

Coronavirus: impact of the crisis on East Sussex commercial property

Fifth report: November 2020

1. The evidence base for this report is based on four interviews conducted between the 26th and 30th November 2020 with the following property professionals: an active developer with a large property portfolio in East Sussex, and partners in three commercial agency/chartered surveying practices in different parts of the county – including one with a regional coverage.
2. Since the last report in October, the increased coronavirus infection rate had tipped the country back into another lockdown but with this ending, replaced by a Tier 2 restrictions in East Sussex from 2nd December, it is interesting to assess whether the second lockdown proved to be the threat to recovery that was predicted in July 2020. As a mitigating factor, it was announced that the Furlough Scheme (that had been on the point of being replaced with the Job Support Scheme) is being extended: initially for a further month (31st October) and then (5th November), a five-month extension into Spring 2021.
3. All those interviewed said that the market for ‘sheds’ (industrial and distribution space) has continued to boom. One agent reported that progress has been spectacular, and shortages of available stock in Hastings exceeds the position in the summer of 2019. This agent reported that no vacant industrial units at all are available to let, shortages that he’s never known in 22 years of operating in this market. He explained that a key problem is that because supply is so limited, headroom is at zero, and therefore no ‘churn’ is possible. Put another way: tenants are holding on to their properties, and because businesses aren’t failing, there is no vacant second-hand product available to come onto the market and then – in the absence of any headroom or ‘float’ – occupiers can’t move and the market grinds to a halt.
4. In these conditions of market stasis, another agent reported his practice has resorted to expanding its business by diversifying geographically to other areas of the country for its agency work, principally Gatwick Diamond, but also as far afield as Manchester, and the West Midlands.
5. This position is echoed by the developer who says that the last of his new business units has been let and therefore he has no industrial space available for occupiers at all. Indeed, the only vacant space he has in his large property portfolio are some offices in Crawley which have gradually emptied out during the crisis.
6. Another agent commented on the position in Eastbourne and Polegate where demand for industrial had been very strong: an example being the new 52,300 ft² Connect 27 development in Polegate, where only 4 out of the original 22 units built are available, with the rest let or under offer. This development has a quoted rent of £12.50 ft² which is a significant premium over the usual rental level in this part of East Sussex. He commented that there is a massive shortage of stock in Eastbourne and Polegate and that will be a big problem next year.

7. Regarding the levels of take-up reached this year, he said that the stats are still being compiled but demand has been strong, only restricted by shortages in supply. Lack of available stock will frustrate occupiers next year.
8. There seems little evidence that the second lockdown has had any discernible impact on the market, with occupiers taking decisions pragmatically as reported in October. One agent said that in Hastings the only segment which has suffered is short-term Christmas lettings. Usually, this is a feature of the market at this time of year, but (for obvious reasons) there hasn't been any lettings.
9. Whilst there have been fewer calls to the office about property in Hastings this is due to stock shortages (as, generally, only harder-to-let properties are available) rather than a measure of falling latent demand. It is a feature of the market that if space isn't advertised then enquiries from potential end-users won't come forward because they won't realise this is the place to look.
10. All the agents say they are busy right across the different segments of the commercial property market, including retail and small offices. One agent qualified this by saying that there have been fewer new enquiries week commencing 23/11/2020 as the market was slowing down for Christmas (as it would usually do).
11. A local agent based in the north of the county says that his practice is 'snowed under' and the main constraint has been finding enough time to undertake all the work they have. This agent reports that on all business measures 2020 is proving to be better than last year, which up to then had been its best-ever financial year. The market it operates in is doing well, with industrial, offices and retail all letting; only large (prime) retail is feeling the pinch. Non-essential retail hasn't received government grants this time, which was a cause for concern for some clients, but many have been able to trade by moving their business online. In his view it is only those businesses that have struggled to adapt to the technology which face failure (and they would have probably failed anyway). Only one or two premises are coming back on the market due to business failure.
12. Some clients have concerns about the situation but, by and large, local occupiers in this area are small and entrepreneurial and have used the crisis to take advantage of opportunities. He said that the larger national players, by contrast, can't react so quickly and things are grim for them. Subsequently this dichotomy between national and local retailing has been, unfortunately, amply demonstrated this week by the collapse of Arcadia, Debenhams and Bonmarché, whereas local high street parades are doing well (some poor secondary retailing is reported to be failing by one agent).
13. Covid-19 has been a catalyst that has accelerated the existing trend for business to move online; any online activity will require space to store and distribute goods, and it is this market which has seen big increases. However, this agent reports that there is room for more good quality office space in Uckfield which is undersupplied. There is also a need for big sheds: one problem is that these are only developed for end-users and are not speculatively built like smaller premises, and occupiers have to go into the Gatwick Diamond area find availability.
14. The regional agent says that in West Sussex the odd vacant building is coming back onto the market but this is not the case in East Sussex. In the office market, big corporations are downsizing and he predicts there will be some churn as companies assess what space they

really do need after the pandemic. In Hastings, it was reported that large offices are currently one area which is not letting well.

15. Rental levels for industrial are robust and increasing because of the strong demand and shortage in supply. We have seen this is the case in Eastbourne and Polegate, but also further afield. One example is the Platform Business Centre in Hastings (under construction as an extension to Ivyhouse Lane) which is a new build quoting over £10.00 ft². Incentives for retail and offices were not reported although one agent predicts that office rents will decline although we haven't seen that yet.
16. In most cases rent seems to be collected on time, but we'll see what happens at the next (Christmas) Quarter Day. One agent says that he is aware that some bigger tenants are 'playing the system' and not paying rent as the ban on evictions has been extended. He said there were instances during the last lockdown when smaller local tenants requested concessions, but it was pointed out to them that, as they had received the £10,000 government grant, they were in a position to pay and did so. He makes the point that, as an ethically run company, he works with those tenants with problems to find a suitable arrangement to get through the crisis which involves staged re-payments of rent owing but not non-payment. Tenants generally want flexibility such as shorter leases and annual breaks.
17. There is lots of appetite for development, but commercial land is in short supply. Delays in planning decisions are still being reported and this situation is getting worse.

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3rd December 2020