

## Coronavirus: impact of the crisis on East Sussex commercial property

*Sixth report: January 2021*

1. The evidence base for this January report is based on four interviews conducted between the 26<sup>th</sup> and 29<sup>th</sup> January 2021 with the following property professionals: partners in three commercial agency/chartered surveying practices in different parts of the county – including one with a regional coverage – and a partner in charge of a commercial department of a law practice.
2. Since the last report in November, a much-increased coronavirus infection rate has necessitated a general lockdown to replace the various levels of tiered restrictions in East Sussex. Whilst the various government support schemes have been extended, the general lockdown has proved to be much more hard-hitting with all ‘non-essential’ shops closed as are hospitality businesses and schools. At the time of writing, the new vaccine programme provides some light at the end of the tunnel although no clear end date has (or can be) postulated for the end of the restrictions and opening up the economy once again.
3. For the first time since the recovery started after the March lockdown period business confidence seems to have been dented, with interviewees being generally less bullish now than when previously interviewed. The solicitor said that because restrictions are open-ended in the latest lockdown, even with the vaccine coming later in the year offering the prospect of restriction-free trading being possible at some time, huge uncertainty continues. Planning is going on in the background for those businesses who can’t currently trade but, as no date is known for restrictions to be lifted, new enquiries are slow coming forward. This is particularly the case with the leases on small shops which form the bread and butter of his practice. An agent summed up sentiment as being less positive in this lockdown than the first, with businesses fed up with waiting until the end of restrictions are in sight and some holding back on investment until the outlook is more certain.
4. The property market remains fragmented with different segments being impacted in different ways by the effects of the pandemic. There was unanimity that the market for ‘sheds’ (industrial/warehouse premises) continues to be buoyant. Vacancies in this segment are agreed to be low and rents are on the rise due to short supply and strong demand. All parties reported that November and December had been very strong trading months making for a positive end to 2020 in this market segment. For example, the solicitor said that fees from a colleague specialising in the industrial market were up by 15% year on year. He reported that some occupiers have had to move after enjoying three bumper months before the current lockdown started, although their units have re-let quickly when marketed. As discussed with him before, landlords do not want to accommodate auto uses and these traders are finding trouble finding premises.
5. Even in the booming industrial market, January 2021 is being seen by all as quieter than the end of 2020 and the solicitor does not believe the gains reported for 2020 will be sustained through 2021. This down-turn seems to be relative, as an agent trading primarily in Wealden said that the position in January 2021 compares well with pre-pandemic January 2020 for his business (although quieter than November/December 2020).

6. Digging deeper into industrial market trends, the regional agent observed that increased demand for online retailing has meant those businesses linked with distribution are generally trading well and expanding. By contrast, manufacturing businesses are trading successfully but many have put any expansion plans on hold. He feels that the market will come back again when the coronavirus situation is normalised. Brexit has also been a factor as those businesses selling abroad have seen exports decline. The market may improve when there is more clarity as things settle down in a post Brexit world.
7. Despite the industrial market being quieter, with a lower level of enquiries coming forward in January, shortages in property supply continues to be an issue and are a major constraint on activity, according to an agent in Wealden, and this position is likely to continue throughout 2021. He currently has three enquiries for industrial space– all inward investments – but no supply to offer these companies. Another agent cited the example of five businesses chasing a 1,300 ft<sup>2</sup> unit on the Ponswood industrial estate in Hastings with offers over £10 ft<sup>2</sup> (a very high rental level for this location and the sort of unit being marketed). At the new Platform Business Centre, also in Hastings, 10 units are let or under offer despite only the first 4 units having been built and ready to occupy. The remaining six units are all in solicitors' hands despite completion of the buildings estimated late spring/early summer. Similarly, another agent reports high rents are being achieved at the Swallow Business Park with even uncompleted blocks in Phase 3 fully let.
8. Uncertainty was reported in the other property segments and the solicitor observed that office, retail, leisure/hospitality is in a parlous state at the moment. In Hastings the observation was made that other commercial segments are quieter than industrial but this is not because there isn't any interest, just that the supply of suitable units to let is not available so the phone is quieter. Tellingly, not one tenant or occupier is reported to be handing back the keys to their premises, even though many are not able to trade, and the agent surmises that these businesses are subsisting on grants etc. Currently, everything is frozen in time!
9. In the wider East Sussex office market, the regional agent echoed this position of the market being 'on pause' insofar that most tenants are waiting to see what their longer-term floorspace requirements will be, unless they have a lease renewal or break that hastens a decision being made. He predicts that as most are expecting employees to work from home, they will reduce their longer-term office floorspace requirements by 50-70%. This change may not be immediate as some who need to occupy office space due to social distancing may retain the space they currently occupy. He commented that the office world had been going down this route but the pandemic has fast tracked it by 5-10 years.
10. The solicitor said that 'no-one is looking for premium office space', citing a high-technology company in south Wealden as a prominent local example. This company has decided that the office element of its business can operate remotely but wants to retain its industrial units which can be partly repurposed with offices on mezzanine floors. He said there is also evidence that office units in Eastbourne continue to be converted to residential under PD.
11. Some demand for office space, albeit at a very low level, was reported by one agent in the niche market of north Wealden where office stock is very low. He also reported that the Basepoint Centre in Pine Grove, Crowborough is 75% occupied – with 50% of those tenants still coming into work – showing that some prefer to work in an office environment rather than from home.

12. The retail and leisure/hospitality segments are clearly badly affected by the lockdown regulations. Retail has continued its well-publicised decline with a rise in vacancy levels, lower rents and increasing incentives as it has undergone restructuring caused by the increasing penetration of on-line retailing. Prime retailing in the town centres, dominated by the nationals, has been struggling more than the secondary town / parade locations. There is also evidence that local niche locations are probably more insulated from these trends. One agent is generally optimistic about the market in Wealden, commenting that free car-parking and strong support for local businesses from the community, with very few nationals, has kept the market active. He has also had some interest in restaurant premises. Generally, however, the position is that retail restrictions have left even well-supported local retail quiet and there are many empty units. The solicitor commented: 'why would anyone bother when they can't trade'? Small convenience stores are the exception to this. The solicitor also reported that leisure/hospitality is crippled and he is aware of units where occupiers are keeping creditors at bay, hotels being converted into residential units, and B&Bs into holiday rentals.
13. The regional agent commented that there are very few development opportunities but a good appetite from developers to build. Most find getting planning and all that goes with it (i.e. environmental, highways, noise, ecology etc) very draining costly and time consuming.
14. It is noted that Connor Developments has acquired the former TEVA site in Eastbourne which it intends to develop as a high-quality business park.

Michael Cogswell  
Locate East Sussex  
10<sup>th</sup> February 2021