



## Report

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# Eastbourne Office Market Report

April 2016



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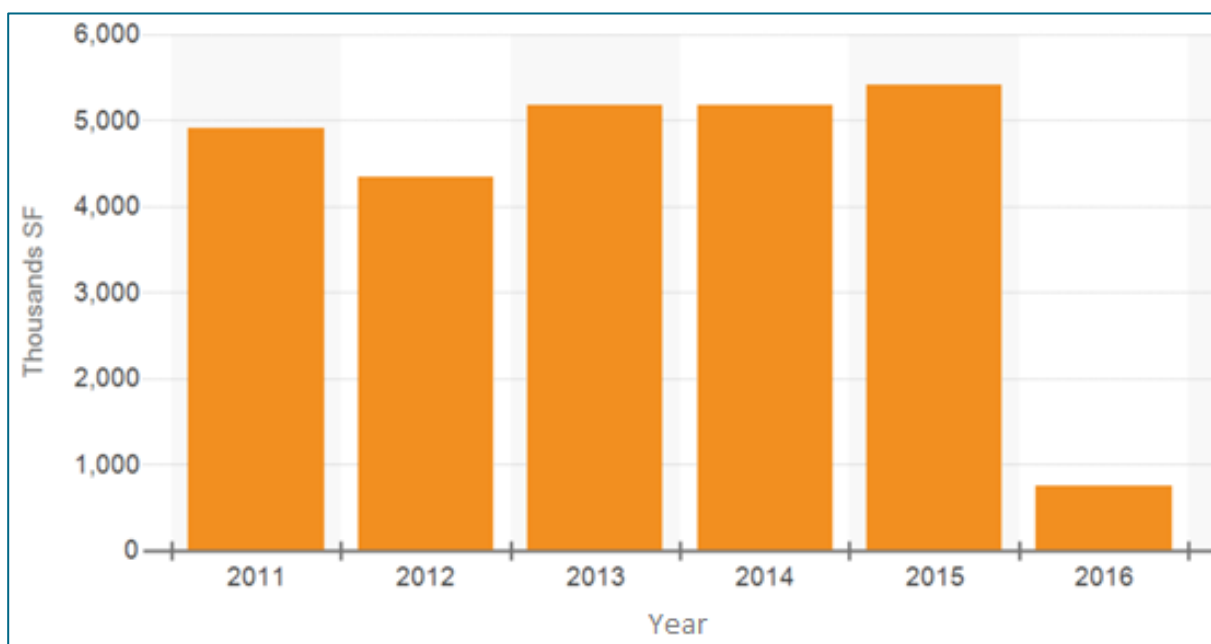
# 1. Introduction

- 1.1 This report provides the most up to date office market intelligence to support the Eastbourne Employment Land Local Plan Examination in Public (EiP). It has been prepared to support responses to the Matter's Questions raised by the Inspector in advance of the EIP Hearing in May 2016.
- 1.2 The review of office market trends starts at the broadest South East scale, before narrowing slightly to consider to the South Coast market, followed by the East Sussex market. This establishes the context of the wider office market trends within which the Eastbourne market operates.
- 1.3 Following this broader context setting the report focuses specifically on the Eastbourne office market. The Hastings office market is also reviewed as a comparator market to Eastbourne.
- 1.4 For Eastbourne and Hastings, more detailed market analysis is undertaken establishing; total current stock, general market statistics, existing stock by size, size-specific take-up (5 year trend), size specific deals (5 year trend), asking rents and occupancy rate (10 year trend).

## 2. South East Office Market

- 2.1 Within South East England there is currently 14,493,400sqm of office floorspace, which amounts to 13.1% of the total floorspace within the UK. This floorspace consists of space that is 'standalone' office that is occupied (or able to be occupied) by any tenant, therefore it excludes properties occupied by civic institutions (such as local authority offices) or office space that is integrated into buildings of other use classes (such as the office component within a distribution unit). Given these caveats the stock level differs from information provided by the Valuation Office and should not be directly compared to it.
- 2.2 Leasing activity in the South East market, as shown in Figure 1 below, has increased year on year from 2011 to 2015, with the exception of 2012. This evidences consistent strength of leasing demand in the South East.

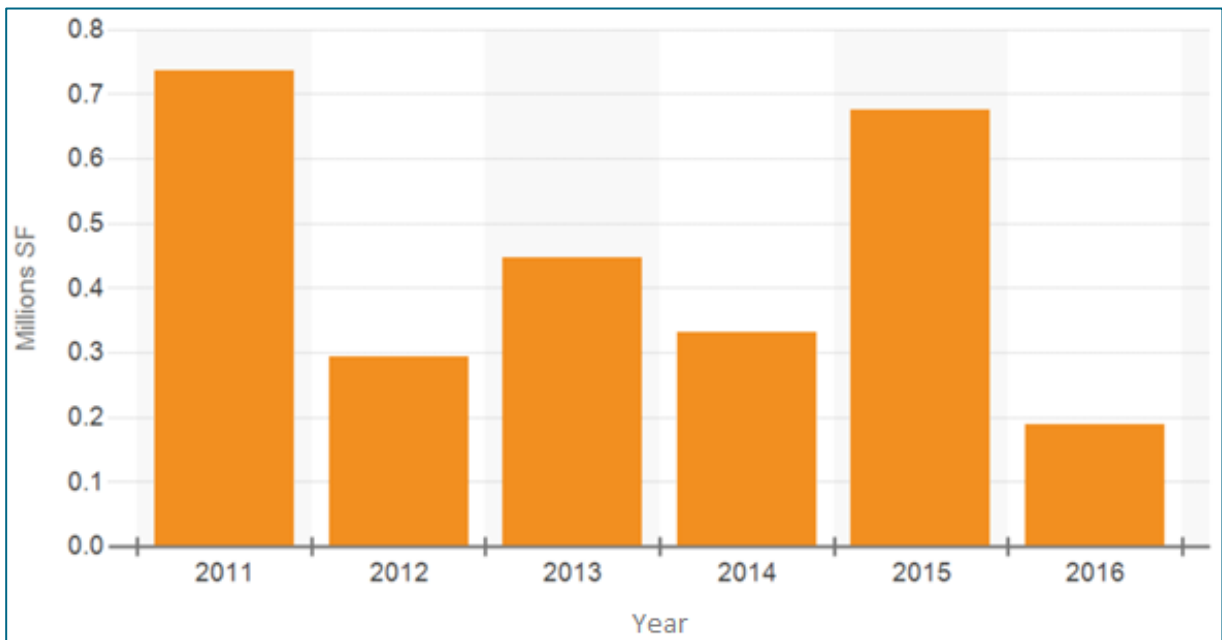
**Figure 1 – South East Leasing Activity**



Source: *Costar Suite, 2016*

- 2.3 Construction Deliveries, as shown in Figure 2 below, totalled 730,000sqft in 2011, however this reduced by more than 50% to a mean level of 350,000sqft between 2012 and 2014. Deliveries in 2015 however, increased towards 2011 levels with 680,000sqft of new office space being delivered. The Q1 2016 deliveries support some indication of recovering growth in construction completions, with the delivery of 190,000sqft. This suggests increasing investor confidence in the office market, following suppressed construction deliveries during and immediately following the recession.

