

EASTBOURNE VIABILITY REPORT

PREPARED FOR

**EASTBOURNE BOROUGH
COUNCIL**

JUNE 2016



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1. SCOPE

A. Brief

- 1.1 To review the viability for a commercial developer to include speculative office space within a mixed use development of Development Opportunity (DO) sites 2 & 3 within Eastbourne Town Centre. This derives from a request from the Examination in Public of the Employment Land Local Plan for additional information to address the following questions:
- What level of rent for office floorspace would be needed for commercial office development to be viable in the Town Centre without cross subsidy and how likely is it that rents would rise to those levels within the plan period, having regard also to changes in construction costs?
 - What would be the cost implications of the need to replace the existing station car park on-site in a decked structure?
 - What is the scope for cross-subsidy of office development from other forms of development?
 - How much office space could realistically be provided on which site (3,000, 4,500, 8,900 sq m or another figure) and in combination with what forms of other development?
 - Would the current criteria in the Town Centre Local Plan impede delivery (e.g. the provision that ground floor space be reserved for retail use)?
 - What policy changes would be needed to Policy EL3 to require the inclusion of a minimum proportion of office space if it is less profitable than the other forms of development which the policy encourages?
 - What would be the implications for the provision of starter homes and other forms of affordable housing that also depend on cross-subsidy?
 - Would development include the retention or replacement of some or all of the Enterprise Centre on Site 2 and the Post Office building on Site 3?
 - Could the Government initiative to support development at railway stations bridge a viability gap?
 - When could delivery be expected within the plan period?
- 1.2 The output sought by Eastbourne Borough Council (EBC) is a report that identifies:
- The level of increase in office rents that would be needed if the provision of 4,500 square metres (sq m) of office space was to be provided via cross-subsidy from other uses.
 - The amount, type and mix of development required to support office development through cross-subsidisation.
 - How this development could be accommodated on the sites, based on site capacities
 - Analysis of how the requirement for 4,500 sq m of office floorspace would best be distributed across the two sites.
 - What other support might be required in order to make the development viable.

B. Information Provided

- 1.3 Cushman & Wakefield (C&W) undertake analysis on behalf of public authorities to test viability but also work for land owners and the promoters of development opportunities; we therefore have a comprehensive understanding of the key drivers behind viability and deliverability.
- 1.4 However, for reviewing the potential of the DO sites, we are reliant on the accuracy and good provenance of the data provided. The documents which we have relied upon and have referred to throughout this assessment have been provided by EBC and consist of:
- Employment Land Local Plan (ELLP)
 - Town Centre Local Plan
 - B/GVA Office Delivery Report
 - SHW Critique of B/GVA Office Delivery Report
 - EBC Basic site capacity testing
 - EBC Community Infrastructure Levy Viability Assessment (October 2013)

- SHW rCOH Capacity Study and Policy Review
- EBC Addendum to Strategic Housing Land Availability Assessment
- GVA Eastbourne April 2016 Office Market Report (31.5.2016)

C. Level of Analysis

- 1.5 Whilst C&W seek to test, interrogate and understand the potential for the site this is a high level assessment of viability for the purposes of advising on the provisions to be made within the ELLP.
- 1.6 For the avoidance of doubt, no advice within this report is to be taken as a C&W formal opinion of value. No values referred to in this report are covered by the RICS Valuation – Professional Standards 2014 (the 'Red Book').

2. PROPERTY MARKET REVIEW

A. Offices

South East

- 2.1 C&Ws Q1 2016 Office Market Snapshot for take-up within the South East market illustrates a 26% drop from Q4 2015 and a level which is 40% below the five year average. However, it was noted that market participants appear optimistic as demand across all major regions within the South East remains strong. Within this period, investment activity is in line with the long term average. The GVA Eastbourne Office Market Report April 2016 noted that occupancy rates are particularly high in East Sussex at 96.4%, currently standing 2.8% above the rate in the South and the 5.1% rate in the South East.

Eastbourne

- 2.2 The GVA Eastbourne Office Market Report 2016 indicates a reduced availability compared to the 5 year average which suggests that take up has increased. A vacancy rate of 7.9% is also reported which exceeds the 5 year average level. The average number of months on the market has also increased to 19.6 months. Based on these findings, GVA (2016) concluded that Eastbourne's current office stock may not fully meet market demands, which could relate to its quality/condition, size, age or configuration. The Stiles Harold Williams (SHW) report does not comment on void or letting periods.
- 2.3 Research published by BNP Paribas (July 2015) indicates that South East office take up in H1 2015 reached 1.48 million square feet (sq ft), which is stable on H1 2014 figures. This stagnancy is not expected to persist by GVA, given the strong reported level of demand and some substantial requirements in the pipeline, as indicated within their Eastbourne Office Market Report 2016.
- 2.4 In relation to the out of town offer, the SHW report comments on Sovereign Harbours 'poor location, poor road communications and lack of public transport'. It is noted that it is a 14 minute drive to the Town Centre where a train to London takes circa 1½ hours whilst road links include the A22, A27 and A259. From the perspective of road links, its position appears to be on a par with being located in the Town Centre and from conversations with agents letting the Pacific House scheme (close to Sovereign Harbour) we understand that this has let well. We are not aware of specific evidence which suggests that the difference in occupier preference should be so great as to be material in deterring potential occupiers of out of town space.
- 2.5 As the only major new office development in Eastbourne currently available we have sought an update of the letting position at Pacific House as of today. Table 1 shows a total of just under 4,000 sq ft being taken to date and from speaking to the letting agent (June 2016), we understand that circa 40% of the space is now let or under offer. We understand that the agents for this scheme are targeting the letting of all of the circa 26,000 sq ft within 18 months from the start of marketing (which commenced in late summer 2015). The agents consider that they have received a large number of enquiries with the typical space requirement being in the 600-900 sq ft range and leases being 3-5 years with 3-6 months' rent free. The specification of these offices is good but does not include air conditioning, which is replaced by natural ventilation.
- 2.6 In GVA's Eastbourne Office Market Report 2016, GVA considered that Eastbourne office rents averaged £10.96 per sq ft (psf), just below the level reported by SHW of £11.60 psf. From our own research C&W note that the best quality offices within Eastbourne such as Pacific House and Ivy House command higher rents of between £14.51 and £16.50 psf respectively. However, overall, we do not differ in our consideration of achievable rents from the levels

quoted by both companies. Table 1 outlines office leasing deals within Eastbourne of which we are aware since the start of 2015.

Table 1 – Office Leasing Deals in Eastbourne (Costar)

Address	Date	Size (sq ft)	Rent	Rent psf
Suite 1 Pacific House - Pevensey Bay Rd	01/12/2015	936	£15,444	£16.50
Suite 11 Pacific House - Pevensey Bay Rd	01/12/2015	952	£15,708	£16.50
Suite 4 Pacific House - Pevensey Bay Rd	01/12/2015	635	£10,478	£16.50
Pacific House - Pevensey Bay Rd	01/10/2015	635	£10,478	£16.50
55 South St, Eastbourne, BN21 4UT	01/03/2016	1,299	£16,237	£12.50
55 South St, Eastbourne, BN21 4UT	01/03/2016	1,418	£17,725	£12.50
Suite 1 Pacific House, Eastbourne, BN23 6FA	01/12/2015	936	£15,444	£16.50
1st (part), 13 Gildredge Road, Eastbourne, East Sussex, BN21 4RB	01/01/2015	230	£4,500	£19.57
Ivy House, 3 Ivy Terrace, Eastbourne, East Sussex, BN21 4QT	15/08/2015	1675	£24,298	£14.51
Stable Courtyard, 27 Compton Place Road, Eastbourne, East Sussex, BN21 1EB	15/04/2015	750	£8,000	£10.67
3rd, Berkeley House, 26-28 Gildredge Road, Eastbourne, East Sussex, BN21 4SA	15/03/2015	2960	£32,500	£10.98
Ground, 5a Watts Lane, Eastbourne, East Sussex, BN21 1NP	15/02/2015	463	£6,000	£12.96

Investment

- 2.7 The yields commanded by office assets in Eastbourne is given within the SHW commentary at 9.0%, as opposed to GVA's yield of 7.5%. From consideration of the market evidence, C&W consider that these are reasonable parameters based on different occupancy assumptions, as demonstrated by the comparable of Ivy House commanding a yield of 8.5% as shown in Table 2. For the purposes of assessing a potential new build scheme of a reasonable specification within the Town Centre, we consider that a figure of 7.5% can be utilised based upon the location of the sites and the potential of the wider regeneration.

