

# Eastbourne Office Deliverability Assessment to Support the Sustainability Appraisal

September 2015

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## 1. Introduction

- 1.1 Following publication of the Draft Employment Land Local Plan (ELLP) Eastbourne Borough Council have received a number of representations seeking to challenge the proposed policy position and/or seek further clarity as to the justification for and appropriateness of assumptions and analysis within the evidence base.
- 1.2 Of primary ongoing concern has been the robustness of the Sustainability Appraisal (SA) previously undertaken to support the original Local Plan spatial policy, particularly as it relates to the provision of land for future office and other employment floorspace development.
- 1.3 To address these concerns the Council has commissioned a review and reappraisal of the Employment Land approach ensuring that it addresses the full range of reasonable alternative strategies for the borough. SA guidance seeks to ensure all options tested are 'viable' and 'deliverable' over the plan period.
- 1.4 The Council have appointed JAM Consulting to undertake the SA. Bilfinger GVA (BGVA) have been commissioned in parallel to support JAM and provide market and commercial property perspectives on the viability and deliverability of different development scenarios identified by JAM and the Council. These scenarios represent 'hypothetical' options and are not based on detailed development proposals or schemes. As such this briefing paper draws on a number of 'general' data sources to provide a strategic assessment of the future potential and opportunity for office development within the borough.
- 1.5 Principally there are two options for the delivery of new office floorspace which this paper considers, which is guided by both the current Employment Land Review for the Borough and initial work undertaken by JAM. These options are:
  - Development of office space outside the town centre at Sovereign Harbour, which has been identified as the only location with the credentials to become an out of town office location by the Employment Land Review; and
  - Development within the town centre focussed on the Development Opportunity Sites within the adopted Town Centre Local Plan.
- 1.6 Based on these development options the SA considers 3 approaches to office growth which deliver a different quantum of space in each location.

- 1.7 In order to provide some guidance and support in relation to the viability and deliverability of office space between these locations this paper considers the recent changes to the office market within the South East, East Sussex and Eastbourne. It also provides a high level assessment of development viability based on a range of industry standard assumptions and considers more generally issues of deliverability related to the Eastbourne market as a whole and each development location more specifically.
- 1.8 The completion of this paper draws on previous employment land evidence prepared by BGVA on behalf of the Council, in particular the supplementary analysis completed in 2014 that considers a range of deliverability factors including market drivers, the appropriate 'balance' of development in terms of in and out of town provision, and the role of innovation centres in catalysing demand in new locations.
- 1.9 Viability assessments within this report should be considered as indicative only and not considered to represent valuation or financial advice. Whilst assessments have been carried out with appropriate due diligence they should be treated with caution.

## 2. Market Commentary

### UK and South East Office Market Overview

- 1.10 The UK economy grew during the second quarter of 2015 with official figures showing GDP growth of 0.7% in Q2, up from 0.4% in Q1, bringing the annual rate of growth to 2.6%. Growth in Q2 was largely driven by the services sector at 0.7%. The economy has continued to add jobs at an impressive rate, with an increase in employment of nearly a quarter of a million in December to February 2015 compared with September to November 2014. Two thirds of this was in full-time jobs, and the vast majority was employment by businesses rather than self-employment. This bodes well for occupier demand, particularly for offices.
- 1.11 Research published by BNP Paribas (July 2015) indicates that South East office take up in H1 2015 reached 1.48 sqft, which is stable on H1 2014 figures. This stagnancy however is not expected to persist, given the strong reported level of demand and some substantial requirements in the pipeline.
- 1.12 In terms of investment, volumes in the South East were up 57% on H1 2014 levels at £1.5bn. With the availability of prime A stock limited, investor demand is turning to secondary assets and shorter income stock.
- 1.13 BNP Paribas (July 2015) report that prime rental levels continued to demonstrate an upward trend. Cushman and Wakefield (2015) also report upward pressure on rents and incentives in the South East.

- 1.14 A restricted development pipeline and growing demand for space is leading to a fall in vacancy levels in the South East and pushing demand into secondary markets and regional business hubs in the midlands and north of England, such as Birmingham and Manchester (Cushman and Wakefield, Q2, 2015).