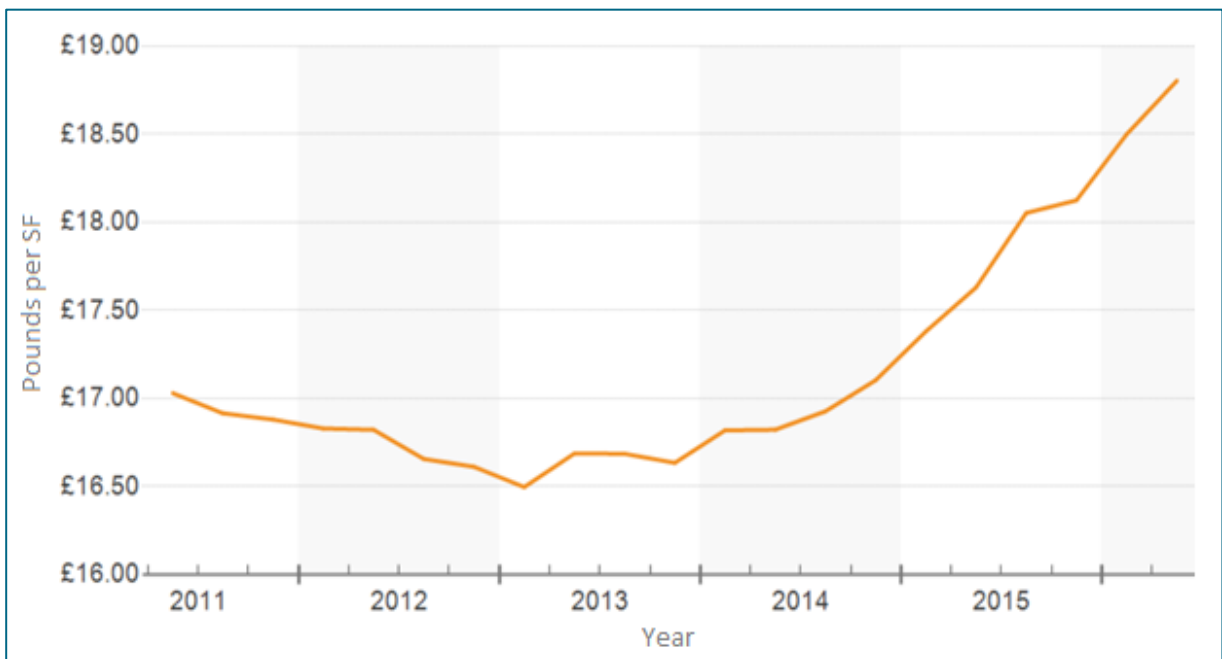
**Figure 2 – South East Construction Deliveries**



Source: Costar Suite, 2016

2.4 Figure 3 below, shows that 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 is an increase of £2.20 over the period, which equates to a 13.3% increase. This evidences increasing demand and office market strength.

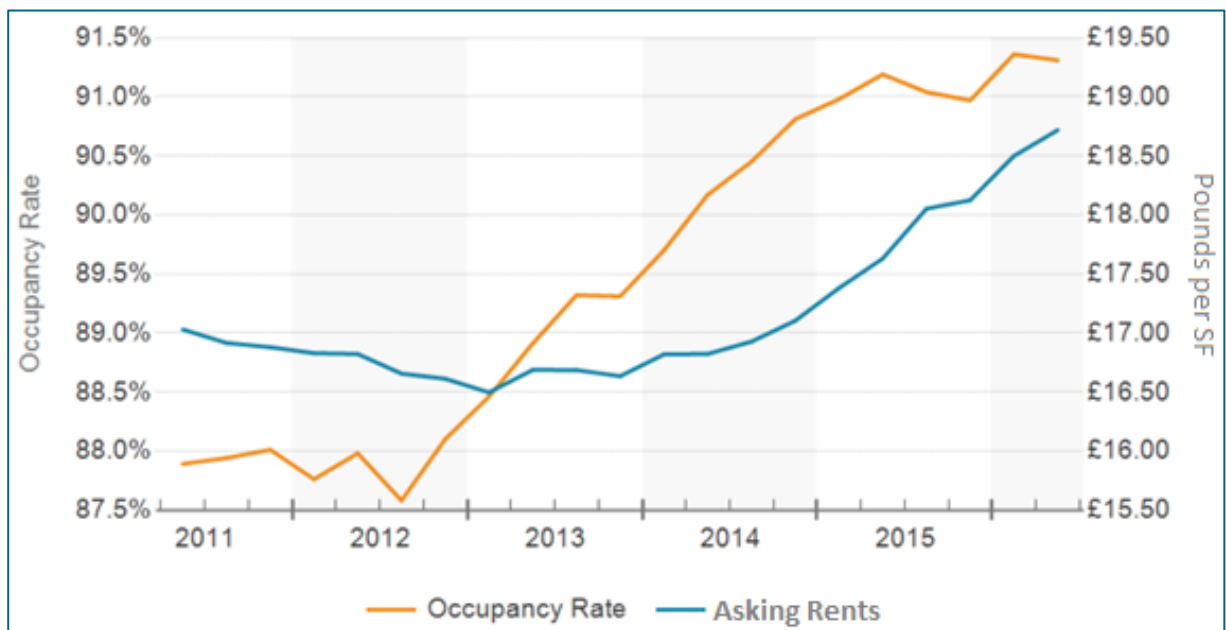
**Figure 3 – South East Asking Rents**



Source: Costar Suite, 2016

2.5 Figure 4 below, indicates that alongside the increase asking rent trend, there has been an increase of 3.7% in occupancy rates from c.87.6% in 2012 to c.91.3% in 2016.