Table 2 – Investment Comparables for Eastbourne Office Stock

Address	Use	Building	Area (sq ft)	Price	Price psf	Annual Rent	Yield
Ivy House, Ivy Terrace, Eastbourne	D1 Use	Refurbished 1970s detached purpose built five storey office building. Good spec with AC, PT, lift, 14 car parking spaces etc.	20,622	£3,570,000	£173	£302,000	8.5%

B. Retail

- 2.8 There is no commentary within either the GVA or SHW commentaries with regard to the retail market within Eastbourne. However, we have carried out a review of this sector in order to provide inputs for the development appraisals for DO Sites 2 and 3 (as the Town Centre Local Plan Policy requires active retail frontages). It should be noted that both of these sites are to the northwest of the main retail of the Town Centre on Terminus Road although there is a concentration of A3 operators in particular, moving down Grove Road.
- 2.9 The vacancy rate for retail within Eastbourne is 11%, and so this market is considered to be performing steadily (GOAD). By the end of 2015 agents estimated prime rents in Eastbourne to be achieving £100 psf Zone A. This represents no change on the mid 2015 level (of prime rents in the town) with rents remaining 16.7% below the pre-recession peak of £120 psf Zone A (PROMIS).
- 2.10 Prime rents are commanded within the Arndale Centre, ranging from between £36-£55 psf (overall) dependant on location as shown in Table 3. Provision within the Arndale Centre is set to further improve by the addition of an extra 22 units and a cinema, with phased completion expected by 2017/18. From speaking to the letting agents for the scheme we understand that new units are achieving Zone A rents of circa £135 which is an uplift in the current overall rent. Anchor stores (e.g. Next and H&M) within the new development are understood to be at lower rents of circa £15-20 psf which reflects the scale of the units (in the region of 20,000 sq ft each) and their bargaining position as anchors. The proposed A3 provision is centred on the cinema within the scheme and be understand that rents in the region of £40 psf overall are being achieved.
- 2.11 As already noted, retail provision north and west of the railway station is removed from the main thoroughfare down to the sea front, and as such, units within this location experience less footfall, thereby commanding lower rents at around £11-£12psf (overall). That said, C&W note that around the station there is some boutique retail offering including independent art shops and cafes. Table 3 outlines a selection of retail leasing deals within Eastbourne Town Centre of which we are aware since the start of 2015.
- 2.12 We understand that there are long term aspirations to build on the existing retail provision within the Enterprise Centre on DO Site 2 and provide retail space which links to the railway station with a new 'station square' or similar. The redevelopment of the Arndale Centre should improve the retail draw of Eastbourne and may act as a catalyst for wider improvements within the Town Centre and specifically, the area around the railway station.
- 2.13 The difficulty for DO sites 2 and 3 in terms of their retail potential is that they are on the western side of the railway station and outside of the strongest footfall areas and the 'retail circuit'. The redevelopment of the Arndale Centre should allow for a significant improvement in the linkages to the railway station and the potential to draw footfall in this direction but the scheme will still lack a leisure anchor (outside of the railway station impact) to draw people in this direction. Such anchors (i.e. a cinema) can be key in increasing dwell time and subsequent expenditure at A3 outlets. Around such provision a critical mass of retail can be provided and the retail centre in question can be a profitable and viable use.
- 2.14 We understand that there will be two cinemas within Eastbourne Town Centre shortly and there is unlikely to be the opportunity for further requirements. Eastbourne railway station is a terminus, and therefore subject to increased dwell times (compared to a through station) but Eastbourne is not a significant commuter location which limits usage to an extent. As such, although retail provision on DO Site 2 has some potential to draw on the Arndale Centre improvements and adjacency to the railway station, there are also limitations.
- 2.15 Within DO Site 2, the upper floors of the retail uses will be of much less value than the ground level and will require strong vertical circulation within the building and a design which attracts people to the upper areas (e.g. balconies for A3 uses). If the development managed to

successfully capture an increased element of pedestrian footfall, had strong visibility and linkages to the railway station and Terminus Road then rents circa £27.50 psf (for the ground floor) and £10 psf (for upper floor) could be achievable as a discount to the rates achieved in the Arndale Centre This equates to a blended rate of £18.75 psf.

- 2.16 In relation to DO Site 3, the scale of the retail potential is more limited and will likely follow the characteristics of adjacent units and the wider retail provision on Station Parade. We have allowed for a rent of £20 psf on the lower floor and £10 psf on the upper floor; this equates to a blended rate of £18.75 psf.

Table 3 – Retail Leasing Deals in Eastbourne (Costar)

Address	Date	Size (sq ft)	Rent	Rent psf	Comment
16 South St, Eastbourne, BN21 4XF	13/05/2016	947	£11,790	£12.45	First 6 months at 50%. 5 year lease.
49A Grove Rd Eastbourne, BN21 4TX	01/11/2015	1,335	£16,500	£12.36	10 year lease.
9 Gildredge Rd, Eastbourne, BN21 4RB	28/09/2015	563	£6,250	£11.10	3 year lease.
Suite 60a Arndale Centre Terminus Rd, Eastbourne, BN21 3NW	30/03/2015	1,222	£45,000	£36.82	10 year lease, 12 month's rent free. Warren James Jeweller.
68 Terminus Rd, BN21 3LX	01/09/2015	1,843	£25,000	£13.56	10 years lease, 3 month rent free.
Unit 70-71, Arndale Centre, Terminus Road, Eastbourne, East Sussex, BN21 3NW	15/12/2015	1,000	£55,000	£55.00	
Unit 8c, 55 Terminus Road, Arndale Centre, Terminus Road, Eastbourne, East Sussex, BN21 3NW	01/03/2015	1,604	£75,000	£46.76	
Unit 59, Arndale Centre, Terminus Road, Eastbourne, East Sussex, BN21 3NW	01/03/2015	2,615	£95,000	£36.33	
19 Cornfield Road, Eastbourne, East Sussex, BN21 4QD	04/03/2015	1,910	£26,500	£13.87	
Ground, 26 Cornfield Road, Eastbourne, East Sussex, BN21 4QH	15/01/2015	843	£22,500	£26.69	
19 Cornfield Rd, BN21 4QD	04/03/2016	1,910	£26,500	£13.87	10 year lease.
31 Cornfield Rd, Eastbourne, BN21 4QG	10/10/2015	1,723	£19,500	£11.32	5 year lease.

Yields

- 2.17 Agency sources placed prime retail yields in Eastbourne at 6.25% by the end of 2015 (Promis). This corresponds with C&W's own research, which indicates prime yields for retail within Eastbourne could reasonably be expected to achieve circa 5.5%-7.0% as illustrated in Table 4. These comparables show sales of retail units from the last year located within Eastbourne's main retail thoroughfare within the Town Centre from the railway station to the seafront. We consider that a yield of 7.00% is reasonable for the units on DO Site 3 whilst there is an improvement (to 6.50%) on DO Site 2 to reflect the greater ability to create a critical mass of retail, the potential to attract national multiples and strong linkages to the railway station.

Table 4 – Retail Yield Comparables (Costar)

Address	Date	Size (sq ft)	Price	Price psf	Yield
19 Cornfield Rd - Direct, Leased by Fox & Sons Eastbourne, BN21 4QD	01/03/2016		£480,000	£251	5.52%
Entire Building, 165 Terminus Road, Eastbourne, East Sussex, BN21 3NX	01/05/2015	2449	£300,000	£122	7.15%
21-23 Langney Rd Eastbourne, BN21 3QA	16/05/2016	11409	£1,420,000	£124	6.14%
163 Terminus Rd Eastbourne, BN21 3NX	08/01/2016	1164	£420,000	£361	6.68%

C. Residential

- 2.18 C&W has reviewed residential capital values within a reasonable distance of Development Opportunity Sites 2 and 3. Second hand one bed apartments near the railway station can command £110,000-£122,500 whilst two bed apartments are typically in the £150,000-£225,000 range. It is noted that the comparable information on three bed units is more limited, and properties were provided in the form of bungalows and houses rather than flats. As such these cannot be considered to be directly comparable to the values attributed to the one and two bed flats, but have been included for information; these units could be expected to command a value within the £315,000-£325,000 range. This information is supported by PROMIS data, which puts the average house price within Eastbourne at £226,900 in Q2 2015. Based on portfolio valuations in Eastbourne undertaken by C&W, we would anticipate 2 and 3 bedroom houses to achieve values equating to £230 to £350 psf. Table 6 sets out second hand comparable data.

