

Coronavirus: impact of the crisis on East Sussex commercial property

Fourth report: October 2020

1. The evidence base for this report is based on four interviews conducted between the 26th and 28th October 2020 with the following property professionals: an agent (a director in a property consultancy), an active developer with a large property portfolio in East Sussex, a partner in a commercial agency/surveying practice based in north Wealden, and a partner in a commercial agency/surveying practice with a regional coverage.
2. In October, even with the furlough scheme ending and despite the increased coronavirus infection rate (a new lockdown appearing imminent), business confidence appeared high. One agent said that companies are burying their heads in the sand regarding the very real threat of a new lockdown, and just 'cracking on'. He said that there are lots of enquiries about and, tellingly: 'it's as if the (Spring) lockdown hadn't happened!' When considering what stage the crisis had reached, respondents agreed that it's still a 'mixed bag' depending on which market segment is being considered. In this respect, the position hasn't evolved much since the previous report.
3. There was unanimity that in October the market for 'sheds' (warehouse and industrial) had further intensified and some striking evidence was provided that this had reached a pitch that well exceeded pre-lockdown conditions. The developer said that prior to the Spring lockdown, take-up of new units at one of his business parks in Lewes District (for example) had been relatively slow. Now the position has been transformed with all units having been let/under offer. It is telling that his company has a portfolio of some 480,000 ft² of sheds; this has all been let with the exception of one newly constructed 6,000 ft² unit!
4. The only tenant he lost as a result of the pandemic was in a business park near to Burgess Hill, with an occupier in the exhibitions sector. However, this 7,000 ft² unit was quickly taken by another company on the same business park. One agent said that there was very little evidence in his area that the pandemic has caused businesses to fail.
5. Interviewees all agreed that the market was mostly driven by logistics and the move online. Other contributory factors were also put forward. A local agent said that increased industrial demand can be partly explained by occupiers having a chance – during lockdown – to think about future opportunities, and leisure uses had also created more demand for sheds in his area. Another said that the medical services sector had grown significantly and needed more space, and indeed he is looking to find premises for a large (100,000 ft²) medical services property requirement. We were also told that there is some evidence of manufacturing being repatriated which has added to demand.
6. Demand for sheds is evident across all size segments from start-up to the aforementioned large medical services requirement and we are now seeing shortages in warehousing and industrial supply.
7. These interviews took place just before the recent lockdown announcement which is due to be approved by Parliament. The regional agent was asked about the likely market response if a new lockdown does happen and the market ebbs away, and considers that new units will be

better positioned to retain occupiers than old second-hand stock. When asked about the impact on business sentiment of a possible second wave, another interviewee said that whilst there is a sapping of business confidence, companies are being more pragmatic than hitherto and are making decisions on a day to day basis.

8. In the period September/October, a no-deal Brexit has come up as an issue for SMEs and can be considered to be something of a market bottleneck as it is given as an excuse for inaction. Bigger companies have already made alternative arrangements. One of the agents said that Brexit hadn't been an issue, but caveated this by saying that not many of his client base are big exporters.
9. The office market is really patchy after the coronavirus crisis. One agent said that in Brighton – where the office market was strong before lockdown – there is lots of space coming onto the market as leases end, companies exercise break clauses, and companies stop trading. The basis of what does let is (to him) random with little rationale or pattern. Another agent said that there is some demand for offices and gave an example of a betting shop that moved on-line and set up a call centre based in office premises. His feeling is that people will/do miss the camaraderie of office life and the social element of networking.
10. The regional agent was not concerned by the current doldrums in the office market: surplus space will be reused, and this will accelerate innovation and concepts such as 'all-singing and dancing' offices with cafés. This is a process that was already underway; it's just that this 5-year process is being truncated into two years because of coronavirus and lockdown. It appears that incentives are available from landlords to attract office tenants.
11. The analysis in September's report that secondary and tertiary retail sectors are thriving whilst prime (national operators in high street locations) is under-performing was endorsed. One agent said that there was a strong community movement in the smaller towns that they should support their local shops and save them from going under: 'I'm not sure that the same feeling applies to big multiples in large towns'. He continued: 'if you are looking for a shop at the moment in some of our small towns, it is actually quite hard to find anything which is available', adding that 'some of the restaurants have suffered but most have been able to adapt and keep trading'. Another agent reported that the leasehold retail market up to £20k pa is quite busy and there are shops opening. He puts this down to landlords giving more incentives and flexibility as well as the specific factors already given in the Quarterly report.
12. All interviewees pointed to the vibrancy of the commercial development market. The developer was looking to build out another phase of an existing business park as well as working to bring forward an entirely new project. The regional agent said that activity is taking place which is not immediately visible on the surface as developers are working away in the background on 5-6 strategic sites, which bodes well for the future: he says he has 'not seen East Sussex as buzzy for ages'! It was reported that the planning system was not working in a timely manner with planning decisions generally taking much longer than usual. One agent pointed to delays in legal transactions caused by some solicitors working from home.
13. One of the agents said that there had been a mixed picture on the 29th September Quarter Day: generally, local companies were paying but nationals were not! A well-documented example he referred to was the sandwich chain Subway where it is alleged that franchisees are paying rent but Subway Realty Ltd is not passing it on, aware of the ban on evictions: <https://www.bloomberg.com/news/articles/2020-09-22/subway-in-rent-dispute-with->

[landlords-of-u-k-franchisees](#). It is noted that the government has (16th September) extended the moratorium on commercial evictions until the end of the year.

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