Figure 4 – South East Occupancy Rate and Asking Rents



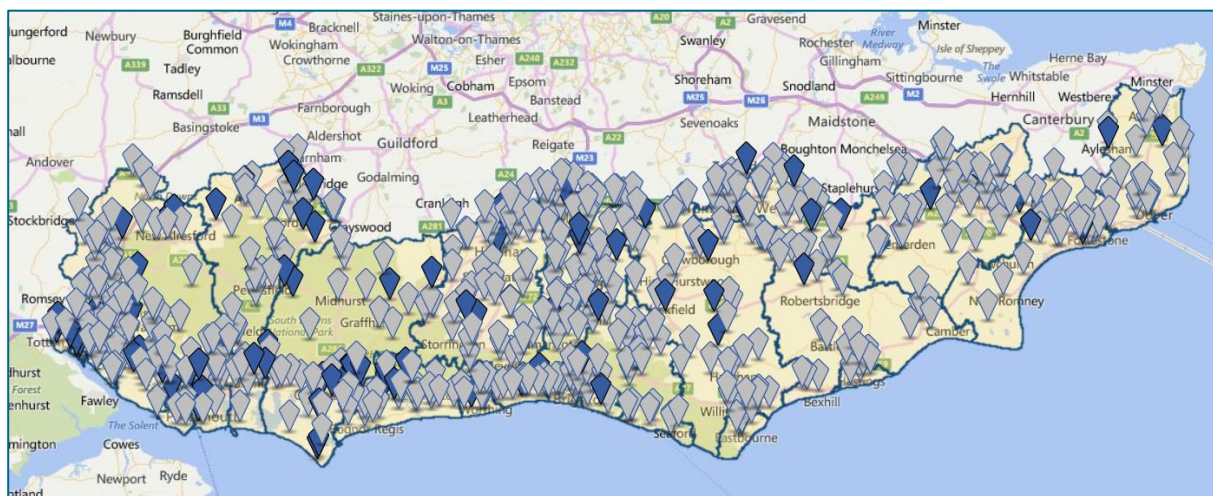
Source: Costar Suite, 2016

2.6 Overall, the office market in South East England has shown continued strength over the past five years, particularly considering the increasing rental and occupancy trends in recent years. This strength in the South East market establishes the broader context within which the South Coast and East Sussex, and more specifically the Eastbourne and Hastings office markets are operating.

### 3. South Coast Office Market

- 3.1 The South Coast market is defined here to include the following areas; Sussex (East Sussex, West Sussex, Brighton and Hove, Brighton M25 Corridor SW), Hampshire (Southampton, Portsmouth and most of Hampshire County Council – East Hampshire, Eastleigh, Fareham, Gosport, Havant, Winchester), and part of Kent County Council (Ashford, Dover, Shepway and Tunbridge Wells). This is shown below in Figure 5.
- 3.2 This South Coast market area has a current office stock figure of 3,816,954sqm, which amounts to 26.3% of office space in South East England, and 3.5% of total office space within the UK. As noted previously, this floorspace consists of space that is ‘standalone’ office that is occupied (or able to be occupied) by any tenant, therefore it excludes properties occupied by civic institutions (such as local authority offices) or office space that is integrated into buildings of other use classes (such as the office component within a distribution unit). Given these caveats the stock level differs from information provided by the Valuation Office and should not be directly compared to it.

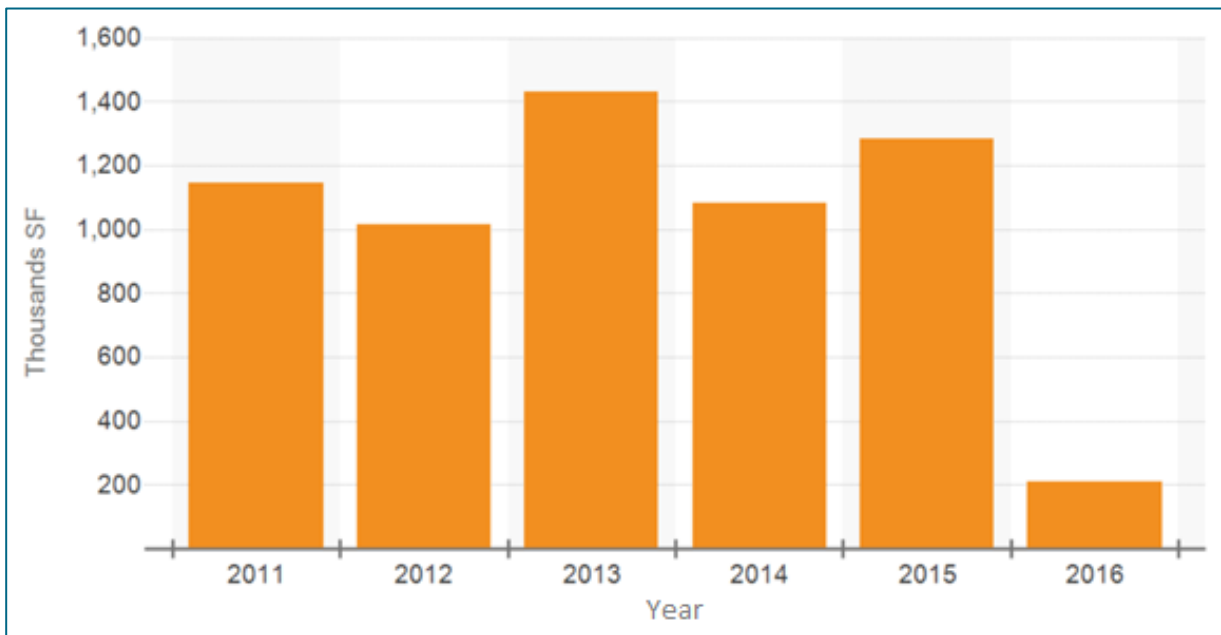
**Figure 5 - Local Authorities that comprise the South Coast Market**



Source: Costar Suite, 2016

- 3.3 Leasing activity in the South Coast over the last five years, as shown in Figure 6 below, has varied around a mean of 1,200,000sqft. The South Coast therefore constitutes 24% of the mean annual leasing activity total of 5,000,000sqft in the South East regional market. The pattern of years with higher and lower leasing activity shows some reflection of South East construction deliveries in Figure 2 (although not the growth in Figure 1 concerning wider regional leasing activity).