Table 6 – Residential Sales Comparables (CoStar)

Address	Date	Bedrooms	Price	Price psf	Location
Flat 10 Esher House, 48 St Leonards Road	19/06/2015	1	£122,500	£156	Close to the station
Flat 5 Esher House, 48 St Leonards Road	15/06/2015	1	£120,000	£149	Close to the station
Flat 4 Chartwell House, 1a Wharf Road	31/07/2015	1	£115,000	£232	Close to the station
Flat 4 Southfields Court Southfields Road	12/02/2016	1	£110,000	£157	Slightly further from the station but within the Borough boundary
Flat 3 11 Southfields Road	20/11/2015	1	£126,500	£159	Slightly further from the station but within the Borough boundary
Flat 6 16 Southfields Road	26/06/2015	1	£129,950	£157	Close to the station
Flat 8 Pegasus Court, 29 St Leonards Road	03/07/2015	2	£157,000	£205	Very close to station
Flat 9 Pegasus Court, 29 St Leonards Road	05/06/2015	2	£144,950	£168	Very close to station
The Yews, 25 St Leonards Road	08/01/2016	2	£190,000		Close to station
Flat 4 Sia House, 30 The Avenue	04/03/2016	2	£174,000	£182	Very close to station
5 St Leonards Road	14/10/2015	2	£292,500	£259	Very close to station
35 Weavers Close	21/12/2015	2	£314,995	£264	Outside Borough
Flat 3 Southfields Court Southfields Road	05/11/2015	2	£149,950	£188	Slightly further from the station but within the Borough boundary
Flat 58 Marlborough Court Southfields Road	18/01/2016	2	£220,000		Slightly further from the station but within the Borough boundary
Flat 38 Marlborough Court Southfields Road	18/12/2015	2	£210,000	£275	Slightly further from the station but within the Borough boundary
Flat 27 Marlborough Court Southfields Road	18/12/2015	2	£207,000	£263	Slightly further from the station but within the Borough boundary
Flat 46 Marlborough Court Southfields Road	27/11/2015	2	£220,000	£269	Slightly further from the station but within the Borough boundary
Flat 54 Marlborough Court Southfields Road	11/09/2015	2	£208,000	£258	Slightly further from the station but within the Borough boundary
Flat 65 Marlborough Court Southfields Road	28/08/2015	2	£225,000	£265	Slightly further from the station but within the Borough boundary
Flat 33 Marlborough Court Southfields Road	01/07/2015	2	£190000	£235	Slightly further from the station but within the Borough boundary

Flat 27 Esher House, 48 St Leonards Road	12/06/2015	3	£325,000	£213	Close to station
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2.19 In relation to new build schemes, some key comparable schemes are as follows:

- Meadow View, Bovis Homes, Eastbourne:
 - Coach House, 2 bedroom unit, Plot 64 and 65 measured 660 sq ft.
 - Achieved £227,950 in May 2015.
 - £347 psf.
 - Prices ranged across site from £227 to £349 psf.
- Pinewood Garden's, located in Stone Cross:
 - 97 units located in a superior location.
 - 3 bedroom houses at 848 sq ft.
 - Achieved £255,000 to £260,000.
 - Prices ranged across site from £301 to £307 psf.
- Mill Valley located near Hellingly:
 - 85 units built by Persimmon homes.
 - Sold from February to May 2016.
 - 2 and 3 bedroom houses.
 - Prices ranged across site from £284 to £349 psf.
- The Mill located in Polegate:
 - Taylor Wimpey scheme.
 - 2 bedroom coach house achieved £295 psf.
 - Prices ranged across site from £244 to £295 psf.

2.20 We consider that a strong piece of comparable evidence for this site is Meadowview Eastbourne, a scheme developed by Bovis Homes. Here, two bedroom Coach Houses measuring 660 sq ft achieved £227,950 in May 2015, equating to £347 psf. However, we would expect the units at the proposed development site to achieve below this value, due to the location and site constraints that the area is subject to and the mix of bigger units.

2.21 The proposed residential units at DO sites 2 and 3 are assumed to be most appropriate if provided in the form of apartment blocks with a mix of units averaging 800 sq ft.

2.22 The proposed units at DO sites 2 and 3 are in close proximity to the railway station and other amenities in Eastbourne (a positive) but the sites have a somewhat compromised aspect (particularly DO Site 2 which overlooks the railway tracks). We consider that a figure of £300 psf would be reasonable to assume based on public realm works to maximise the opportunity provided by the sites. The schemes will need to be designed in order to facilitate the appropriate phasing of development as we consider that there would be demand for the units if the construction is phased to meet market demand and the pricing is realistic and competitive.

D. Hotel Market

- 2.23 In May 2015, Eastbourne was ranked 26th in the UK with an estimated 53 hotels and 3,047 available rooms. Within this context Eastbourne has the second highest proportion of independent supply in a large seaside resort after Blackpool.
- 2.24 Within this offering, Eastbourne has one five and four four-star hotels. However, most of the supply is concentrated toward the lower end of the market, with over two thirds of the supply made up of three-star and two-star hotels.
- 2.25 Within the last five years, it is noted that there has been only one new hotel opening in Eastbourne (Premier Inn in 2014). It is noted that there is nothing in the pipeline currently for further new provision. This is considered by C&W to be an indication of a current lack of demand for additional hotel provision within Eastbourne.
- 2.26 The Acorn Eastbourne Tourist Accommodation Study May 2015 noted that Eastbourne's property transaction market has remained highly active over the past five years, with particular emphasis on the guesthouse and B&B sector. However, the same report also found that larger independent hotels fared less well in terms of investment appeal. This was attributed to a number of factors, including intense competition, particularly towards the lower end of the spectrum. It was noted that the market for smaller independent coaching hotels has declined in recent years.
- 2.27 Having considered these market indications, C&W does not consider there to be evidence indicating that the inclusion of a hotel within either DO sites 2 or 3 would meet a requirement or assist in delivering a viable scheme.

E. Benchmark Land Values

- 2.28 The appraisal methodology is based on a residual land value being the output of the assessment and this being utilised in order to determine the relative viability of the development appraisal scenarios. Therefore, we are not assuming an input land value that needs to be exceeded in order to make a scheme viable. The weakness of this approach is that it does not take into account the inherent land value of existing assets. This is particularly the case in Town Centre locations where existing infrastructure and services mean that even vacant land (producing no income) is often deemed by valuers to have an inherent minimum benchmark land value which needs to be exceeded prior to development coming forward (to an extent this reflects hope value).
- 2.29 Out of town locations on greenfield land typically have a lower barrier to development in terms of existing land value (subject to site contamination and servicing constraints etc.) than Town Centre sites as the previous use of the land will have been low value (e.g. agriculture or undeveloped land). Therefore, whilst we have not input a minimum land value into our development appraisals (and have relied upon the residual land value), this is a consideration when it comes to understanding the relative deliverability of proposals.
- 2.30 This is illustrated by the EBC Community Infrastructure Levy Viability Study (2013) which utilises the following land values per acre for different locations:
- Residential land in Zone 1 - £1.23 million per ha
 - Office land - £0.45 million per ha
 - General retail - £1.50 million per ha
- 2.31 In terms of land sale evidence from within Eastbourne Town Centre is rare and finding a comparable which matches the size and opportunity of DO sites 2 and 3 is problematic. C&W has discussed with local agents in order to gain a view of what land used for commercial use could be worth – Table 7 sets out this evidence which suggests circa £100 psf for the existing asset. This is of limited use in relation to understanding the potential value of the land at DO Sites 2 and 3.

Table 7 – Investment Sales

Address	Use	Building	Existing Area psf	Price	Agent
12 Eversfield Road, Eastbourne	D1 Use	Detached three storey period building formerly used as a language school	4801	£500,000	Cluttons
Chantry House, 22 Upperton Road, Eastbourne	D1 Use	Detached 1980s purpose built office building.	9272	£1,250,000	Tingley Commercial
5 Meads Street, Eastbourne	D1 Use	Detached period building comprising former bank premises on ground and basement with self contained residential accommodation on three upper floors.	5164	£600,000	C&W

Gloucester House, Gloucester Mews, South Street, Eastbourne	D1 Use	1970s attached purpose built office building. Arranged as ground floor entrance with undercroft parking and three floors of offices above. Basic spec with CH, lift, parking.	3611	£350,000	Ross and Co
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2.32 Eastbourne Town Centre is a strong local retail location with ITZA rents of circa £135 within the Arndale Centre redevelopment. Whilst rents (and the underlying land value) are lower outside of the core retail area, sites and areas with retail potential can generate a premium over other land uses.

