

East Sussex Commercial Property Review – September 2021

Number 1 – September 2021

1. The information in this report has been taken from the Q3 2021 quarterly Focus documents which are produced by SHW, as well as from conversations with our retail, office and logistics/industrial agency surveyors who cover the East Sussex area. We have also conducted telephone calls with two East Sussex based Developers who are actively involved in commercial property development in the East Sussex area. Information has also been obtained from the local press and media which covers the main towns in the East Sussex area. The SHW Focus documents deal with supply, demand and take up for logistics & industrial property in Eastbourne, Hailsham, Polegate, Hastings, St Leonards and Bexhill whilst the Office Focus document includes Eastbourne, Hailsham and Polegate.
2. SHW retail report that the retail market has undergone a monumental shift over the past 18 months, but that there are now signs that the market is coming back to some form of normality. Across the South East rents have reduced and, in many towns, this is long overdue in order to make business' more viable. Although the prime retail locations have suffered the worst, secondary and tertiary locations have seen an increase in demand and where demand has been strong there has been an uplift in rents to above pre covid 19 levels. Towns such as Lewes, Uckfield and Crowborough remain locations where retailers want to be. This has been heightened by the new "work from home" culture. Units that had seen little or no interest are now beginning to be let without too much in the way of incentives or reduced rents. Eastbourne has seen a pickup in demand from national and local retailers with Vision Express moving on to Terminus Road with Maybugs taking the former Laura Ashley and the newly opened Boom Battle Bar in The Beacon shopping Centre. HMV are also reported as moving back to the Beacon shopping centre. The staycation of 2020/2021 has meant that footfall has remained good in areas such as Bexhill and Hastings. These areas are also attracting new residents which can only assist the High Street.
3. Towns such as Hastings and Eastbourne suffered following the pandemic with the closure of larger national stores including New Look and Debenhams in Hastings and Debenhams and TJ Hughes in Eastbourne. Signs of these larger stores being repurposed are being seen with the New Look store attracting Jobcentre Plus and a national gym operator and this is a trend that we see as likely to continue. In addition, in the food store sector both Aldi and Lidl have actively been seeking both new and relocation sites for new units, as is evidenced by Aldi's planning application on the Ashdown House site in Hastings. Generally, they are looking for prominent sites of 1-2 acres to accommodate buildings of 18,000- 20,000 sq ft. Allied to this has been the strong demand from the small convenience store operators who generally have been looking in all towns in the area.
4. Rents for Primary retail in Eastbourne in Q2-Q3 2021 were at £70- £80 psf Zone A whilst this dropped to £35psf Zone A for secondary retail whilst in Hastings these were at £45psf and £25psf respectively. These were average rents and there are likely to have been variations to these figures depending on the actual location.
5. The office market is still lagging behind other sectors in its recovery from Covid-19, having been in a precarious position anyway, prior to the Covid-19 lockdowns. With a significant amount of the office supply being converted to residential, there aren't a lot of office options still available in the main office locations, which means that the larger and more serious office occupiers have had limited options, in terms of available floorspace, and in some cases have been targeting the same space, albeit demand over recent years has been low. Having said this one of these parties has recently withdrawn their interest in a grade A office building in Eastbourne, to remain in their existing office space, thus emphasising the current "wait and see" uncertainty, in this sector. One positive factor coming from Covid- 19 has been the acquisition of 4,500 sq ft in Eastbourne by a national recruitment agency, to assist people who have lost their jobs because of the pandemic, back into employment.