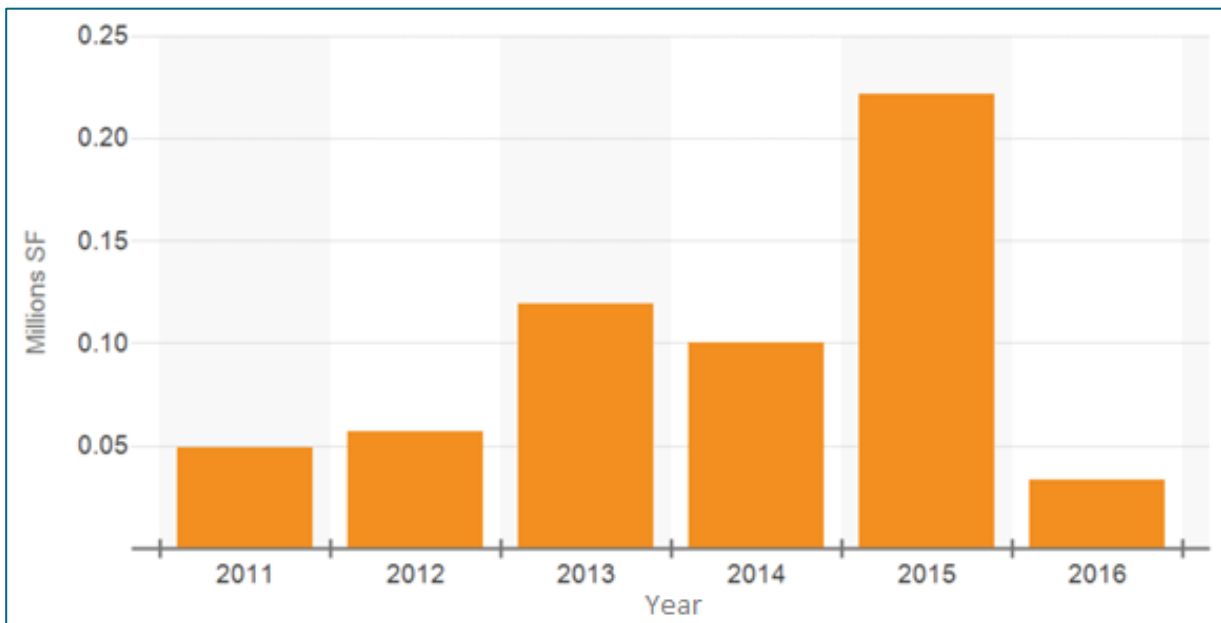
Figure 6 – South Coast Leasing Activity



Source: Costar Suite, 2016

3.4 In terms of new office construction delivery, shown below in Figure 7, construction and delivery of office stock has generally increased in recent years, with 50,000sqft delivered in 2011 compared to 220,000sqft delivered in 2015 (an increase of 170,000sqft or 340%). The construction delivery in 2016 to date is also positive, having reached 30,000sqft in the Q1.

Figure 7 – South Coast Construction Deliveries



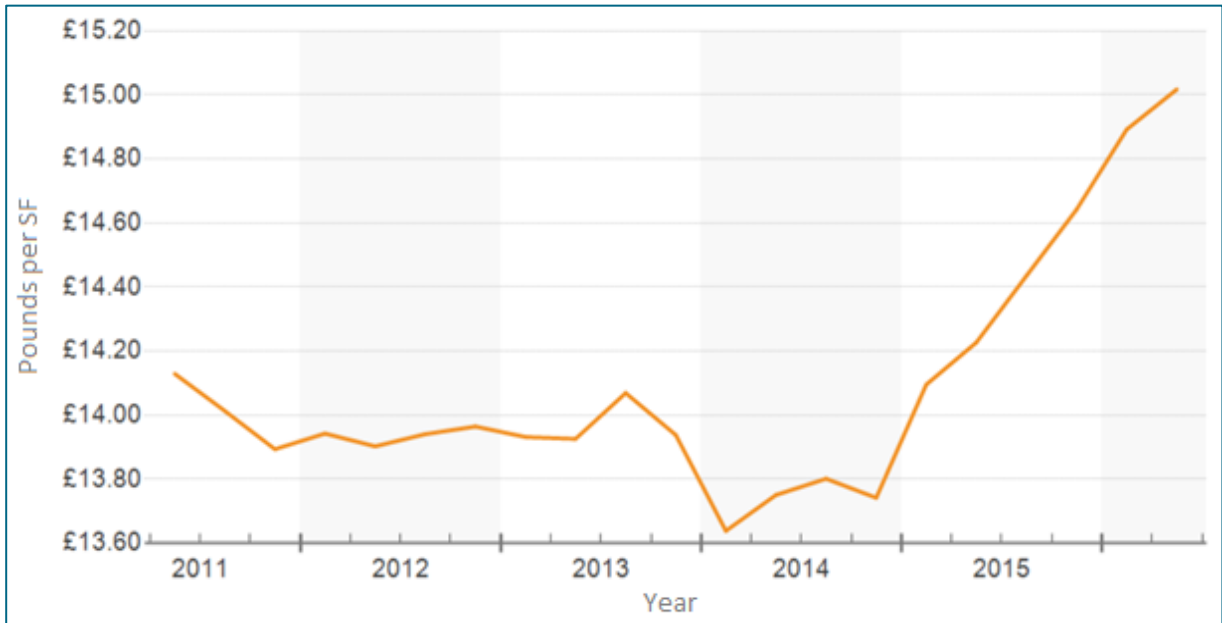
Source: Costar Suite, 2016

3.5 Figure 8 below shows that asking rents in the South Coast office market have experienced an increasing trend over the past two years, from a low of c.£13.60 in 2014 to c.£15.00 in 2016, which equates to a 10.3% increase. This evidences increasing demand and office market



strength. Comparing the South Coast market to the wider regional market; rental rates are higher in the South East than the South Coast (current asking rent is £3.70 less).