### **UK Business Park Market**

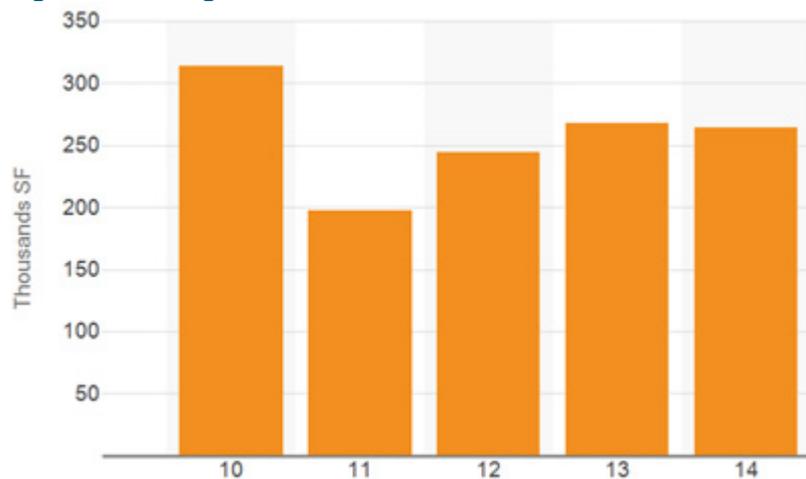
- 1.15 With regards to business parks specifically, the most recent data suggests a strong market, with increased demand from both occupiers and investors.
- 1.16 GVA's biannual business park survey reports that increased demand led to a fall in vacancy rates over H2 2014 from 16.9% to 16.2%. During the same period a total of 3.2 million sqft of take-up was recorded. This is the highest six-monthly total since GVA started the survey in 1996 and 50% above the five-year six-monthly average of 2.1 million sq ft. The South East region was reported as a key lead in these trends.
- 1.17 Robust occupier demand is feeding into rental growth. According to the IPD annual index, rental values on all UK business parks saw growth of 2.8% during 2014 (3.2% for London and the South East and 2% for the rest of the UK). This is stronger than growth for standard regional offices (1.3% growth).
- 1.18 With regard to development, construction activity has increased since 2012, reaching 2,000,380 sqft at the end of 2014, the highest level since 2009. Across the UK 55% of developments were pre-let. In the South East however construction was 100% speculative, showing strong confidence in occupier demand.
- 1.19 Investment in UK business parks amounted to £2.1 billion during 2014, 38% above the five-year average and the highest total since 2006. Deals in the second half of the year made up over two thirds of this total, making H2 the most active in terms of volumes on GVA's records. This has resulted in a downward shift in yields.

### **East Sussex Market Overview**

- 1.20 The county of East Sussex is divided into five local government districts of Lewes, Wealden, and Rother which are largely rural; and Eastbourne and Hastings which are urban. Research undertaken for the East Sussex Local Economic Assessment (LEA) highlights the competitive advantages and opportunities for the county within the commercial property market. It recognises the cost effectiveness of space when compared to the south east region alongside the presence of a number of sectors that will be important to the economic growth of the UK.
- 1.21 It suggests that these assets alongside improving infrastructure and a good quality of life provide a good basis for the County to improve its economic performance in the future. Eastbourne, within the Eastbourne-Polegate-Hailsham corridor, provides the combination of environment, labour force and market presence to continue to be the core focus for office activity in the future.

- 1.22 The supply of B class employment floorspace across the five local authority areas is relatively modest, with a total of almost 2.1mn square metres of space recorded by the valuation office in 2012 (the latest available data). Of this space 19% is office (B1a/b) floorspace, and 81% is industrial floorspace (B1c/B2/B8). In contrast, in Brighton and Hove, 51% of the commercial floorspace is in office use, and only 49% is industrial.
- 1.23 GVA has undertaken analysis of recent trends within the East Sussex market, using CoStar Suite data. This analysis is presented in the figures below and implies an improving market, in terms of leasing demand, construction activity, rental levels and occupancy rates.

