

Sovereign Harbour  
Supplementary Report to ELLP

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**CONTENTS**

**PAGE**

1. INTRODUCTION..... 1

2. EBC-EL-11: MS RAWLINSON'S LETTER OF 14TH JUNE 16: THE VIABILITY OF  
OFFICE DEVELOPMENT IN THE TOWN CENTRE. .... 1

3. EBC-EL-12 CUSHMAN & WAKEFIELD EASTBOURNE VIABILITY REPORT JUNE  
2016..... 2

4. EBC-ELP-15: IN WHICH MS RAWLINSON RESPONDS TO THE SHL MARKETING  
INFORMATION. .... 5

## 1 Introduction

I am instructed to prepare a response to the further papers submitted to the Eastbourne ELLP in response to the Inspector's Action Points. In particular I refer to:

- EBC-EL-11: Ms Rawlinson's letter of 14th June 2016 re The viability of Office Development in the Town Centre
- EBC-EL-12: Cushman & Wakefield Eastbourne Viability Report dated June 2016
- EBC-EL-13: Ms Rawlinson's letter of 14th June 2016 re. Eastbourne ELLP Examination Action points.

These documents, extending to about 60 pages, were only received by me on 20th June 2016, on my return from holiday.

I have also now seen:

- EBC-ELP-15: in which Ms Rawlinson responds to the SHL marketing information.

All these papers contain both new and, in my opinion, misleading information which I need to have proper time in which to investigate and give a considered response.

This report should be read as my initial response, prepared in the very limited time available to me. Cross references are to the relevant paragraph number in the document concerned.

## 2 EBC-EL-11: Ms Rawlinson's letter of 14th June 16: The Viability of Office Development in the Town Centre.

### a) level of rent needed to achieve viability without cross subsidy

a.1 - The suggestion that the Examination should take into account any prospect of reaching breakeven by expecting the market, for a speculative scheme, to proceed on the basis of a reduced profit margin, professional fees or construction is totally unrealistic and could only lead to an unsound Plan.

a.2 & a.3 - EBC's evidence demonstrates that any forecastable rental growth will always be outstripped by growth in construction costs.

b) cost implications of replacing existing station car parking.

b.1 – Eastbourne Borough Council's evidence is based on the assumption that 400 replacement spaces will be needed. In fact, the existing car park only has 331 spaces and I have been advised that it seldom achieves 75% capacity.

i) When could delivery be expected within the plan period?

I have had direct, initial discussions with the officer concerned at Network Rail and he has confirmed that Network Rail is open to immediate discussions to bring this land forward for development and I understand they see no reason why, in principle, the necessary agreements should not be put in place to allow development to commence in the early 2020's, well within the Plan period.

**3 EBC-EL-12 Cushman & Wakefield Eastbourne Viability Report June 2016**

2. Property Market Review – Eastbourne

2.3 Demand for offices in Eastbourne

All the evidence presented to the Examination demonstrates why the historic “stagnancy” in the Eastbourne office market can only be expected to persist.

Whilst it is true that the completion of Pacific House, the first new office building built in the town for many years, has generated some activity, there is no reason to suppose that this interest in Pacific House demonstrates any fundamental change in the market.

My evidence on demand is submitted on the basis of my practice's direct involvement in the local market and the evidence, such as it is, referred to by GVA and C&W. It is interesting to note that the majority of the 7 tenants who have leased space in Pacific House are relocations of existing businesses already established in Eastbourne.

2.4 Demand for out of town offices in Sovereign Harbour

The unsubstantiated evidence for Pacific House (unusually, a new office building offered to the market on the basis of public funding) does not represent reliable evidence of demand for speculative offices in Eastbourne or elsewhere.

Discussions with my agency colleagues, Mr Johnson of Locate East Sussex and the Eastbourne Chamber of Commerce have confirmed that many tenants do see a clear distinction between town centre and edge of town locations such as Sovereign Harbour.

Many professional firms, including my own, would not contemplate relocation to Sovereign Harbour because of the poor transport links. I understand that the Eastbourne Chamber of Commerce are looking to relocate within Eastbourne and have ruled out Pacific House due to its poor location compared with the Town Centre.

Neither Eastbourne Borough Council nor Sea Change Sussex (SCS) have chosen to offer any analysis of the enquiries for Pacific House. Any office agent will confirm that there is a difference throughout the office market between town centre and out of town locations and there is no reason to suppose that the Eastbourne office market is any different. The old property adage "*location, location, location*" applies just as much to the office market as any other property market. To suggest otherwise is disingenuous.

### 2.5 Lettings achieved at Pacific House

According to the verbal, non-substantiated evidence given by SCS at the Examination on 12/13 May 2016, the lettings achieved were in respect of 6,309 sq. ft and a further 3,127 sq.ft of space was under offer to unnamed parties.

This represents 25% of floor space let and a further 12.4% under offer: a total of 37.4%.