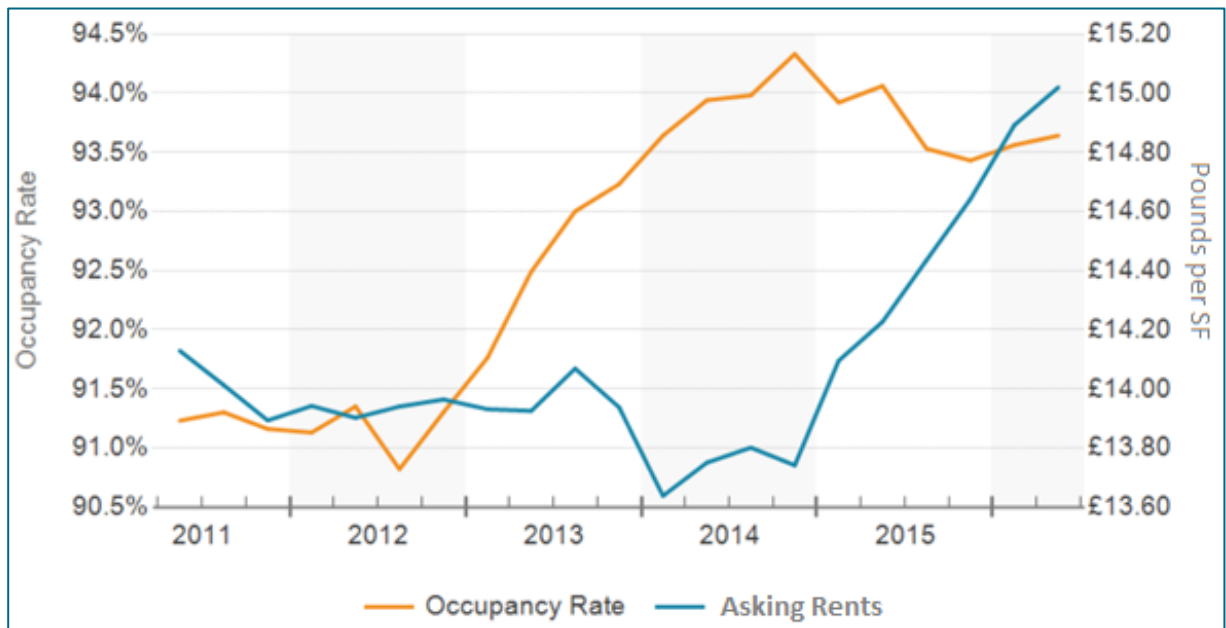
**Figure 8 – South Coast Asking Rents**



Source: Costar Suite, 2016

- 3.6 Figure 9 below indicates that the increasing asking rent trend from 2014 – 2016 has been accompanied by an increasing occupancy rate trend, however this began earlier in mid 2012. The occupancy rate increased from a low of c.90.8% in 2012 to c. 93.6% in 2016. In part this reflects a realignment of stock as redundant property is redeveloped under permitted development, however it also reflects a strengthening of this sub-regional market.
- 3.7 Occupancy rates in the South Coast are higher (by 2.3%) than in the wider South East market. This is likely to have tempered occupancy growth in the South Coast market, which is 1% behind growth in the South East market.

Figure 9 – South Coast Occupancy Rate and Asking Rents

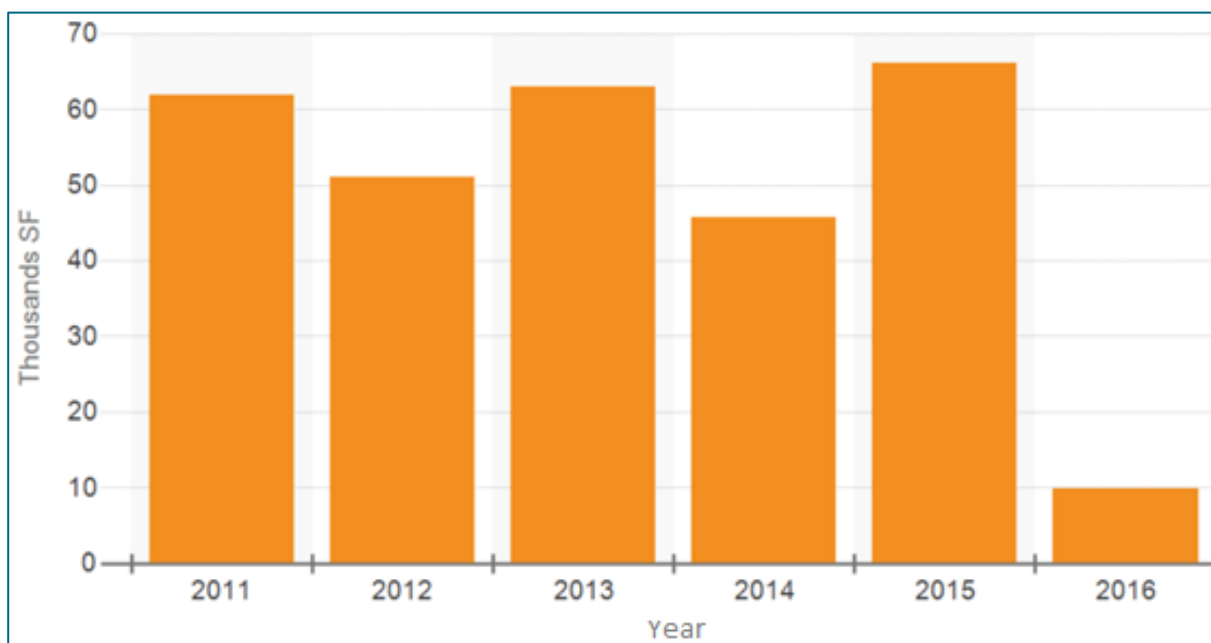


Source: Costar Suite, 2016

## 4. East Sussex Office Market

- 4.1 Focussing at a more localised scale, East Sussex has a stock of 232,218.3sqm office floor space which amounts to 6.1% of office space within the South Coast market and 1.6% of office space within the South East market. As noted previously, this floorspace consists of space that is 'standalone' office that is occupied (or able to be occupied) by any tenant, therefore it excludes properties occupied by civic institutions (such as local authority offices) or office space that is integrated into buildings of other use classes (such as the office component within a distribution unit). Given these caveats the stock level differs from information provided by the Valuation Office and should not be directly compared to it.
- 4.2 Leasing activity over the past five years, as shown below in Figure 10, has fluctuated from 2011 – 2015 and reflects the wider South Coast leasing activity trends in Figure 6. In 2015 leasing activity peaked at 66,000sqft, indicating higher activity than had been observed in the previous four years.