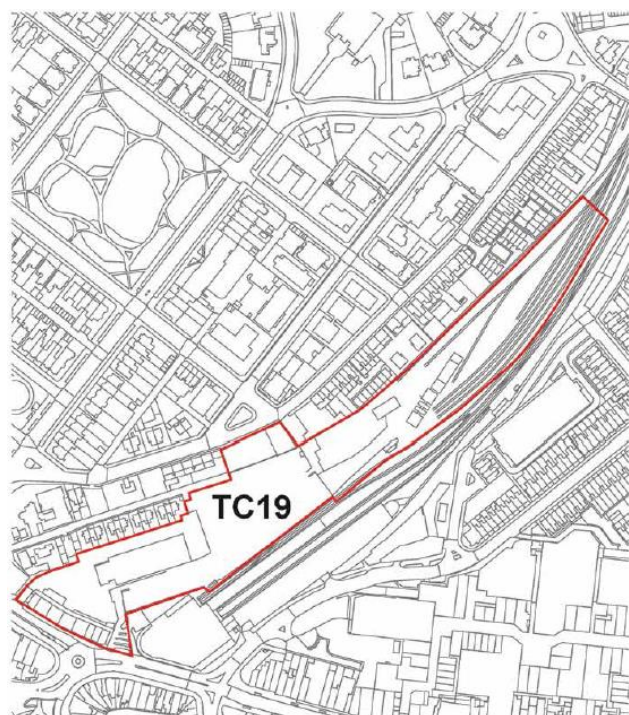
3. OPPORTUNITY SITES

- 3.1 In EBC's proposed ELLP, Policy EL3 sought provision of 3,000 sq m of B1 Office floorspace on DO sites 2 & 3. These sites have been identified as suitable for mixed use development including housing retail and business space. However, it is considered that B1 use would be particularly appropriate due to both sites highly accessible locations.

A. DO Site 2

- 3.2 DO Site 2 is 3.07 hectares in size. It is allocated for a mix of uses, including class A1 (retail), class C3 (residential), with other acceptable uses being class A3 (restaurants and cafés), class A4 (drinking establishments), class B1a (offices) and class C1 (hotel).

Figure 1– Plan of DO Site 2 and Local Plan Policy TC19



Town Centre Local Plan Policy TC19: Development Opportunity Site Two

Proposals for the comprehensive redevelopment of Development Opportunity Site Two, as identified on TCLP Figure 1, will include the following key development components:

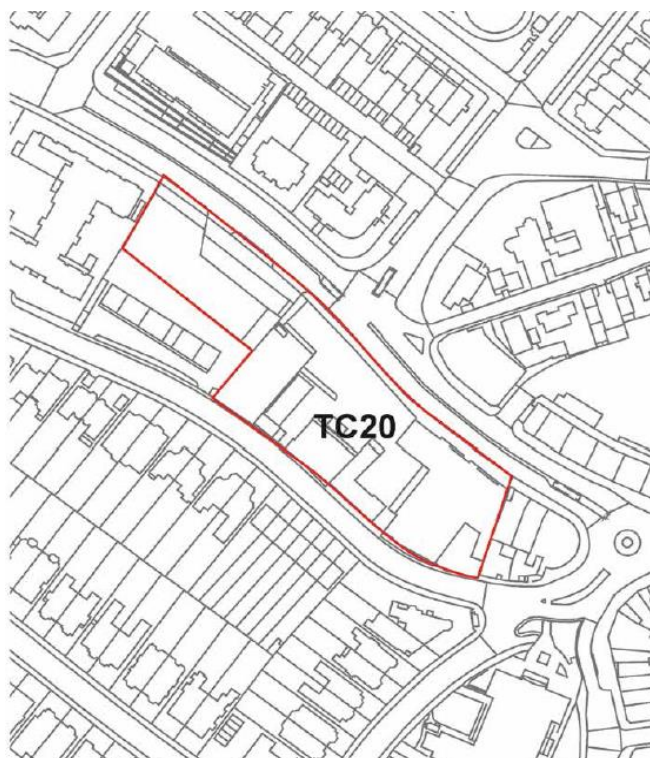
- Active frontages comprising retail window displays and principal pedestrian entrances to Terminus Road, a new public square at the junction with Grove Road, and adjoining the Upperton Road Gateway.
- Storey heights to range from 3 to 6 storeys above street level. Opportunities for a taller landmark building above 6 storeys in height may be acceptable within the site having regard to issues of servicing, parking provision and micro climate and in accordance with Policy TC11.
- Mix of uses. Required uses are A1 retail at ground floor and C3 residential above ground floor. Acceptable additional uses are A3 restaurants and cafés, A4 drinking establishments at ground floor, and B1(a) offices and C1 hotel above ground floor.
- Pedestrian access will be provided through the site linking Terminus Road, the railway station and St Leonard's Road. Main pedestrian entrances will clearly address Terminus Road and a new public square.
- Servicing access will be provided from St Leonard's Road/Commercial Road. Servicing for the Enterprise Centre will be maintained from Terminus Road. Access to operational railway land will be retained from St Leonard's Road.
- Parking will be provided within the site to replace existing car parking provision with vehicular access from St Leonard's Road.
- Public realm. A new public square will be created adjoining Terminus Road addressing the junction with Grove Road providing a setting for new development and the listed railway station building. Contributions will be sought to enhance pedestrian access around the **Terminus Road/Grove Road junction strengthening links**

- 3.3 This site adjoins Eastbourne railway station and includes the Enterprise Centre and numbers 1 and 2 St Leonard's Road which back onto the site. Through the consolidation of surface car parking into decked or undercroft parking, the Local Plan considers there to be an opportunity to deliver new uses to the north and east of the railway station. As the site is next to railway land, proposals will need to mitigate potential noise impacts through design and layout. The site is partially within a flood zone, however it is understood that it is protected by coastal flood defences.

B. DO Site 3

3.4 DO Site 3 is 0.73 hectares in size. After permission being granted February 2016 for 61 apartment (class C3), there remains 0.54 hectares of the site which is allocated for a mix of uses, including class A1 (retail) and class C3 (residential), and class B1a (offices). This site is prominently located adjoining Upperton Road which is a key approach and gateway into the Town Centre. The site is outside a flood plain. Part of the site is in operational use by Royal Mail. As such, suitable alternative premises would need to be found prior to development.

Figure 2– Plan of DO Site 3 and Local Plan Policy TC20



Town Centre Local Plan Policy TC20: Development Opportunity Site Three

Proposals for the comprehensive redevelopment of Development Opportunity Site Three, as identified on TCLP Figure 1, will include the following key development components:

- Active frontages incorporating window displays and principal pedestrian entrances to Upperton Road.
- Secondary frontages providing pedestrian access to upper floor and residential uses will address Southfields Road.
- Storey heights to range from 3 to 6 storeys above street level with maximum storey heights addressing Upperton Road and care taken to reduce height and massing adjoining residential properties on Southfields Road.
- Mix of uses. Required uses are A1 retail at ground floor and C3 residential above ground floor. Acceptable additional uses are A3 cafés and restaurants at ground floor, and B1 (a) offices, D1 community uses, D2 assembly and leisure above ground floor.
- Pedestrian access points to front Upperton Road and Southfields Road.
- Principal servicing and vehicle access will be provided from Upperton Road with secondary vehicular access from Southfields Road. Cycle facilities including parking and signage to routes will also be provided.
- Public realm enhancements will be sought to the Upperton Road gateway including maintaining and enhancing existing tree planting.
- Protecting residential amenity of existing occupiers immediately adjoining the site on Southfields Road.

