

Coronavirus: impact of the crisis on East Sussex commercial property

First report: June 2020

1. This first report is based on five telephone discussions with the following categories of commercial property professionals: partners in three chartered surveying practices (working variously in coastal West/East Sussex/B&H, in North Wealden and Hastings/Bexhill), a managing agent specialising in rural diversified farm properties, and a developer/landlord with extensive interests across East Sussex.
2. Interviews took place between 2nd and 17th June 2020. All five of those interviewed agreed that we are in the 'not yet enough information to say' stage of the crisis. The other potential stages we've identified are: steep decline/levelling out/starting to get better/good as it's going to get/back to previous norms.
3. There is limited data to predict how many business failures there'll be – and therefore vacant premises will become available – until the next Quarter Day (24th June) when it will start to become clearer which businesses will be unable to pay their rent, although landlords will be sending out invoices a month in advance so they will have some inkling already. Clearly, the end of the furloughing scheme will mark another significant pressure point. One agent said there was some effect on the March Quarter Day (25th) but at that stage many businesses will have had two good trading months post-Christmas so will have been able to draw on that income, so June will be more illuminating. The developer said that he has already had a few properties back: mainly offices. The impact of coronavirus on the commercial property market and the economy will also depend on how hard a line most landlords will take on defaulters. The point was also made that any change to social distancing rules should come before the June 24th Quarter Day to give struggling businesses the chance to get back to work.
4. The rural managing agent said that her occupiers are only in a position to pay rent owing due to government bailout schemes: the £10,000 coronavirus Local Authority Discretionary Grants Fund has been a Godsend which has 'saved their bacon' but she doesn't know what will happen when the money runs out. She said that those larger ineligible businesses and other companies falling through the cracks are in deep trouble. However, another agent observed that many landlords (often retired pensioners) who are not eligible for government support are being left without an income as occupiers are not using their grants to pay their rent.
5. In early May, the market was comparatively dead but as the lockdown is easing, business confidence is returning and it has become busier – in some areas a lot busier – with a sense of urgency not there before, resulting in a stream of enquiries and viewings for the mainstream agents. It seems that that East Sussex has not been hit so hard as perhaps Gatwick and other centres are likely to have been. Indeed, it is notable that Locate East Sussex's interviews with agents took longer than anticipated to arrange as in some cases agents were too busy to discuss the situation with our representative.
6. One agent in north Wealden says he is now 'remarkably busy' and getting 2-3 enquiries a day which he is dealing with himself as some of his staff remain furloughed, albeit in normal times 6-7 enquiries would be typical. In Hastings/Bexhill, the market is quiet and the phone is 'ringing a lot less' than would normally be expected, although when it does, those enquiring

are serious about taking space. This doesn't appear to be the case for the managing agent for rural properties who said that 'business is quiet', although some enquiries for workshops are being received. The developer we canvassed confirmed that 'enquiries are coming back'.

7. Deals have been taking place unhindered through the crisis period. One agent stated that he hasn't lost one yet, having had 4 or 5 deals for warehouse/manufacturing space ranging from 7k ft² - 112k ft² and this experience seems to be echoed by the mainstream agents. The managing agent operating in the rural East Sussex says that she is 'letting the odd property', mostly for storage use.
8. It appears that warehousing and industrial space are most in demand and now in short supply: indeed, one agent in north Wealden commented this market is 'going like a train' and supply is now so short that he would have difficulty finding a small industrial unit if someone wanted one. In Hastings/Bexhill the shortages are worse: an agent reported that 90% of lettings have been a mix of manufacturing/warehousing and the agent is now so short of industrial space that he has 'let everything except for one unit' which is redolent of the situation in summer 2019 (as observed in Locate East Sussex's Land & Premises Supply Study).
9. The rationale given by one agent for warehouse and manufacturing space being in high demand is that some companies have re-evaluated their business model during the lockdown and are seizing opportunities presented by the crisis. One example given was a retailer that has found it has quadrupled its business by moving online and so, as well as retaining its shop, now operates from a warehouse four times the size. Speed of delivery is paramount in these circumstances for these smaller businesses (4,000-5,000 ft²). Another growing trend is 'dark kitchens' where food is being prepared in warehouses/industrial units rather than restaurant settings.
10. There are also indications that businesses are re-engineering their supply chains as companies seek to make these more resilient by sourcing locally rather than from overseas. This move has been on one hand directly instigated by the supply difficulties caused by trading across national boundaries in the face of the coronavirus pandemic and also the political problems with China affecting the economy, accelerating existing pre-coronavirus trends.
11. The same agent reported that businesses with a larger requirement (20,000 ft² +) are being cautious and reluctant to commit to deals until a) the coronavirus situation becomes clearer (by Sept?) because they are uncertain at this stage what their requirements will be; and b) then (just as coronavirus is expected to be factored in as a quantifiable issue), there is a further uncertainty caused by the artificial Brexit deadline. This has been his practice's experience on two or three occasions.
12. All sources reported that demand for offices is much quieter, although this continues a trend since 2008. One perhaps unforeseen effect of the lockdown is that commuters are questioning whether they need to commute into London each day as they have proved they can work just as well from home. An agent reported that a rival property firm has told its staff that they don't have to attend the office for a whole year! Another agent postulated that if commuters can't or won't go into the city by public transport, they will want local offices to go to rather than suffer the inconveniences of working from home and, having already had 3-4 enquiries to that effect, there is a potential opportunity here for managed workspace or co-working facilities in East Sussex. He is also aware of four enquiries from furloughed workers seeking to set up new businesses.

13. The indications are that retail is quiet and there is an expectation that a number of shops will not reopen.
14. The agents' attitude is that the crisis presents opportunities. One reported that the effect of social distancing is that larger companies cannot get all their staff into existing factories so are taking larger spaces to make this possible. Although overall activity is down he does not anticipate rents dropping automatically in a blanket fashion but there will be a differential in different locations and types of building. It is unclear what impact all this will have on the freehold market. This agent reports leasehold deals include requests for longer rent-free periods and more flexibility on leases (shorter leases, more or earlier breaks) and getting landlords to fit out premises in lieu of rental. It is difficult being a valuer at the moment!
15. In Hastings/Bexhill lease terms appear not to have been affected, but there is some evidence occupiers are taking additional units to mitigate social distancing effects. In north Wealden it was reported there are no such discernible effects attributable to social distancing.
16. The likelihood is that new buildings will perform better in this situation than old buildings. As there is still a general lack of stock, and with warehouse and manufacturing space in demand, companies will want good quality modern space. However, it was reported that new development is in abeyance. Developers will not be able to finance construction because it is unlikely that banks will lend and bank valuations are low at present. Also, landlords will be keeping back funds as a contingency in the event that there will be voids if some existing lettings are terminated and to mitigate against dilapidations if they get buildings back unexpectedly.
17. When canvassed, the developer was not forthcoming. He said that no new development was planned for the time being and he is 'reserving judgement for two to three months' until the impact on the market becomes clearer.

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