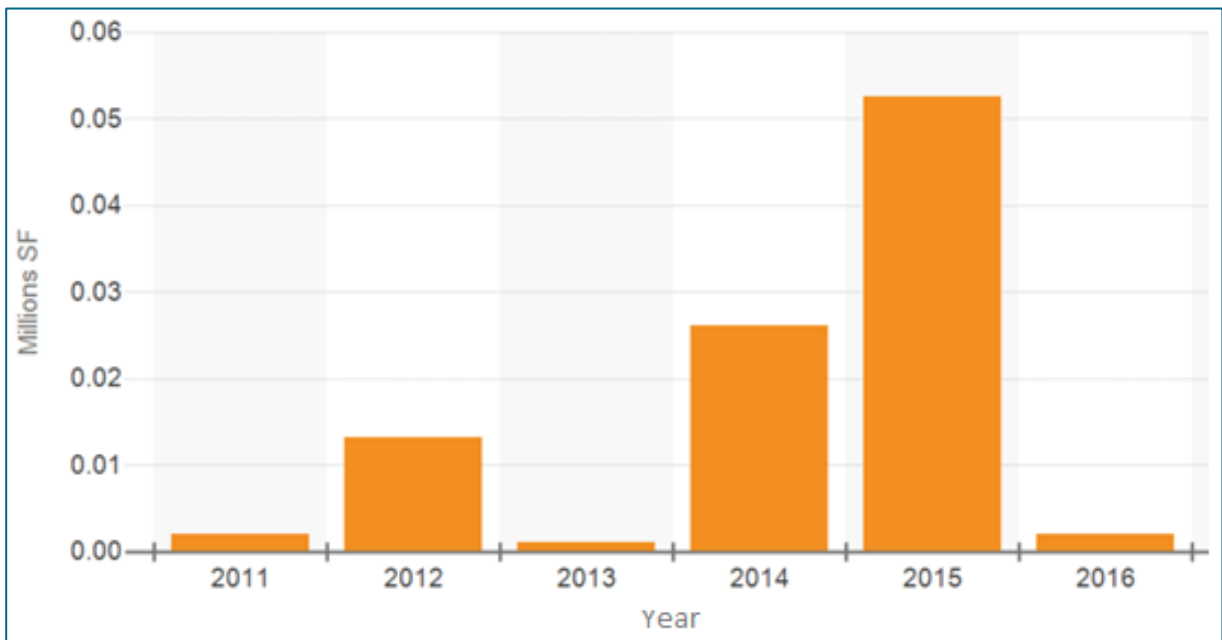
**Figure 10 – East Sussex Leasing Activity**



Source: Costar Suite, 2016

- 4.3 In terms of new office development over the past five years, Figure 11 below shows that construction deliveries have increased in recent years, with office construction delivery increasing from 2,000sqft in 2011 to 52,000sqft in 2015 (an increase of 50,000sqft).

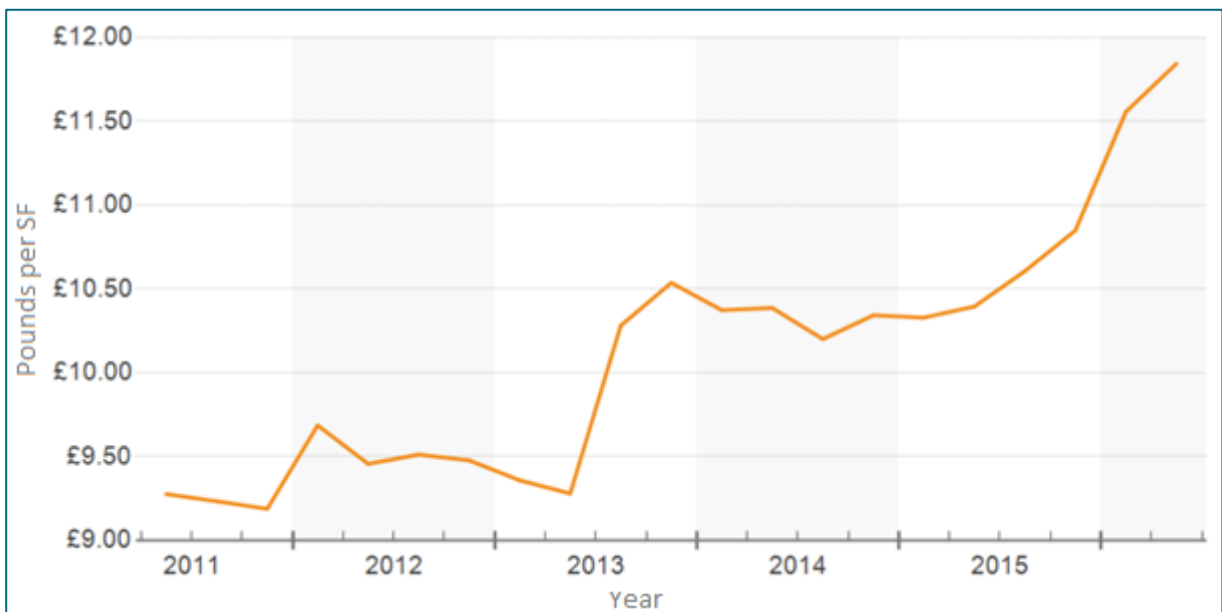
Figure 11 – East Sussex Construction Deliveries



Source: Costar Suite, 2016

- 4.4 Figure 12 below shows that asking rents in the East Sussex market have increased by 28.3% from a low of c.£9.20 in 2011 to c.£11.80 in 2016 (to date), evidencing increasing demand and office market strength.
- 4.5 Whilst rental levels are currently lower than both the South East and South Coast markets (by £7.90 and £3.20 respectively), the rental growth in East Sussex is notably greater, which shows that the East Sussex market is performing well compared with these larger more diversified market areas.