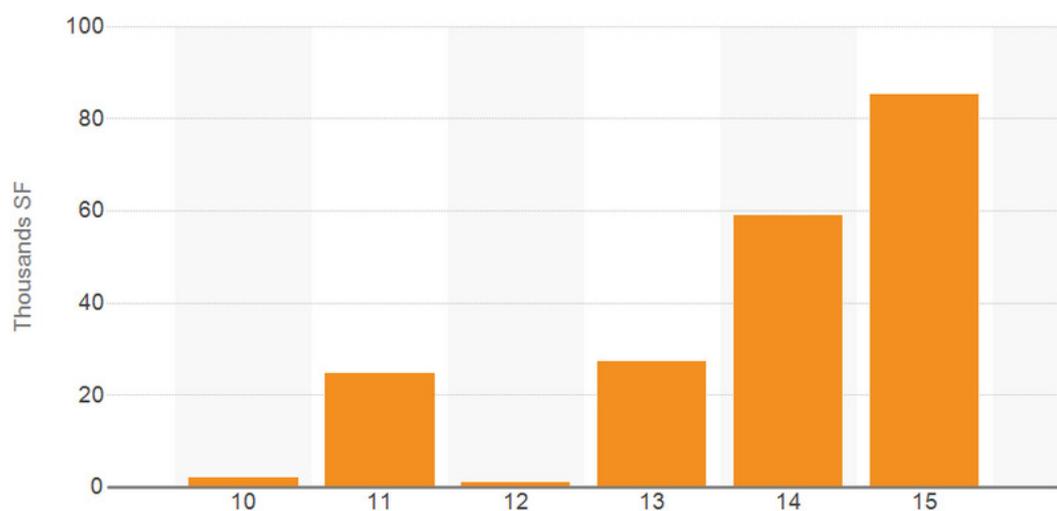
**Figure 1 Leasing Demand**



Source: CoStar Focus 2015

- 1.24 Figure 1 above shows that leasing demand has remained fairly consistent in East Sussex over 2013 and 2014 at c. 260,000 sq ft. This is higher than 2011 and 2012 levels, but below 2010 where demand stood at c. 310,000 sq ft.

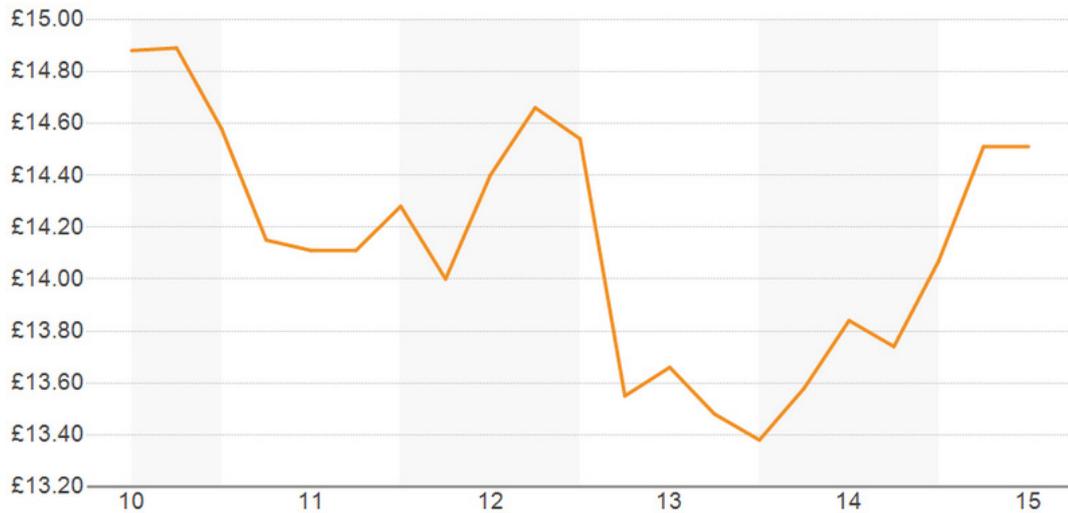
**Figure 2 Under Construction**



Source: CoStar Focus 2015

1.25 In terms of new office development, Figure 2 above shows a significant increase in construction activity since 2012, implying improved investor confidence in the market. At 2015, approximately 85,000 sqft was under construction.