Proposed Allocation Changes

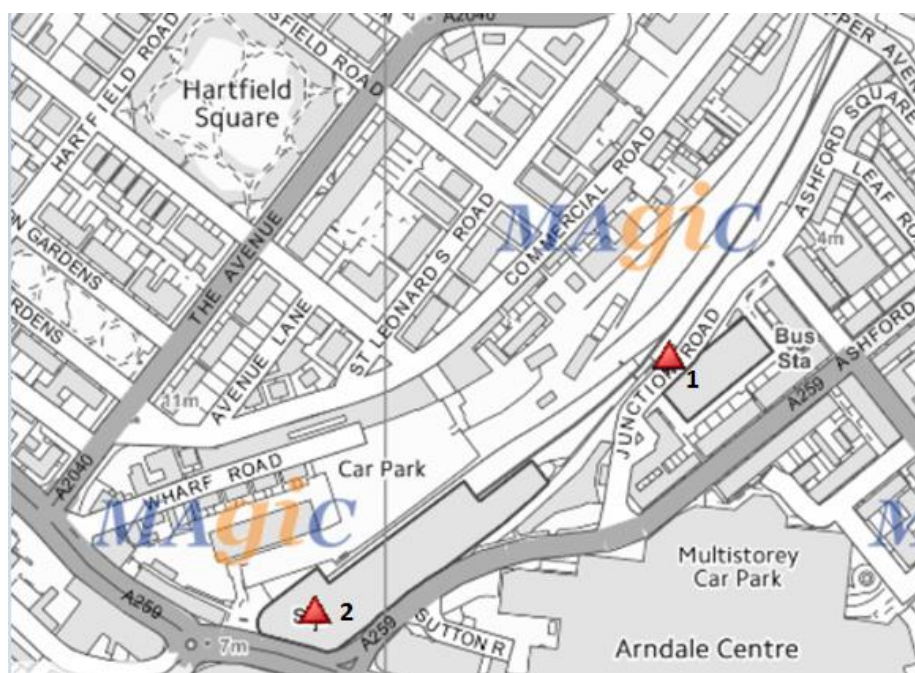
- 3.5 Initially, 3,000 sq m of B1 office space was proposed to be allocated between the two sites. After the submission of the ELLP, a modification increasing the provision to 4,500 sq m was proposed. This was to compensate loss of 1,500 sq m from the Policy EL4 allocation of B1 floorspace at Sovereign Harbour in order to accommodate a community centre there.
- 3.6 EBC consider that the new floorspace requirement of 4,500 sq m could be compatible with the strategic requirement for a minimum of 300 net residential units, along with other mixed development and the replacement of the station car park, on the DO sites.
- 3.7 It is noted that neither the draft ELLP Policy EL3 nor the Town Centre Local Plan make any B1 provision mandatory. Policy EL3 of the submitted Local Plan seeks the provision of 3,000 sq m of B1 office floorspace in the Town Centre to be located on DO Sites 2 and 3 in the adopted Town Centre Local Plan, however no set amount of space is allocated to each site.

4. DEVELOPMENT APPRAISALS

A. Form of Development

- 4.1 C&W is not a design practice and has not undertaken any schematic assessment of DO sites 2 and 3. We have reviewed the Town Centre Sites Capacity Assessment from EBC (from EBC ELLP Matter Statement 1) and also the Capacity Study and policy review from rCOH (January 2015) provided in relation to the SHW analysis. We have undertaken an assessment of the viability of development of DO sites 2 and 3 based on the EBC Town Centre Sites Capacity Assessment (with modifications).
- 4.2 Neither site includes any listed building as illustrated in Figure 3, although two listed structures sit adjacent to DO Site 2.

Figure 3 - Listed Structures close to DO sites 2 and 3



1- List Entry Number: 1413815

- Heritage Category: Listing
- Grade: II
- Location: Junction Road, Eastbourne, East Sussex

2- List Entry Number: 1262160

- Heritage Category: Listing
- Grade: II
- Location: Railway Station, Terminus Road, Eastbourne, East Sussex

4.3 The assumed relationship between DO sites 2 and 3:

- Independently delivered with no interdependence between the sites (i.e. they come forward separately at different times so no interdependence in terms of delivery and competition).
- A total of 4,500 sq m of office floorspace should be provided across the two sites. C&W consider that the total envisaged office space should be provided on one site in order to allow the maximum critical mass in office space. Given the characteristics of the sites we consider that this is best assumed for DO Site 2 based on:
 - Adjacencies and visibility to the railway station is likely to be beneficial to the attractiveness of office space. Whilst DO Site 3 is close by there is a physical road barrier and less opportunity to create a direct link.
 - The development by Churchill of Extra Care space to the north of DO Site 3 limits the opportunity to create a critical mass of offices on DO Site 3.
 - DO Site 2 has the scale to maximise cross subsidisation opportunities.
- A minimum of 300 residential units should be provided across the two sites.
- There should be some provision of additional retail floorspace.

4.4 Core assumptions relevant to the appraisal of DO sites 2 and 3 where different to the EBC Town Centre Sites Capacity Assessment:

- Car parking - all car-parking spaces within the appraisals have been reduced to 30 sq m (including circulation) from 35 sq m based on benchmark information.
- Average residential unit size of 74 sq m (800 sq ft) for apartment units to more accurately reflect the units which we would expect on the site (and to improve viability).

DO Site 2

- Instructions from EBC:
 - The Enterprise Centre to be retained
 - The car parking provision for the railway station should be equivalent to a total of 400 spaces
- There is a planning/ regeneration aspiration for retail uses on the site to complement the existing Enterprise Centre (two storey retail development let to predominately independent operators). We have assumed 4,000 sq m of retail space over two storeys as an aspirational target for the site and in relation to this would comment:
 - This is a reasonably significant quantum of retail space which is greater than the policy requirement of 'active frontages...to Terminus Road'.
 - To achieve take up of this level of space a significant proportion will need to be of A3 and A4 use.
 - The capacity assessment assumes that half of the retail space is on an upper floor; typically upper floor space is much less valuable than ground floor space and our rental rates factor this in., There should be sufficient flex within the development parameters to value engineer scheme design in order to maximise viability.
 - We have allowed no specific car parking provision for the retail space based on our assumption that this will not be car bourn retail but heavily linked to the railway station and existing retail circuit within the Town Centre. Furthermore, as this car-park was not a high value aspect of the scheme, the inclusion was not conducive to maximising the viability of the development.
- The footprint previously allocated to the 114 retail car parking spaces is not considered to be required based on the type of retail proposed on the site and the onsite car parking provision for the station and other Town Centre car parks. This footprint has been utilised for the provision of additional residential units

- The total number of residential units (244) is significant and we have assumed 3 separate phases to allow for this to come forward in a viable manner. This is a large number of units for the Eastbourne market and for this site, and as such would require careful planning.
- The eastern end of the site is constrained by the railway tracks and built up area to the north. Achieving the values assumed in this analysis will require careful planning of the use of this area as it is likely to prove the lowest value part of the site for both the residential and office uses. It is considered unfeasible as a location for retail given the lack of pedestrian flow.
- Creating a successful and viable development in this location requires maximising linkages to the key local anchor (i.e. Eastbourne railway station) and establishing the additional and existing (Enterprise Centre) retail uses as part of the retail circuit at the upper end of Terminus Road.
- A significant constraint to development of the site will be Network Rail's arrangements with the Train Operating Company to provide car parking facilities which are no less commodious. This means that the positioning of the car park will need to be carefully designed to limit the impact on the value of residential, retail and office uses. We have assumed that the new car parking provision is provided to Network Rail/ the Train Operating Company (TOC) at nil cost (in reality, this will be netted off the land value). It is not possible to place an accurate value on the car parking at this point as no detailed discussions have been held with Network Rail or the TOC.
- Whilst residential uses on the site have the potential to create value to subsidise offices, the aspect of the site is quite limiting in terms of achieving strong values and demand.

DO Site 3

- The retention of Post Office façade on DO Site 3 is desirable, but not essential. C&W has assumed that this is not retained based upon the cost implications (see Section 5).
- DO Site 3 appears to be a potentially stronger residential location than DO Site 2 given the adjacent residential developments and an overall stronger amenity value (at least prior to potential improvements). The retail frontage to Station Parade is slightly off pitch although next to a major restaurant chain (Prezzo).
- 114 residential units.
- We have retained the EBC Town Centre Sites Capacity Assessment area assumptions.

B. Assumptions

Office

- Build Costs - we have assumed an office build cost of £1,700. This has been sourced from the BCIS database, which quantifies a median cost for offices benefiting from air-conditioning of around £1,900 psm. Given the limited office market within Eastbourne, it is considered unlikely that high specification offices with air-conditioning would be delivered. The median cost without air-conditioning has an estimated construction cost of £1,700 psm. Although we would expect the proposed offices to be of reasonable specification, in order to allow for the current market, and after conferring with in-house specialists, C&W has applied this cost to allow sufficient consideration for the aforementioned restrictive rental values achievable within this market.
- Yield - C&W has applied a yield of 7.5%, based on consideration of market information, and as adopted by GVA.
- Rent - C&W has retained the achieved rent applied by GVA in their assessment of the Town Centre (£15 psf), as this is considered fair and reasonable in light of supporting market evidence.
- C&W has assumed an 18 months letting period for the office development based on 2 separate buildings of 2,250 sq m on DO Site 2. C&W has been informed by local agents that Eastbourne's

prime current office development (Pacific House) anticipates that it will take 18 months to let 26,000 sq ft and 40% of the total space has been let to date (within the first 9 months). Further information provided by GVA within their April 2016 Eastbourne Office Market Report indicates that 35 deals were completed in a 6 year period within Eastbourne (2010-2015), amounting to circa 1,000 sq m per annum. Using these indications, C&W's appraisal has assumed an optimistic office take up of 1,500 sq m per annum.