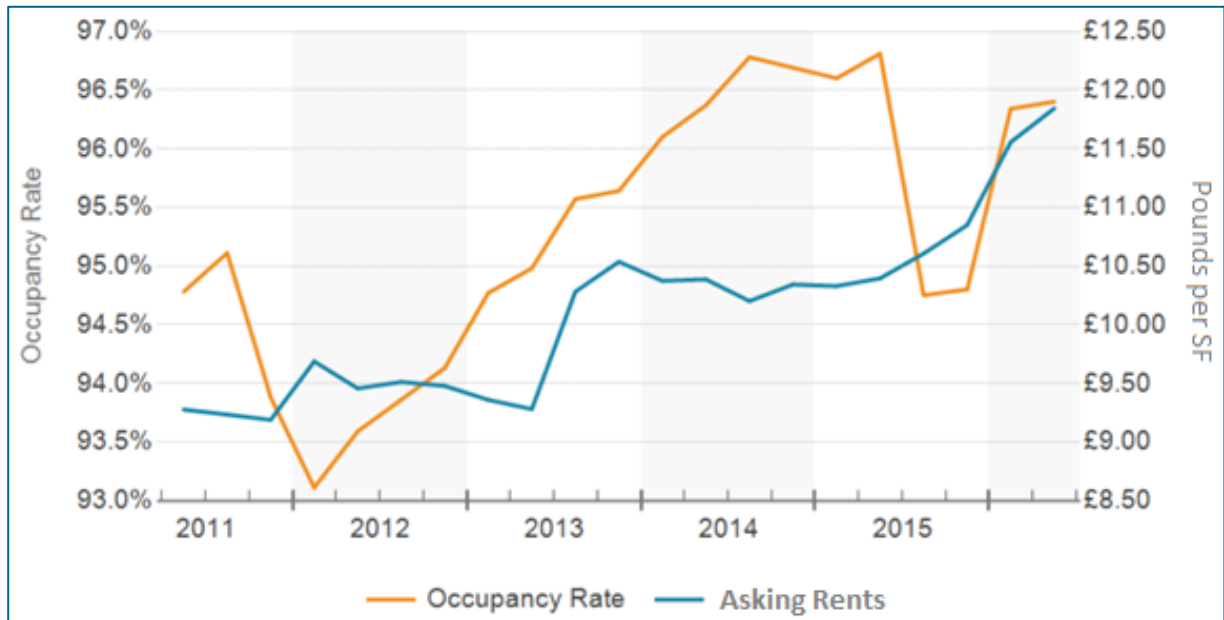
Figure 12 – East Sussex Asking Rents



Source: Costar Suite, 2016

4.6 Occupancy rates, shown below in Figure 13, have increased by 1.6% over the period, from 94.8% in 2011 to 96.4% in 2016, Comparing East Sussex to the South and wider region, occupancy rates are particularly high in East Sussex, currently standing 2.8% above the South and 5.1% the South East.

**Figure 13 – East Sussex Occupancy Rate and Asking Rents**



Source: Costar Suite, 2016

## 5. Eastbourne Office Market

- 5.1 Eastbourne currently has 96 office buildings of varying sizes, which provide a total of 58,827sqm of office floor space. This constitutes 25.3% of the total office floorspace in East Sussex. As noted previously, this floorspace consists of space that is 'standalone' office that is occupied (or able to be occupied) by any tenant, therefore it excludes properties occupied by civic institutions (such as local authority offices) or office space that is integrated into buildings of other use classes (such as the office component within a distribution unit). Given these caveats the stock level differs from information provided by the Valuation Office and should not be directly compared to it.
- 5.2 Analysis of the key indicators for the Eastbourne office market, is detailed below in Table 1. This shows a strong rental value of £10.96psf, significantly above the £9.14psf 5 year average, and reduced availability compared to the 5 year average, which suggests that take up has increased given a noted increase in recorded floorspace. There is a fairly high level of vacancy (7.9%) and vacant floorspace (49,722sqft) which is above the 5 year average level, as well as a high number of months on the market (19.6 months). This suggests that Eastbourne's current office stock may not fully meet market demands, which could relate to its quality/condition, size, age or configuration.

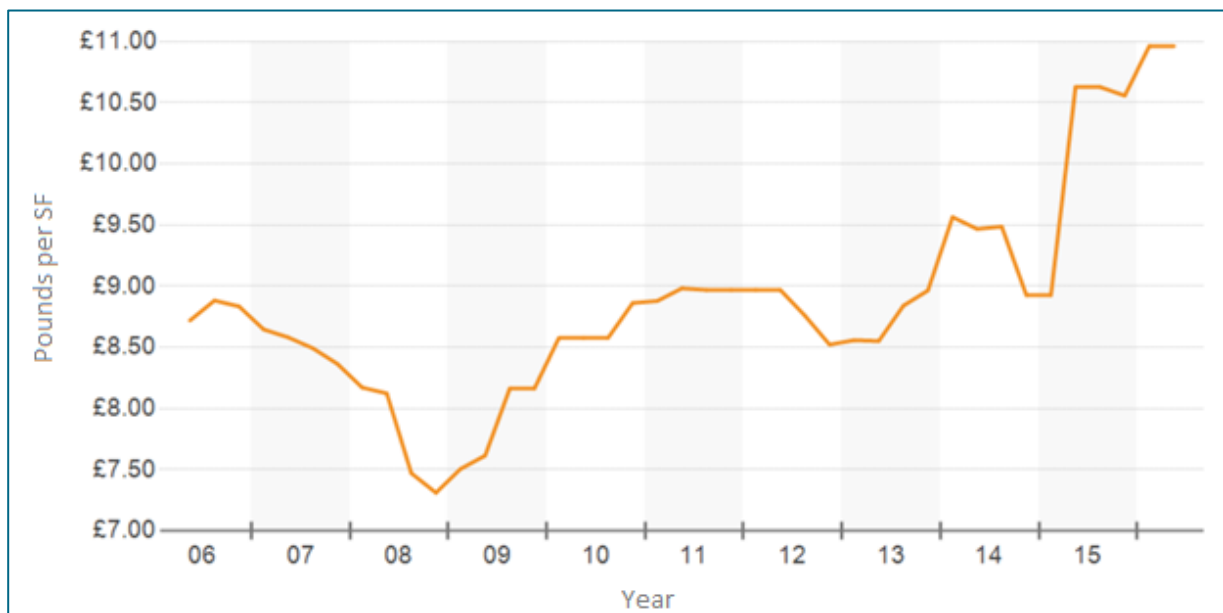
**Table 1 - Eastbourne Office Market Overview**

Indicators	Current	5-Year Average
<b>Existing SF</b>	633,235	611,733
<b>Rent Per SF</b>	£10.96	£9.14
<b>Vacancy Rate</b>	7.90%	6.70%
<b>Vacant SF</b>	49,722	40,810
<b>Availability Rate</b>	8.80%	10.00%
<b>Available SF</b>	55,707	61,628
<b>Months on Market</b>	19.6	16.7

Source: Costar Suite, 2016

- 5.3 Regarding asking rents in particular, Figure 14 below shows a fluctuating, but steadily increasing growth trend which has been observed since 2008. The asking rents have increased from a low of c.£7.30 in late 2008 to c.£10.90 in 2016 (to date). This increase of nearly 50% (49.3%) over an eight year period evidences increasing demand and office market strength in Eastbourne.

Figure 14 - Eastbourne Asking Rents



Source: Costar Suite, 2016

5.4 As shown in Table 2, the largest number of office units within Eastbourne fall within the smaller size brackets, with 35% being <185sqm and 29% being 185 – 464sqm.

Table 2 – Eastbourne Existing Office Space

Size Bracket	No. of Offices	Total sqm	Mean sqm
<185 sqm	34	4,085.6	120.2
185 - 464 sqm	28	7,951.2	284.0
465 - 1,849 sqm	24	19,216.5	800.7
1,850+ sqm	10	27,574.3	2,757.4
<b>Total</b>	<b>96</b>	<b>58,827.5</b>	<b>612.8</b>

Source: Costar Suite, 2016

5.5 Table 3 shows that 35 deals were completed in Eastbourne over the 2010 to 2015 period, which totalled 5,949sqm floorspace. The largest number of deals were for the smallest sized units in the <185sqm size bracket (28 out of 35 deals, which equates to 80% of all deals).