I telephoned one of the 3 letting agents (Richard Harding of Bray Fox Smith) on 22 June 2016 and was advised that he did not have authority to disclose information regarding marketing, transactions etc and that if I wished to ask such questions, I should do so in writing and he would forward these to his client. I duly wrote to him by email on 22 June 2016 and a copy of my email is attached at Appendix A. To date my email has not been acknowledged. This lack of direct information is consistent with the outcome of my earlier attempts to persuade Eastbourne Borough Council and SCS to disclose reliable information upon which this Examination must be based. I find it extraordinary and most unhelpful for the Examination that valuers, advising Eastbourne Borough Council, are apparently given unfettered access to the agents marketing Pacific House whilst I am being denied that access.

### 2.6 Rent for best quality offices.

The rents quoted by C&W are Headline rents, not net effective rents achieved. If, as C&W attempt to do in their report, they are intended to be used to justify rental value for proposed speculative built offices, adjustments need to be made for specification and lease terms.

The essential differences are:

#### Ivy House

The rents achieved to date have been on the basis of various concessions as to service charge caps and break clauses. The remaining space in the building is on the market and has been vacant for over 12 months. Stiles Harold Williams are the joint letting agents.

## Pacific House

This building, in terms of layout, is very different to a speculative office building. It has very generous shared space and facilities which give the occupiers a 15% advantage in space terms.

As to lease terms, they are essentially “easy in, easy out”, very different to the lease terms achieved in Ivy House or anticipated in any market speculative building.

## 2.7 Investment

C&W have concluded that they would value an office investment in the town centre at 7.5% as well, presumably, as one on the edge of town.

They fail to make any distinction between valuing a completed and fully let building on standard leases as opposed to a partly let building or one subject to short leases.

Ivy House presents a good comparison for a multi-let building, let on relatively short term certain leases. The building has been refurbished to a high standard.

## Table 2 Investment Comparables for Eastbourne Office Stock

The sole reference by C&W in this section of their report, is to the recent freehold sale of Ivy House. The information disclosed is wrong. My practice were the joint selling agents on this transaction and the correct information regarding the sale price and the total annual rent is as follows:

Sale Price: I can confirm to my direct knowledge that the sale price paid by the purchasers was £3.23 million.

Total Annual Rent: the annual rent quoted is wrong. At the date of the transaction, there were 2 suites vacant and the total rents receivable were £282,037pa. The gross rental value of the building assuming the vacant space was let at £14.50 is £319,639pa.

The correct analysis of the transaction is:

Price psf: £156.62.

Yield: 9.5%.

## 4. Development Appraisals

### 4.b Assumptions

#### **Office**

- Build costs. It is noted that, contrary to the GVA report, C&W do not seek to impose higher construction costs on the town centre sites.
- Letting period. C&W's analysis of assumed rate of take up assumes, incorrectly, that any new building will be the only one available in the market. Given that any speculatively built new office building in the town will be competing either with developers of the other office sites in the town centre or at Sovereign Harbour, C&W seem to be working on a false assumption.
- In that context, I am aware of no evidence to support C&W's assumption of an annual take up of 1,500 sq. m. For the reasons explained above, on the limited facts available of the experience of marketing Pacific House, that evidence suggests that the outcome of marketing for 9 months is no indicator of the take up for a new building which has to achieve the 7.5% yield adopted by C&W and is assumed to be let to tenants of sound covenant for terms certain of at least 5 years. Only 1 of the 7 reported lettings at Pacific House apparently meets that criteria.

#### **4 EBC-ELP-15: in which Ms Rawlinson responds to the SHL marketing information.**

- 4.1 The letter from Ms Rawlinson of 21st June 2016, essentially seeks to challenge the assertion made on behalf of Sovereign Harbour Ltd that the marketing of the employment land at Sovereign Harbour has been adequate. However, no direct evidence is offered in support of Ms Rawlinson's assertion, other than a string of questions which could have been raised many months ago.
- 4.2 Having been directly and personally involved with the campaign since the late 1990s with Officers of Eastbourne Borough Council, I am astounded that Eastbourne Borough Council should seek to challenge my evidence on this subject. Throughout the period in question, both my clients and my firm have been actively engaged in seeking employment development at Sovereign Harbour. The only criteria has been that development should be viable. My clients are substantial developers with a successful track record and it is amazing that at this stage, having worked alongside Eastbourne Borough Council and other agencies for many years that Eastbourne Borough Council should only now seek to suggest that the marketing campaign has been inadequate and that that is the reason why no development has occurred. I note that SCS has now concluded that further development of Site 6 has to await a viable occupier. The fact that SCS failed to transact with Veritek is proof of how difficult such transactions are.