- Rent Free Period - C&W has assumed a one year rent free period.

Residential

- Build Costs - C&W has assumed build costs of £1,369 psm based on the BCIS database (median for 3-6 storeys).
- Values - a blended value of £300 psf has been assumed for the residential units, based on local market evidence. It is considered that if affordable housing is included within this scheme, the value of the affordable units would be approximately half the private sales value but no affordable housing has been included within our assessment in order to test the potential for office content on the DO sites. This would represent a policy choice for the Council.
- C&W consider that 50 units per annum would be a reasonable assumption for the sales rate for the private residential units.
- No CIL charge has been applied to the residential aspect of the scheme as the Eastbourne Community Infrastructure Levy Charging Schedule (Adopted April 2015) indicates that residential apartments are exempt.

Retail

- Rent - £18.75 psf has been assumed for DO Site 2, with £15.00 psf for DO Site 3, based on comparable evidence within the Town Centre and consideration as to what a well marketed new retail hub could achieve.
- Yield – 6.5% has been applied to the retail units at DO Site 2 based on market evidence and the ability to attract national multiples. A rate of 7.0% has been utilised for DO Site 3.
- Letting period - 18 months.
- Rent free period- a rent free period of 12 months is considered to be in line with the market standard within Eastbourne.
- A CIL charge of £80 psm has been applied to the retail aspect within the appraisals, as indicated within Eastbourne Community Infrastructure Levy Charging Schedule (Adopted April 2015).

Car Park

- For the residential and office surface car parking, a construction cost of £150 psm has been assumed as advised by in-house C&W specialists. C&W has allowed for decked car parking construction costs of £8,600 per space (30 sq m per space including circulation assumed).
- Revenue - no revenue has been included within the appraisals for the residential and office car parks, as the value of this is assumed to be implicit within the market price of these units. No value has been attributed to the Network Rail replacement spaces on DO Site 2 as this is assumed to be a requirement of the development which would be netted off any land receipt to them.

General Assumptions

- Contingency has been assumed at 7.5%.
- Section 106 costs of £1,000 per residential unit have been allowed for.
- Demolition and enabling works assuming no asbestos:
 - £600,000 on DO Site 2 to include additional services to the rear of the site.
 - £200,000 on DO Site 3.

- Professional fees have been assumed at 10% - this is relatively low for the mixed use element proposed for DO Site 2 in particular (but an additional element of professional advice is assumed to be covered within the planning costs).
- Finance at 6.5%.
- Profit on cost requirements at 20%.
- C&W has assumed a high level estimate of £2,000 per unit for planning costs (statutory cost plus professional advice outside of the professional fee allowance, surveys, additional studies etc).
- Public realm/ landscaping space costed at £40 psm based on QS advice.
- For DO Site 3, it is assumed that there will be a cost involved in the relocation of the Royal Mail facility (we note that the centre is to close); however this has not been included within the assessment as it is assumed that they will be sufficiently incentivised by the potential land receipt from the site.

Table 9 – Fees and Marketing Costs

Commercial Sales Agent Fee	1%
Commercial Legal Fee	0.50%
Agency Letting Fee	10.00%
Agency Legal Fee	5.00%
Residential Sales Fee	1.00%
Residential Legal Fee	0.50%
Marketing	1.50%

Table 10 - DO Site 2 C&W Scenario Floor Area

	<i>Footprint (sq m)</i>	<i>Gross External Area (sq m)</i>	<i>Efficiency</i>	<i>NIA (sq m)</i>
Retail	2,000	4,000	90%	3,600
Office	1,765	5,294	85%	4,500
Residential - 244 units	5,289	21,155	85%	17,982
Car Parking – NR replace (400) & additional residential (44)	3,328	13,312	100%	13,312
Car Parking - office (128)	3,840	3,840	100%	3,840
Car Parking - residential (200)	3,000	6,000	100%	6,000
Public Space	5,745	5,745	100%	5,745
Total	24,967	59,346		54,979

Table 11 – DO Site 3 C&W Scenario Floor Area

	<i>Footprint (sq m)</i>	<i>Gross External Area (sq m)</i>	<i>Efficiency</i>	<i>NIA (sq m)</i>
Retail	500	1,000	90%	900
Residential - 114 units	2,500	10,000	85%	8,500
Car Parking - residential (114)	1,710	3,420	100%	3,500

Public Space	1,187	4,498	100%	4,498
Total	5,897	18,918		17,398

C. Results

4.5 It should be noted that for analysis purposes, no affordable housing has been included within the two appraisals and no input land value. The nuance to this on DO Site 2 is that we have attributed no value to the new car park provided to Network Rail (which in effect would be netted off any land receipt). The underlying assumption behind this is that:

- The provision of office space is the beneficiary of cross subsidy on DO Site 2 so no affordable housing is to be provided unless viability improves to a point where this is achievable.
- If a surplus over and above the benchmark land value is achievable on DO Site 3 then a proportion of affordable housing up to the policy requirement of 30% housing will need to be provided.

Table 12 - DO Site 2 C&W Appraisal (all figures in millions)

Net Realisation	£75.9
Land Value (negative)	-£0.05
Total Cost (excluding land value and profit)	£63.05
Profit	£13.6

Table 13 - DO Site 3 C&W Appraisal (all figures in millions)

Net Realisation	£29.3
Land Value	£3.5
Total Cost (excluding land value and profit)	£20.7
Profit	£5.1

4.6 As already stated, no land cost has been input into the appraisals and we would therefore anticipate that a benchmark land value will have to be exceeded in order to incentivise the land owners to bring the sites forward. Based on values per hectare from the EBC Community Infrastructure Levy Viability Study (2013) and for illustrative purposes, a high level blended assumption of 50% office land and 50% residential land (£0.84 million per hectare) which in part reflects the constraints and barriers to development on the two sites although a more exact figure would come from understanding the actual existing use value of the site:

DO Site 2: 3.07 hectares but with Network Rail receiving a new 400 space car park at nil cost (assumed to cover 1.2 hectares of the existing site) so cost is 1.53 hectares x £0.84 million - £1.3 million.

DO Site 3: 0.54 hectares x £0.84 million - £0.5 million.

4.7 Therefore, the net viability of the two sites after all costs and values (pre affordable housing):

DO Site 2: **-£1.35 million**

DO Site 3: **+£3.0 million**

- 4.8 This suggests that in today's market the scheme for DO Site 2 is just short of generating a value in excess of the existing potential of the site in order to incentivise a developer. The result for DO Site 3 suggests that it does generate a value in excess of the existing potential of the site (albeit, this surplus would be reduced when affordable housing was provided).

D. rCOH Scheme

- 4.9 The findings from the appraisal of the scheme within this Section of the report suggest that office use on both DO sites requires significant cross subsidy and on that basis, we consider that the proposed Option A for DO Site 2 within the rCOH capacity study would be highly unviable. Option B for this site offers a more realistic scenario due to the proposed inclusion of 74 residential units (although the amount of affordable housing assumed is not specified, which would impact on the viability). However, given our scheme analysis and value assessment, we do not consider that this quantum of residential space will be sufficient to cross subsidise the proposed office provision.
- 4.10 The scheme on DO Site 3 is lower density than the scheme modelled by C&W (which does not include the northern area for the site that already has planning permission). The ratio of B1a space to residential provision would need to be reconfigured in order to improve viability as (based on Blocks A and B only, the cross subsidy is unlikely to enable a viable scheme to be brought forward), although as per our commentary in Section 5, we consider that DO Site 2 offers greater potential for office provision.

E. Sensitivity

- 4.11 Clearly, the assessments of DO sites 2 and 3 are at a high level and there should be significant potential for value engineering and detailed working up of schemes which can alter the results to these appraisals.
- 4.12 In order for the viability of the sites to improve based on the schemes assessed within this report, the key element would clearly be an increase in values and a reduction in cost. Through C&W's review of the schemes, we have also considered the potential to add further residential units to the sites; we have not done this within our appraisals as we consider that the quantum (particularly on DO Site 2) applied to be significant in any case, and would result in a high density scheme which would require several phases in order to be delivered.
- 4.13 In particular, the schemes are sensitive to changes in residential values, given the scale of this use and the range of values within Eastbourne. The schemes could create an environment which allows for the sites to generate higher residential values through repositioning this location within the Eastbourne market. This could draw on the quality of the public realm and wider amenity offer from the development of the area around the railway station. This would need to be over and above any increase in build cost inflation and be based on a shift in perceptions by occupiers and investors within the plan period. Sensitivities would give the following outputs:

DO Site 2:
5% increase: £0.8 million
10% increase: £2.9 million

DO Site 3:
5% increase: £4.0 million
10% increase: £5.0 million

5. QUESTIONS

1. **What level of rent for office floorspace would be needed for commercial office development to be viable in the Town Centre without cross subsidy and how likely is it that rents would rise to those levels within the plan period, having regard also to changes in construction costs?**

Leasing activity in the South East market has increased year on year from 2011 to 2015. Asking rents in the South East office market over the past five years have increased steadily from a low of c.£16.50 in early 2013 to a high of c.£18.70 in 2016 (to date). This equates to a 13.3% increase over this time frame, evidencing increasing demand and office market strength. However, Eastbourne has a limited office market and almost no speculative development or Grade A stock. Evidence for rental growth in recent years is limited.