6. The Hastings office sector is showing a mixed picture at the moment with the same recruitment company also taking a suite of offices in Hastings for the same purpose, but on the negative side, Ocean House is only being offered on 6 monthly rolling leases, as the building is earmarked for conversion to 72 flats. This will be a similar loss in terms of office space to the former East Sussex Fire and Rescue building in Eastbourne to permitted development. On the plus side, Hastings Borough Council's Castleham Business centre which had been delayed, now looks to be moving forward and it is rumoured that a major national company could be looking to come into the town.
7. The industrial & logistics market has been and is currently the most buoyant of all the sectors with increasing demand and limited supply which has driven rents upwards by in some cases from £8.50 - £12.50 per sq ft. The recent lockdowns have increased the number of companies needing warehousing and logistics space, to satisfy the boom in online markets, again a factor of the closure of non-essential retail units during the lockdown periods. Rents are expected to continue increasing on whatever stock becomes available, until new developments come forward, which won't be for another 12- 18 months, unless the planning process can be accelerated.
8. In terms of existing new developments, all of Connect 27, a 22-unit industrial and warehouse scheme in Polegate has been fully let, whilst all of the current phase of new development at Swallow Business Park at Golden Cross is under offer or let, prior to the completion of the building works. On the negative side, John Lewis announced that they are moving out of their modern 50,000 sq ft warehouse building at Ashdown Business Park in Maresfield although it is rumoured that there is already strong interest in this space from other parties. Demand from Developers and investors remains strong as is evidenced by the availability of a building of 102,000 sq ft at 1-9 Ivyhouse Lane on The Ridge in Hastings which has already attracted strong interest from both developers and potential end users. The vendors are seeking offers from interested parties in early October and the likelihood is that the building will attract a number of offers which might set a new tone in rents and prices for this location.
9. Development- The first developer who we spoke to has in the order of 520,000 sq ft of commercial stock with currently no empty space in East Sussex. They are just completing the final phase of a logistics/industrial development which is now fully let or under offer prior to completion of the building works. This has been a significant change over the last 6 months and has allowed the developer/investor to be proactive with their existing portfolio, where tenants have struggled in terms of taking an early lease surrender and then reletting at higher rental levels. Both of these aspects point to demand outweighing supply, and this is particularly the case for new units. The other aspects highlighted by this investor/developer were the significant increase in costs in building materials, particularly steelwork and cladding and also the increased delay in obtaining these materials. The increase in costs, typically a 25% increase overall, factors into the end costs for tenants or purchasers either in higher rents or freehold prices as well as the associated delay in schemes being completed in a reasonable timescale.

The table below shows the movement in Industrial rents between the first and 3rd quarters of 2021.

Warehouse & Industrial Rental Trends (£ Per sq. ft) 5,000 Sq. Ft or More

	GRADE A		GRADE B		GRADE C	
	Q1 2021	Q3 2021	Q1 2021	Q3 2021	Q1 2021	Q3 2021
East Sussex	£9.51	£10.50	£7.31	£8.00	£6.26	£7.00
Hastings	£8.00	£10.00	£6.50	£6.75	£5.25	£5.50
Eastbourne	£10.00	£12.50	£8.00	£8.50	£7.00	£7.50

	GRADE A		GRADE B		GRADE C	
	Q1 2021	Q3 2021	Q1 2021	Q3 2021	Q1 2021	Q3 2021
Lewes	£11.00	£11.50	£8.00	£8.50	£7.00	£7.50
Wealden	£8.25	£9.00	£7.00	£7.50	£6.00	£7.00
Rother	£8.00	£8.50	£7.00	£7.50	£6.00	£7.00

10. The other factor mentioned by the investor/developer was what appeared to be the increasing delay in obtaining planning and highway consents for new schemes. Delays in obtaining the necessary consents adds to the timescale for a development and can lead to delayed schemes and increased costs for schemes which may be financially borderline viable at the outset. The particular investor/developer has no further schemes which are in a position to commence once the existing one is completed which in turn means that there will be a 12-month delay before new stock becomes available. The desire seems to be for a quicker and more pragmatic planning and highway approval system to ensure a production line of new development rather than a stop and start system. This really echoes a point that was highlighted in the recent Room to Grow 2 Report.
11. The second developer/investor that we spoke to, concentrates mainly on offices and business centres in the East Sussex area. They reported an increase in their occupation rate with two units going under offer in the last two weeks. All of their current tenants have renewed their leases where these have expired, providing them with a strong occupancy rate of 95%. Similar to the earlier comment on the office sector they have noticed that whilst there has been an increase in numbers of parties viewing, the difficulty has been in getting these parties to commit to a lease, as in the main they have been 'waiting to see what is going to happen' with a certain nervousness about making commitments. They further commented that a number of local businesses are just sitting on their hands, despite greater flexibility in leases. The exceptions to these have been the companies who are either looking to downsize or who have secured contracts from the likes of the NHS and are therefore happy to sign up to leases for their contract periods.
12. Another East Sussex Business centre operator with Business centres in the east of the County advise that occupancy levels have stabilised at a lower level than pre COVID. It is reported that some small business centre providers have reduced rental levels to fill space quickly.
13. In summary the commercial property market is still feeling the impacts of Covid-19 and the various lockdowns. Some sectors such as industrial and logistics have significantly benefitted whilst retail is finding its feet but in a more positive way than earlier in the pandemic. The jury is still out on offices until companies and organisations settle on how they intend to work in the future. Rents are likely to continue to rise in the industrial sector whilst retail rents have had to find a new sustainable level and office rents have and are likely to remain at the same level until the way forward becomes clearer in this sector.

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