- 4.3 Furthermore, as a leading regional Commercial Estate agency with a local office, it is absurd to suggest that the subject land has not been properly exposed to the market. The absence of any transaction is purely a function of the market not a reluctance of Sovereign Harbour Ltd to realise their investment. I, as an equity partner and my practice, have every reason to promote and generate fees from property transactions. To suggest that we have failed to be part of a suitable marketing campaign is an unsupportable allegation.
- 4.4 The assertion would only begin to be credible if there was evidence of a party being unable to acquire the land for occupation. The evidence of Veritek's interest in the site between 2000 and 2013 demonstrates the length to which the land owner was prepared to go to help a potential occupier.
- 4.5 I have been directly involved in understanding the marketing of the subject land since 1999 when I first became involved through the B&Q appeal. It was accepted in that decision that there was no failure in the marketing effort down to that date.
- 4.6 The Eastbourne Core Strategy Local Plan Inspector, Mrs Turner, in her examination report on that document for EBC also confirmed the accepted position at that time (November 2012) that the Council and the landowners have promoted these (Sovereign Harbour) sites for employment use since the 1990's encouraging their development as a business headquarters or office relocation. Mrs Turner went on to refer to the fact that EBC own ELR (2008), identified that Eastbourne and South Wealden is a relatively contained area, with low levels of in and out commuting, an absence of inward investment, and a reliance largely on local companies which require small scale office development (doc ref SD/20).
- 4.7 Through the B&Q appeal and subsequently, I have been both directly involved, by working with Eastbourne Borough Council and other agencies, in promoting the land for employment development.
- 4.8 If Eastbourne Borough Council cared to research their files and speak to the numerous officers, most long gone from the employ of the Council and many not replaced, they would have found records of numerous meetings held by Sovereign Harbour Ltd and/or myself with Officers at Chief and other levels. To my and my client's knowledge, at no time prior to reading the letter of 21 June 2016 has anyone at Eastbourne Borough Council questioned, let alone challenged, the adequacy of marketing. To do so at this stage of the LLP process is not acceptable. The subject file and this Examination

contains numerous expert reports as to why Employment Development has failed at Sovereign Harbour and elsewhere: the common theme is a lack of viability. No one, except Mr Shaw of SCS and now Ms Rawlinson, allege inadequate marketing.

- 4.9 During the last public examination in May 2016, Mr Shaw suggested that he wished to make this allegation. He failed to offer then and continues to fail, to offer any reliable evidence in support of his assertion. This point was not raised by GVA.
- 4.10 The words "*we do not believe this constitutes a strong marketing campaign*" in the subject letter has no basis in evidence. Eastbourne Borough Council have evidence to the contrary in their own files.
- 4.11 The suggestion that somehow the experience of marketing Pacific House is indicative of a failure to properly market the subject land is simply absurd.
- 4.12 If the Inspector thinks that the allegation warrants serious consideration, then both Eastbourne Borough Council and Sovereign Harbour Ltd should be given sufficient time to recover and research files and diaries going back 20 years. This will inevitably take time.

**Richard Stapleton FRICS**  
**Stiles Harold Williams**  
**23 June 2016**

# **APPENDIX A**

**EMAIL TO RICHARD HARDING, BRAY FOX SMITH  
22 JUNE 2016**

## Julia Plumstead

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**From:** Richard Stapleton  
**Sent:** 22 June 2016 15:41  
**To:** 'richardharding@brayfoxsmith.com'  
**Cc:** Julia Plumstead  
**Subject:** Pacific House, Sovereign Harbour, Eastbourne

**Follow Up Flag:** Follow up  
**Flag Status:** Flagged

Richard

I refer to my telephone conversation with you this morning re the above and my request for up to date information regarding lettings in this building. I confirm that I am instructed by Sovereign Harbour Ltd to contact you as the principle letting agent.

In a recent report published by Cushman & Wakefield, they have quoted the following information as being supplied to them by the letting agents for Pacific House "*..we understand that circa 40% of the space is now let or under offer*".

In a letter dated 21 June 2016, Eastbourne Borough Council state that they have been advised by Seachange Sussex that "*the marketing of Pacific House for only 6 months since completion has resulted in over 126 enquiries amounting to 12,319 sq.m of enquiries and 67 viewings.*"

On 13 May 2016, I was given the following information by your clients:

Suites let: Units 1, 4, 6, 10, 11, 14A and 15  
Suites under offer: 5 and 19A  
Suites vacant & to let: 2, 3, 7, 8, 9, 12, 13, 14B, 16, 17, 18 and 19B

According to my calculation, this means that at that date the total percentage of the building let or under offer was 37.4%.

In their report, Cushman & Wakefield advise that circa 40% are under offer or let, which suggests that either 37.4% has been rounded to circa 40% or at least 1 other suite has gone under offer in the intervening period. I would be grateful if you could confirm whether or not that is the case, and if so, which one.

It may also be that 1 or more of the suites previously under offer have now been let in which case I would be grateful if you could confirm the suite concerned and the terms with reference to:

- the name of the tenant
- the length of lease
- the provision for a tenant break
- the rent free period which I gather is normally not less than 3 months.

Finally, I would be grateful if you would clarify the statement regarding the number of enquiries. Are you able to confirm the number and categorize the enquiries beyond the quotation? In particular, it appears that the average enquiry required about 100 sq. m. For example can you categorize the type or location of the business concerned? On the basis of the information supplied to EBC, it appears that the 126 enquiries resulting in 67 viewings have led to 9 suites being let or under offer.

In our conversation, you stated you were unable to release this information but that if I wrote to you, you would take your client's instructions.

I trust you will be able to respond quickly.

Regards

Richard

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