Both GVA and SHW agree that speculative office development in Eastbourne (regardless of this being in or out of town) is unviable. In order for a Town Centre scheme to be viable we consider that the following fixed inputs need to be allowed for and a rent then 'goal seeked' to achieve a break even position:

- 20% profit on cost
- Build costs of £1,700 psm
- Hard landscaping cost of £150 psm
- Rent of £15 psf
- Yield at 7.0% (which is 0.5% lower than utilised for DO Site 2 and 3)
- Zero CIL
- Professional fees of 10%
- A rent free period of 12 months
- Average void period 12 months
- Car parking ratio of 1 space per 35 sq m of office space (surface)
- Base land value of £0.45 million per hectare established from the allowance for office land within the CIL Study

The scale of the scheme to be developed would need to be balanced so it was at a level which did not increase the void allowance and dovetailed with the predominant market requirements at the time but otherwise, the exact floor area is not a consideration apart from its impact on the land take.

Therefore, we have based the scheme on a 3 storey development totalling 2,250 sq m (Net Internal Area) with surface car parking. Given these development parameters and fixed inputs, a rent of £26 is required to reach breakeven. The corresponding figure calculated by SHW is £237 psm (£22 psf). This may appear a big difference but several inputs have a significant effect on viability and if adjusted could lower the minimum rental value to this level:

- Reducing the profit on cost (currently at 20% profit on cost)
- Lowering build costs through a reduced specification
- Lowering professional fees and/or contingency

Therefore, we don't disagree with SHW's figure as this concurs more with C&W's general experience of other locations and in an area where build cost and land values vary considerably, determining an exact 'hurdle rent' requires fixing too many variables which are fluid in a similar vein to rents. The confidence which can be applied to the assumptions on a realistic minimum yield, input land cost and build specification are clearly critical.

Eastbourne does not have an established office market and therefore market statistics and data is largely unavailable in terms of forecast rental growth. Examining the wider area however, Lambeth Smith Hampton's South Coast Office Market Pulse Q1 2016 research, showed a continuing fall in office space supply in the wider south coast region. This was predominantly due to increased Office to Residential conversion activity, particularly in key business centres such as Portsmouth and Southampton. The report identified stimulated rental growth in the south coast area and evidence of increasing demand for new office space. Underpinned by increasing demand, which in the south coast and wider South East office markets, is reported to often outstrip supply, Bilfinger GVA's Spring 2016 business park review forecasted a 3.3% annual rental growth for

regional office markets. Whilst this is not a perfect measure of growth potential, we consider it to be the most appropriate available figure.

Along with any rental growth, the BCIS construction cost inflation forecast totals over 20% (4% per annum) within the next five years (as illustrated in Table 14) which indicates that to achieve viability, rental growth would need to be such that it outpaces this construction cost growth.

Table 14 – BCIS Construction Cost Inflation Forecast

Date	On year	On quarter
2Q 2016	0.03%	0.02%
3Q 2016	3.30%	0.70%
4Q 2016	3.30%	0.40%
1Q 2017	3.60%	1.10%
2Q 2017	3.60%	1.40%
3Q 2017	3.90%	1.00%
4Q 2017	4.60%	1.00%
1Q 2018	4.50%	1.00%
2Q 2018	4.80%	1.70%
3Q 2018	4.80%	1.00%
4Q 2018	5.10%	1.30%
1Q 2019	5.00%	1.00%
2Q 2019	4.90%	1.60%
3Q 2019	5.20%	1.30%
4Q 2019	5.10%	1.20%
1Q 2020	5.10%	0.90%
2Q 2020	5.30%	1.80%
3Q 2020	5.30%	1.20%
4Q 2020	5.20%	1.20%

2. What would be the cost implications of the need to replace the existing station car park on-site in a decked structure?

Having conferred with C&W's Quantity Surveyors, a cost of £8,600 per space is considered to be a reasonable assessment for a low specification decked structure. Based on a 400 space car park, the cost would total £4.07 million including professional fees and contingency.

3. What is the scope for cross-subsidy of office development from other forms of development

It is considered from C&W research and visiting the site that any cross subsidy would have to come predominately from residential uses. This is considered the most appropriate use for the sites aside from office, retail, parking and hotel uses. The amenity value of DO site 2 is constrained by the railway tracks/ fences to the south and the existing office/ light industrial area to the north but residential is still likely to be the best potential route for cross subsidy given the convenient Town Centre location.

Whilst both of the sites benefit from strong transport links, the area is considered marginal for retail uses given the established higher value retail area being south of the station within the thoroughfare to the seafront. DO Site 3 has a reasonable potential for small scale provision with the existing Prezzo unit to the south and is a more cohesive site (compared to the elongated nature of DO Site 2). Having said this, DO Site 2 has the potential in terms of an expanded retail offer which links and builds on the existing Enterprise Centre; we consider that this may have viability challenges but with public sector support and significant investment in linkages and the public realm, there may be the opportunity to provide additional space, although a certain critical mass will be required (4,000 sq m has been assumed).

4. The amount of office space which could realistically be provided on which site, and in combination with what other developments.

As noted in this report, C&W consider that DO Site 2 has the best potential to create a critical mass of offices in a position close to the railway station and we have therefore assumed that all office provision will be in this location. Table 15 illustrates the potential mix, although the base assessment of this scheme is not currently viable as outlined in Section 4.

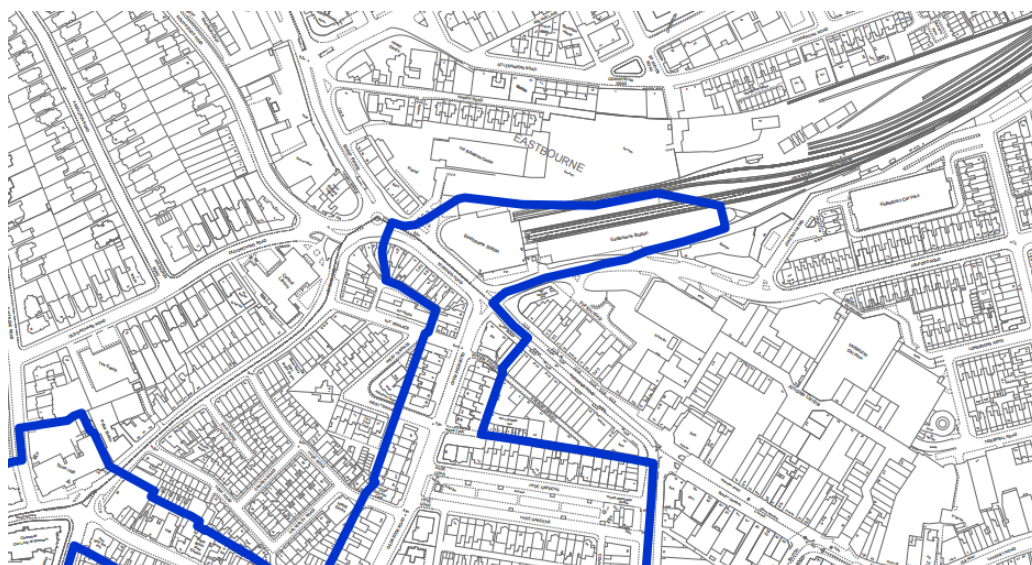
Table 15 – Potential mix of uses on DO Site 2

	Gross External Area (sq m)	Efficiency	NIA (sq m)
Retail	4,000	90%	3,600
Office	5,294	85%	4,500
Residential - 244 units	21,311	85%	18,114
Car Parking – NR replace (400) & additional residential (44)	13,312	100%	13,312
Car Parking - office (128)	3,840	100%	3,840
Car Parking - residential (200)	6,000	100%	6,000
Public Space	5,745	100%	5,745

If the office space is reduced to 3,000 sq m (NIA) with a concurrent drop in car parking provision to 85 spaces, this produces a land value of +£1.7 million and a net viability of £0.2 million which illustrates the potential to deliver this quantum of floorspace.

