West Kensington	Zones F and H
Small flatted	5	£6.54	£5.79	£4.06	£5.06	£3.24	£3.20	£2.34
Small flatted	10	£14.43	£12.78	£8.95	£11.17	£7.15	£7.06	£5.17
Small flatted	15	£21.60	£19.13	£13.40	£16.72	£10.71	£10.57	£7.73
Small flatted	20	£24.93	£22.07	£15.42	£19.26	£12.29	£12.13	£8.84

Table 2.3: Residual land values generated by conversion schemes, per square foot

Description	No of units	Zone A Belgravia	Zone B Chelsea	Zone B Notting Hill	Zone C Kensington	Zones D and G West Brompton including Earls Court	Zone E West Kensington	Zones F and H
Small flatted	5	£1,673	£1,482	£1,038	£1,295	£830	£819	£599
Small flatted	10	£1,676	£1,484	£1,040	£1,297	£831	£820	£600
Small flatted	15	£1,675	£1,484	£1,039	£1,296	£831	£820	£600
Small flatted	20	£1,549	£1,371	£958	£1,197	£764	£754	£549
Average		£1,643	£1,455	£1,019	£1,271	£814	£803	£587

In Table 2.4, we have compared the average retail capital values achieved in each area with the residual land value generated by residential development (using the average per square foot). In each case, we have assessed the probability of conversion based on these relative values. The larger the differential in values, the higher the probability of landowner opting for conversion. The risk of conversion is shown as being medium to low, but it should be borne in mind that we have used an average retail capital value and the risk of conversion is likely to be higher in the case of secondary and upper floor retail floorspace.



Table 2.4: Neighbourhood centres – comparison of retail values with residual land values generated by residential development

CIL Zone	Existing average secondary retail capital value	Residual land value generated by residential conversion per square foot)	Existing secondary retail capital value as a percentage of residual land value generated by conversion	Probability of conversion ¹
A (Belgravia)	£1,105	£1,643	66%	High
B (Chelsea)		£1,455	75%	High
B (Notting Hill)	£932	£1,019	90%	High
C (Kensington)	£1,104	£1,271	87%	High
D (West Brompton/Earl's Ct) and G (Earl's Ct Exhibition Centre)	£761	£814	93%	High
E (West Kensington)	£877	£803	109%	Low
F (North Kensington) and H (Kensal)	£656	£587	112%	Low

Major centres

The analysis above masks the differentials in probability of conversion between different types of retail floorspace (i.e. primary, secondary, ground floor and upper floors). Within the ranges of retail values identified by the comparable evidence, upper floors and secondary retail floorspace will be more acutely vulnerable to conversion. For each major centre, the capital values for each type of floorspace are assumed as follows:

Table 3.1: Retail capital values for each type of floorspace (per square foot)

Location of centre	Primary	Secondary	Ground floor	Upper floor
Knightsbridge	£3,777	£1,105	£1,381	£811
Kings Road East/Sloane Square	£3,777	£1,105	£1,381	£811
Kensington High Street	£1,943	£222	£278	£109
Portobello Road	£2,744	£656	£820	£346
Westbourne Grove	£2,744	£656	£820	£346
Kings Road West	£3,777	£1,105	£1,381	£811
Brompton Cross	£3,777	£1,105	£1,381	£811
South Kensington	£3,777	£1,105	£1,381	£811
Earl's Ct Road	£2,038	£761	£951	£391
Fulham Road	£2,038	£761	£951	£391
Notting Hill Gate	£5,583	£932	£1,165	£49
Golbourne Road (South)	£2,744	£656	£820	£346

¹ Probably of conversion is high where the existing retail capital value is lower than the residual land value generated by conversion



The probability of conversion of the different types of space (again by comparison of the residual land values generated by residential conversion, expressed per square foot to the existing retail capital values per square foot) is summarised in tables 3.2 and 3.3. This analysis indicates that in the major centres, there is a significant risk of loss of above ground floor retail to residential conversion, and also medium to high risk of the loss of secondary retail floorspace.

Table 3.2: Major centres – comparison of residual land value generated by conversion to existing retail floorspace value, by type of floorspace

Location of centre	Average residential conversion residual land value psf	Prime Retail value psf	Secondary Retail value psf	Ground floor Retail value psf	Upper floor retail value psf
Knightsbridge	£1,643	£1,657	£1,105	£1,381	£811
Kings Road East/Sloane Square	£1,455	£1,657	£1,105	£1,381	£811
Kensington High Street	£1,271	£1,657	£222	£278	£109
Portobello Road	£587	£984	£656	£820	£346
Westbourne Grove	£1,455	£1,118	£746	£932	£912
Kings Road West	£1,455	£1,657	£1,105	£1,381	£811
Brompton Cross	£1,455	£1,657	£1,105	£1,381	£811
South Kensington	£1,455	£1,657	£1,105	£1,381	£811
Earl's Ct Road	£814	£1,141	£761	£951	£391
Fulham Road	£814	£1,141	£761	£951	£391
Notting Hill Gate	£1,019	£1,398	£932	£1,165	£490

Table 3.3: Major centres – existing retail value as a percentage of residual land value generated by residential conversion

Location of centre	Prime retail value	Secondary retail value	Ground floor retail value	Upper floor retail value
Knightsbridge	101%	67%	84%	49%
Kings Road East/Sloane Square	114%	76%	95%	56%
Kensington High Street	130%	87%	109%	74%
Portobello Road	168%	112%	140%	59%
Westbourne Grove	77%	51%	64%	63%
Kings Road West	114%	76%	95%	56%
Brompton Cross	114%	76%	95%	56%
South Kensington	114%	76%	95%	56%
Earl's Ct Road	140%	93%	117%	48%
Fulham Road	140%	93%	117%	48%
Notting Hill Gate	96%	64%	80%	34%