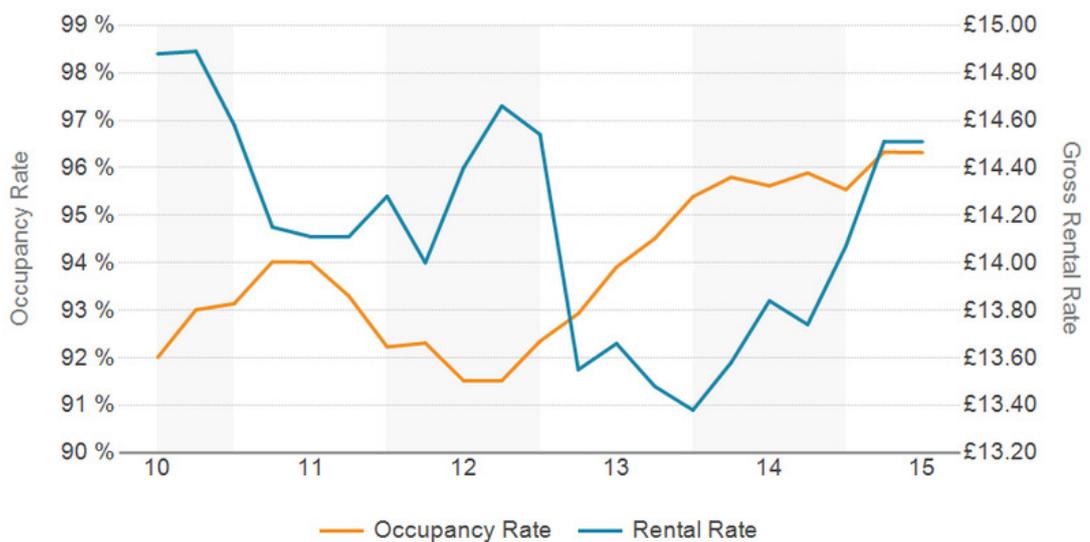
**Figure 3 Asking Rent (£psf)**



Source: CoStar Focus 2015

1.26 Figure 3 above shows that asking rents have seen an increase from a low of c. £13.40 in 2013 to c. £14.50 in 2015. Whilst in actual terms this reflects only a marginal uplift of £1.10, it implies some increase in demand over recent years.

**Figure 4 Occupancy & Rental Rates**



Source: CoStar Focus 2015

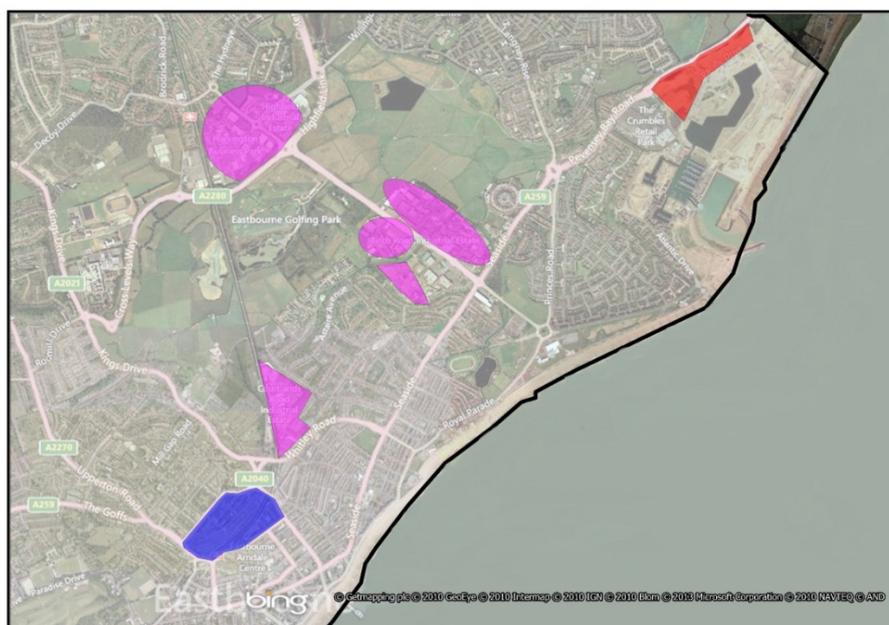
1.27 Figure 4 above shows an increase in occupancy rates from c. 91.5% in 2012 to just over 96% in 2015. Again, this indicates a slight increase of demand in this time.