5. Consideration as to whether the current criteria in the Town Centre Local Plan impedes delivery.

- Affordable Housing** - both DO sites are situated within Neighbourhood 1: Town Centre, which is classified as a 'low value area'. As such, 30% affordable housing would be sought. Although this is 10% lower than would be required in a higher value area, this remains a significant proportion which will impact on the viability and deliverability of any scheme delivered if adhered to. Given the viability testing provision within the NPPF, this constraint can be overcome.
- Historic Environment and Town Centre Heritage** – significant development restrictions and requirements can act as a limiting factor on viability and deliverability. Although neither of the sites fall within the boundaries set within the Conservation Area Boundary of January 2009 (see Figure 2), DO Site 2 is particularly close and will need to be considered when formulating a scheme; this could impede demolition, buildings alterations, design and signage.

Figure 4 – Town Centre Conservation Area Northern Boundary

6. What changes would be needed to Policy EL3 to require the inclusion of a minimum proportion of office space

Making B1 provision mandatory in Policy EL3 is potentially not a flexible and justified approach taking into account the viability evidence which suggests a significant need for cross subsidy which could be at a level which hinders to the deliverability of other uses.

Policy should acknowledge that there is no doubt, based on our viability evidence and the work of GVA and SHW, that cross-subsidy is necessary to help ensure the delivery of office development on Town Centre sites over the plan period. It should therefore:

- Require planning applications involving cross-subsidy to be supported by a viability assessment, carried out in accordance with the National Planning Policy Framework and RICS guidance; and
- Afford flexibility for a range of uses on Town Centre sites (in accordance with the adopted Town Centre Local Plan) to ensure the higher value uses are capable of cross-subsidising and supporting the delivery of office development over the plan period.

However, as per our response to Question 4, our assessment suggests that whilst the provision of 4,500 sq m of office space on DO Site 2 is currently unviable, 3,000 sq m could be viable as part of a mixed use scheme.

7. What would be the implications for the provision of starter homes and other forms of affordable housing that also depend on cross-subsidy.

Cross-subsidising office floorspace on the DO sites 2 and 3 would have a direct implication for both the quantum of affordable housing deliverable and the types of units (e.g. starter homes, rental and intermediate products).

Affordable housing is seldom viable in its own right, with delivery predominantly reliant on Section 106 agreements. These are themselves determined by scheme viability, with reference to an existing or benchmark land value. If greater office floorspace is delivered through cross-subsidy this will result in a decrease in absolute viability, impacting the non-surplus generating elements (i.e. uses other than private residential and retail). Given a fixed benchmark land value, developer profit and fees (and adjusting for the difference in build

costs between uses), the only element where there is flexibility to absorb this additional burden on the scheme is through affordable housing.

It is therefore likely that, for both DO sites to be deliverable within the plan period, the Council will need to accept a lower level of affordable housing (through viability testing at the point of application) than is currently required by policy based on viability grounds. This is likely to be a mixture of the total number of units, and the types of units i.e. the relative mix of starter homes, rented units, and shared ownership units.

8. Would development include the retention or replacement of some or all of the Enterprise Centre on Site 2 and the Post Office building on Site 3?

C&W's instructions from EBC are to retain the Enterprise Centre and as a general comment, we would suggest that given the relatively recent investment which has been made in it and the number of tenants, this would be sensible (we have not reviewed the viability of this asset).

In relation to the Post Office building, we understand that this is not listed and therefore the question as to whether it should be retained or not comes down to a cost/ benefit analysis of retaining the façade.

Retaining facades is expensive and typically has a significant impact on the cost (and viability) of schemes. This will depend largely on the area of residential/ office space that can be achieved with a new scheme. The smaller the area being developed, the larger the impact of the retained facade costs as these are fixed whilst, the larger the area, the more value is created which can support this cost. Ultimately, the costs will be higher with a retained façade and design can be constrained.

There are some locations and buildings where the character and amenity value of the façade is such that it adds to achievable rents and capital values which can justify the expenditure. Whilst we can't be definitive, we consider it highly unlikely that this would be the case in relation to this building and location. From a South East of England development the prospective achievable residential and (particularly) office values in Eastbourne are relatively low and the additional cost of façade retention is considered unlikely.

9. Could the Government initiative to support development at railway stations bridge a viability gap

As part of the 2016 Budget, it was announced that the Homes and Communities Agency (HCA) will be working with Councils and Network Rail to help push forward regeneration projects and release land around railway stations for regeneration, including for housing development. This project is hoped to create numerous jobs and up to 10,000 homes across at least 20 local authorities. The scheme is to be locally led, with no Government-imposed targets on affordable housing.

Three councils have already come forward with proposals and have railway land sites identified as suitable for housing and other locally-led regeneration. A proposal from City of York Council suggested that up to 2,500 homes and around 100,000 sq m of office and commercial space could be supported on land at York Station. Taunton Deane Borough Council and Swindon Borough Council have also proposed the regeneration of land around their respective stations, to provide homes and commercial spaces.

It is worth noting that as Network Rail is now a public body and has housing targets it has an additional incentive to push forward with delivery.

C&W consider that the scheme has the potential to improve viability and in particular, the speed of delivery: for instance, prior to the announcement there was no indication from Swindon that any such development would take place, let alone of such a scale, which is an indication that the initiative is having an effect. In relation to the York scheme, we understand that the HCA are set to contribute £9-10 million of initial funding to help bring early phases of the development forward. However, it should be noted that this is a large site of 74 hectares which has helped it to attract funding given the scale of potential development.

There does not appear to be a 'headline' number for funding or allocations in relation to this scheme, and as such, allocations are likely to be decided on a case by case basis. It is likely that it will be up to the Local

Authority to liaise with HCA to formulate a bid with funding to be provided dependant on the quality of the case put forward. This would be based on the potential housing numbers and scale of commercial development.

C&W advises on a number of sites adjacent to railway stations and would caution that whilst this initiative (and other funding allocations which have involved the HCA and Network Rail in the past) will assist deliverability and viability, the constraints of developing land which sits adjacent to railway land and stations are considerable due to the following considerations:

- Car parking provision: Train Operating Companies will typically have a right for 'no less commodious' car parking if Network Rail and any development partner wants to move station car parking. This can make it expensive to move car parking or to reduce the quantum.
- Noise and amenity: DO Site 2 is relatively linear and sits alongside the railway station platforms with a degree of noise and limited amenity values. Clearly, this is typical for land adjacent to railway stations but it can have cost implications in terms of acoustic barriers and constrains achievable values.
- Irregular site configurations: much of the undeveloped land adjacent to railways (and indeed the land at DO Site 2) is awkwardly shaped for development which constrains masterplanning options and restricts site servicing arrangements.

Other options to assist in bridging the viability gap could include the Local Enterprise Partnership providing support for a scheme which delivered a requisite quantum of jobs and/ or homes in terms of:

- Local Growth Fund grant (i.e. not repayable)
- Growing Places Fund loan (a revolving infrastructure fund)

There is currently no open round of applications for Enterprise Zones but there may be the potential for identifying this (or other sites) as Housing Growth Zones; these would allow for the ring-fencing of future Council tax receipts to fund upfront enabling works (so in the case of DO site 2 for example, funding the setting up of the decked car park).

10. When delivery can be expected within the plan period

Considering the commentary in relation to Question 1 (rents required to achieve viable speculative office delivery), delivery of good quality new build office stock without public sector support or cross subsidy from other uses appears to be unlikely within the plan period given the existing level of returns and the projected future outlook for rents and construction costs.

However, we consider there to be the potential for the office provision outlined within the local plan to be delivered within the plan period based upon cross subsidy from other uses, a proactive approach from EBC to promote development and flexibility on affordable housing requirements when other 'loss making' elements are being provided. The exact timing of delivery is dependent upon when other office schemes come forward within the area and attractiveness of the site (particularly DO Site 2) to developers in terms of the residential market.

The full delivery of 4,500 sq m of office space within the plan period on DO Sites 2 and 3 is likely to require a mixture of:

- Residential value growth in excess of cost growth.
- Proactive EBC involvement in promoting DO Site 2 for development and working with landowner and stakeholders to bring forward a comprehensive scheme with some potential public sector support.
- Value engineering, particularly in relation to reducing the car parking requirement of the site which uses up significant space and restricts the development potential of DO Site 2 in particular.

As per the response to question 4, we consider that based on the viability of the sites today, 3,000 sq m of B1 space can be provided.