## Eastbourne Office Market

1.28 Overall the economy and commercial property market within Eastbourne is concentrated into five key employment clusters, which are shown on the map below:

- Eastbourne Town Centre
- Hampden Park
- Birch Road – Hammonds Drive
- Finmere Road
- Courtlands Road

**Figure 5 – Eastbourne Employment Clusters**



1.29 Eastbourne Town Centre is the focus for office activity, with stock concentrated around Commercial Road, Upperton Road and the Station area (including Grove Road, Hyde Gardens and Gildredge Road). CoStar Focus report a total of 93 office buildings within the Eastbourne Office Market, totalling 600,777 sq ft.

1.30 Locally active agents report a poor market in terms of demand, but also in terms of the local office stock and offer. Office space is concentrated in the town centre and dominated by small 1970s or Victorian terraced stock. This lack of choice in office accommodation is unable to accommodate and attract a variety of business occupiers, and the town has become dominated by accountancy and legal firms. Meanwhile operators are relocating elsewhere outside the Borough to areas with better offerings, for example Lewes or Hastings. This suggests the opportunity to

increase the range of office types in Eastbourne to include better out of town options together with modern, fit-for purpose space including larger floorplates.

- 1.31 Analysis of the local market however, detailed in Table 1 below, indicates some recent improvements when compared to 5 year trends, in terms of positive rental growth and a decline in vacancy and availability rates together with available floorspace. Interestingly however the number of months properties on average spend on the market has increased from 15.3 months to 36.4. This implies that whilst demand has recently improved, properties that remain on the market are not attracting occupiers, suggesting Eastbourne's poor office offer may be constraining a potential demand.

**Table 1 – Eastbourne Office Submarket Trends**

Indicator	Survey (2015)	5 year average
<b>Rent / sqft</b>	£10.37	£8.91
<b>Vacancy Rate</b>	3%	6%
<b>Vacant Floorspace</b>	17,798	35,747
<b>Availability rate</b>	8.2%	9.7%
<b>Available SF</b>	51,314	58,688
<b>Months on Market</b>	36.4	15.3

Source: CoStar Focus 2015

### Market Summary and conclusions

- 1.32 Analysis of recent trends show improvements in the UK and South East office markets, with positive rental growth, increased take up and enhanced interest from investors and developers. These patterns are echoed within the business park market specifically, whereby take up in H2 2014 was the highest since 1996 and investment activity the highest since 2006.
- 1.33 Improvements in market trends can also be seen more locally within the East Sussex and Eastbourne markets, in terms of leasing demand, construction activity, rental levels and occupancy rates. Whilst this is a positive indication, increases in marketing time and feedback from locally active agents implies that Eastbourne's current offer, which is concentrated within the town centre and dominated by out-dated, small office space, is unable to accommodate or attract a range of modern business occupiers. As a result demand is pushed outside the borough to areas with more attractive offers. The Eastbourne market is therefore constrained and unable to fully benefit from the wider growth experienced in the office property market.

### 3. Viability Assessment

- 1.34 GVA has carried out a high-level assessment of the viability of town centre office development in comparison to out of town development (i.e. in Sovereign Harbour). Value and Cost assumptions are explained in Table 2 below, and are based on our previous appraisal experience together with data sources (BCIS, CoStar Focus).

**Table 2 – Cost / Value Assumptions – Town Centre and Out of Town Offices**

Item	Town Centre		Out Of Town	
	Assumption	Explanation	Assumption	Explanation
<b>Values</b>				
<b>Rent psm</b>	£161	Based on conversations with local agent and new build rents in comparable town (Hastings)	£161	Based on business case for harbour innovation mall, discounted to account for larger floorplates
<b>Yeild</b>	7.5%	Assumed comparable to out of town yield	7.5%	Based on Business Case for Harbour Innovation Mall
<b>Costs</b>				
<b>Basic Build (£ psm)</b> (nb. cost on GIA basis adjusted to NIA on a 85% net to gross assumption to be comparable with value NIA assumptions)	£1,700	Based on BCIS cost range. Assumed higher than out of town to account for more complex build associated with town centre development (i.e. constrained site, higher storeys, undercroft parking)	£1,500	Based on BCIS cost range. Lower than town centre costs to account for more straight forward build associated with business park offices (simple design, lower storeys, surface parking, purpose-carved plots)
<b>Professional Fees</b>	10.0%	Assumed higher than out of town to account for greater complexity of town centre development (i.e. mixed use design, engineering for potential undercroft, legal / CPO fees associated with multiple ownerships)	7.0%	Standard assumption
<b>Contingency</b>	5.0%	Standard industry assumption	5.0%	Standard industry Assumption

Item	Town Centre		Out Of Town	
	Assumption	Explanation	Assumption	Explanation
<b>Values</b>				
<b>Demolition (£psm)</b>	£30	Based on Assumption of £50 psm for existing buildings and £15 psm hardstanding, discounted to account for assumed increased density of new development	n/a	n/a - no existing buildings
<b>Site Servicing</b>	n/a	n/a - brownfield development. Assumed all existing services	10% on build cost	Generic assumption based on previous experience. Exact extent of servicing required in Sovereign Harbour unknown.
<b>Profit on Cost</b>	20.0%	Standard industry assumption	20.0%	Standard industry assumption
<b>Finance rate</b>	7.0%	Standard industry assumption	7.0%	Standard industry assumption

- 1.35 GVA has used the above cost / value assumptions to assess and compare the viability of town centre and out of town office development on a per sqm basis. The results of this analysis are presented in Table 3 below:

**Table 3 – Town Centre and Non-town centre viability – PSM Basis**

Cluster	Town Centre		Out of town	
	%	Value / Cost	%	Value / Cost
<b>New workspace Type</b>				
<b>Development Cost per sq m</b>				
Build Cost per sq m – GIA	n/a	£1,700	n/a	£1,500
Build Cost per sq m- NIA	85%	£2,000	85%	£1,765
Fees	10%	£200	7%	£124
Demolition	n/a	£30	n/a	£0
Site Servicing	n/a	£0	10%	£176
Contingency	5%	£100	5%	£88
Finance	7.0%	£163	7.0%	£138
Profit (% cost)	20.0%	£499	20.0%	£423
<b>Total Cost per sq m</b>	n/a	<b>£2,992</b>	n/a	<b>£2,538</b>
<b>Development Value per sq m</b>				
Rent per sq m	n/a	£161	n/a	£161
Yield	n/a	7.5%	n/a	7.5%
<b>Total Value per sq m</b>	n/a	<b>£2,153</b>	n/a	<b>£2,153</b>
<b>Development Value per sq m</b>				
<b>Balance per sq m</b>	n/a	<b>-£839</b>	n/a	<b>-£385</b>

- 1.36 The above shows that, based on GVA's cost and value assumptions, both schemes are unviable and producing negative residual values. The town centre scheme is less viable however at -£839 per sq m, 118% lower than the out of town schemes at -£385 per sq m.
- 1.37 It is important to note that the above assumptions do not include the cost of land, which is likely to be higher for town centre sites given that values will have to exceed those of existing uses in order to incentivise a sale, together with any CPO / land assembly costs required. This is likely to be higher than the land values associated with a cleared employment site, particularly one which requires servicing. Therefore, when land costs are taken into account town centre development is likely to be further unviable in comparison to out of town development.

## 4. Deliverability Assessment

- 1.38 Financial 'viability' is only one consideration for the SA, it also needs to consider the wider deliverability of any proposed policy and development option to understand whether the proposed approaches could be achievable even where development is considered 'viable'.
- 1.39 Deliverability in this context needs to focus on market factors outside of financial considerations, identifying where they may support or limit the achievement of policy aims. This includes market trends, long term demand forecasts and issues relating to the need for a healthy balance of stock typologies within the Borough.
- 1.40 Previous work undertaken by BGVA has established the long term requirement for additional office space within the borough, principally driven by the wider expectations of economic and sectoral growth across the wider South East and England as a whole. This is principally driven by opportunities to grow key sectors including professional services and the creative/media sector.
- 1.41 This analysis recognised that demand is likely to be for smaller units to meet the needs of locally grown businesses and those seeking to relocate to the area from other parts of the Kent/Sussex market on cost or lifestyle grounds. It was (and still is) considered unlikely by local and national agents that Eastbourne will become a location that attracts large scale 'corporate' office demand.
- 1.42 Local agents also report a mismatch between the space currently provided within the borough and that which is likely to be required. Existing stock is dated and provides a relatively weak offer, floorplates do not match the size requirements businesses are seeking and are not flexible enough to be internally reconfigured. Their nature also means modern servicing is expensive to install, if it is physically deliverable at all.
- 1.43 As such the Eastbourne offer is considered to be considerably weaker than the wider East Sussex market 'norm' which in turn has caused businesses that would consider Eastbourne as a business location to locate elsewhere. The Supplementary Evidence provided by BGVA highlights this weakening position, highlighting the new development that has been brought forward in other East Sussex locations which has driven new office demand and occupation.

### The Need for Out of Centre Provision

- 1.44 This work has highlighted for a number of 'competitor' locations within Sussex and Kent the importance of having a mixed portfolio of office locations to provide range and choice to the market. It underlines the role that both town centre and out of town office development play in supporting the economy of East Sussex with relatively balanced shares of stock supply and take up between the town and out of town centres.

- 1.45 The analysis noted that Eastbourne was significantly different to the other centres of activity in East Sussex, with nearly all space and activity occurring within the town centre. It was clear from BGVA's analysis and conversations with local property agents that this significantly weakened the offer of Eastbourne to the market.
- 1.46 It appears that this constrained portfolio is potentially harming the economic prospects of Eastbourne Borough. A lack of choice and supply suggests that occupiers who would seek to locate within an out of centre 'business park' are unable to find suitable accommodation within Eastbourne Borough even if it is their preferred destination.
- 1.47 As noted within the Employment Land Review this lack of choice will most likely result in businesses choosing to locate in other districts. In the majority of cases occupiers have a particular locational need or desire influenced by their own requirements in terms of access, security, parking, building specification and space design. This tends to mean that demand is not typically transferable between town centre and out of centre locations, rather it is transferable between different out of centre locations with similar characteristics.
- 1.48 Given this limited transfer opportunity it is unlikely that the delivery of office space outside of the town centre would harm the viability and vitality of Eastbourne Town Centre given demand is unlikely to have been attracted there in the first place. It is more likely that providing a greater range and choice of location will enhance the economic prospects of Eastbourne Borough as a whole which, in turn will have positive benefits for the town centre. Not only will it bring more trade to the area for town centre businesses it will also raise the profile of the borough as an office location and potentially create greater demand for town centre stock as a complementary offer.
- 1.49 Our previous work has shown that there is an 'over-reliance' on town centre stock which is counter the general market trend / demand data for the county and wider market. This analysis also highlighted that pursuing a strategy that delivers more of the future requirement outside of the town centre will help redress the balance and help align Eastbourne more closely with the market 'norm'. That being said it was clear that the majority of space would still be within the town centre, maintaining its 'pre-dominance' within the market.

### **The Need for Differentiation and Critical Mass**

- 1.50 It is clear from our previous work and updated feedback from local agents to inform this paper that there is a need to deliver a different offer within Eastbourne Borough in order to catalyse the market.
- 1.51 Our consultation has shown a mismatch between the type of space demanded and provided within the Borough within the existing portfolio of stock. On the one hand this is limited in terms of its age and quality and, hence, the attractiveness of offer it makes to modern businesses as a result of servicing infrastructure.

- 1.52 However this mismatch is also reported to be linked to the size of the floorplates on offer. Within much of the town centre stock floorplates (and units as whole) are relatively small and, where they are larger, they tend to be of very poor quality. This has been suggested as a major brake on the Eastbourne Borough office market which needs to be addressed.
- 1.53 Whilst the delivery of better quality buildings could be achieved within the town centre the delivery of larger floorplates is likely to be considerably challenged given the scale and configuration of the Development Opportunity Sites and the competing requirements for their utilisation.
- 1.54 Further, even where better units can be delivered there are significant limitations to where a critical mass of good quality office can be achieved that can have a significant impact on the perception of Eastbourne Borough as an office location.
- 1.55 This scale and critical mass, and the impact it has on shifting the perceptions of the market, should not be underestimated and is a critical consideration for the delivery of space outside of the town centre. A new out of town offer will need to be of sufficient scale in order to make a significant impact in the market and create a cluster of activity that can become self-sustaining. The sharing of space across a number of sites or locations will fail to achieve this and, ultimately, continue the weak office trends.
- 1.56 Sovereign Harbour will benefit from the catalytic impact of the Innovation Mall which will help establish the area as a new economic hub, allowing a larger cluster to be developed around this first phase. As highlighted in our previous work this approach to establishing a new economic location is already being achieved in other parts of the East Sussex market and South East more generally.
- 1.57 A failure to protect employment land at Sovereign Harbour and deliver new space here would potentially 'waste' a major opportunity within the Borough to make a 'step change' in the market positioning of the borough. On its own the Innovation Mall will have a positive benefit on the Eastbourne economy however it is unlikely to be transformative or have significant impacts on other locations. Co-locating new floorspace alongside the Innovation Mall will potentially make much better use of the investment already made.

### **Town Centre Capacity**

- 1.58 Although not undertaken as part of the preparation of this paper other work undertaken by the Council suggests that there may be physical limitations to the level of floorspace that can be accommodated within the town centre given competition for land from other uses suggesting some of the scenarios would not be deliverable.
- 1.59 If this is the case it would also suggest that the Town centre sites would therefore lack capacity to make a major impact or create critical mass to help grow the office

demand/market. The need for the identified opportunity sites to provide residential, ancillary 'retail' activity and car parking will all erode the capacity to also deliver attractive office propositions. This issue is likely to be exacerbated by an inability to deliver tall buildings within the town centre setting.

- 1.60 In terms of the future health of the town centre, the delivery of residential is likely to be of higher importance. Not only will new development in the town centre help the Borough achieve its strategic need to deliver housing it is also likely that delivering new residential activity will have a greater beneficial impact on the health of the town than new office development
- 1.61 Enhancing the town centre population will naturally increase the retail catchment and spend potential within the town centre, providing enhanced opportunities for town centre businesses. Whilst office development will also have a positive impact it is likely to be lower given 'workers' will spend less of than residents in the town centre.

### Timing

- 1.62 What is clear for the Employment Land Review and other supplementary evidence is that there is a strategic need to diversify the office portfolio within Eastbourne but there are limited opportunities to achieve this. The Employment Land Review found no sites likely to be suitable in terms of size, location or quality to accommodate demand, it also recognised that these sites were needed for (and better suited to) forecast industrial growth.
- 1.63 However, given the current weak market conditions and long term nature of office demand identified within the Employment Land Review it is clear that office floorspace will be delivered over the full plan period rather than the short term.
- 1.64 Predicting the pace of development is difficult, internal and external factors can both speed up and slow down demand and the ability to fund development. However, based on the current market conditions, the nature of the long run demand forecast, existing and emerging demand drivers and our understanding of site availability of sites we would anticipate the following pattern of demand:

#### • Short term

- *Small quantum of town centre space – based on the established nature of the market. However, this delivery will rely on at least part of the opportunity sites being available and developable*
- *Innovation Mall and potential next sub-phase of Sovereign Harbour at the end of period as the Innovation Mall begins to establish the market in this location*

#### • Medium Term

- *Further phase at Sovereign Harbour as the market becomes more aware of the opportunity and it is established as an office location. This is likely to come forward before the town centre sites given land is available and relatively free from existing uses that would need to be cleared.*

**• Medium-long term**

- *A more significant quantum of development within the town centre, this period will allow key barriers such as ownership, site assembly and demolition/remediation to be overcome and sites made ready for development.*

*This assessment has been carried out by BGVA to inform the SA development and does not represent a formal valuation of any of the sites addressed. Assessments have been carried out based on notional development quantum outlined and prepared by JAM Consulting and Eastbourne Borough Council officers. These have not identified physical arrangements, derived expected floor areas or indicated the mix of uses for specific sites. Values have been determined based on a review of prevailing values in local market areas within the Borough. Standard construction and development costs have been applied. Scheme evolution would be based on independent architectural and cost consultancy advice. Any site remediation or atypical preparation costs would be confirmed through site specific investigation and costings. The advice within this report is exempt from the current RICS Appraisal and Valuation Standards and as such cannot be regarded as, or relied upon as, a valuation.*