**Table 3 – Eastbourne Office Floor Space Take-up (2010 – 2015)**

Size Bracket	Total Deals	Total Take-up (sqm)	Average Annual Take-up
<185 sqm	28	1,964	70.1
185 - 464 sqm	6	1,254	209.1
465 - 1,849 sqm	1	767	767
1,850+ sqm	0	0	0
<b>Total</b>	<b>35</b>	<b>5,949</b>	<b>170.0</b>

Source: Costar Suite, 2016

- 5.6 Some variation in the total number of deals made each year over the period from 2010 – 2015 is evident from Table 4, with the lowest number in 2012 (2 deals) and the highest number in 2013 and 2015 (8 in each year).
- 5.7 Whilst there is some variation in the number of deals by size made each year over the same period, the majority of deals related to the smallest size bracket, followed by the second smallest size bracket. No deals occurred in the 1,850+sqm size bracket.

**Table 4 – Eastbourne Office Deals (2010 – 2015)**

Size Bracket	2010	2011	2012	2013	2014	2015
<185 sqm	4	3	2	6	6	7
185 - 464 sqm	2	1	0	2	0	1
465 - 1,849 sqm	0	1	0	0	0	0
1,850+ sqm	0	0	0	0	0	0
<b>Total</b>	<b>6</b>	<b>5</b>	<b>2</b>	<b>8</b>	<b>6</b>	<b>8</b>
<b>(Total sqm)</b>	<b>786</b>	<b>1,204</b>	<b>243</b>	<b>786</b>	<b>340</b>	<b>807</b>

Source: Costar Suite, 2016

- 5.8 The occupancy rate in Eastbourne is shown in Figure 15 below, alongside the asking rent trend. The current occupancy level is at 93%, and has fluctuated between c.89% and 97% over the last ten years.



Figure 15 – Eastbourne Occupancy Rate and Asking Rents



Source: Costar Suite, 2016

5.9 Overall, the office market in Eastbourne has shown some signs of strengthening in recent years, particularly in regard to increasing asking rents. This is supported by growth in the wider regional office market and a climate of economic recovery. The vacancy levels and high availability levels point towards the mismatch between current stock (which could relate to size, condition/quality, age and location) and current demand.

## 6. Hastings Office Market

- 6.1 Hastings has a current stock of 78 office buildings of varying sizes, which provide a total of 54,464sqm of office floor space. This constitutes 23.6% of the total office floorspace in East Sussex.
- 6.2 Analysis of the key indicators for the Hastings office market, is detailed below in Table 1. This shows a strong rental value of £10.69psf, significantly above the £9.55psf 5 year average, and reduced availability compared to the 5 year average, which suggests that take up has increased. There is a fairly low level of vacancy (3.6%) and vacant floorspace (21,275sqft) which is below the 5 year average level, as well as a lower number of months on the market (12.9 months). All these indicators support office market strength in Hastings.

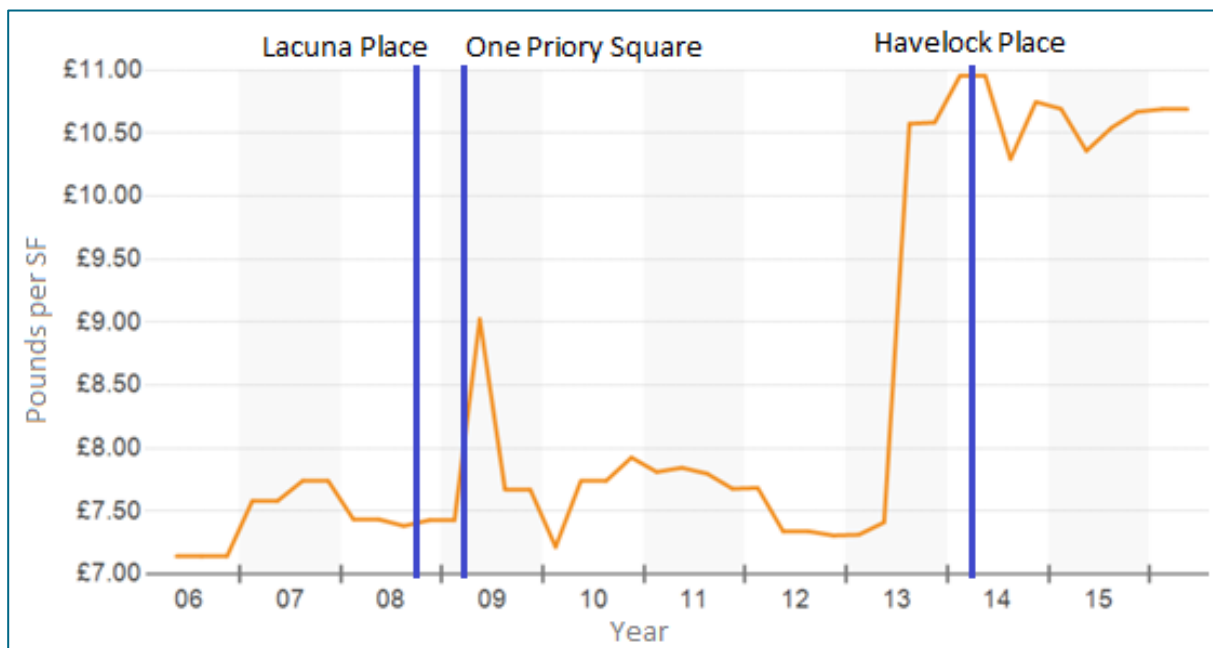
**Table 5 - Hastings Office Market Overview**

Indicators	Survey	5-Year Avg
<b>Existing SF</b>	586,268	573,431
<b>Rent Per SF</b>	£10.69	£9.55
<b>Vacancy Rate</b>	3.60%	5.60%
<b>Vacant SF</b>	21,275	31,888
<b>Availability Rate</b>	9.80%	11.50%
<b>Available SF</b>	57,675	66,563
<b>Months on Market</b>	12.9	13.6

Source: Costar Suite, 2016

- 6.3 Regarding asking rents, Figure 16 shows an increase from a low of c. £7.10 in 2006 to £10.70 in 2016 with an increase of 50.1% (£3.60), evidencing increasing demand and office market strength.
- 6.4 The figure also reveals the impact of key public sector floorspace delivery on asking rents, with a spike following the delivery of Lacuna Place and One Priory Square before stabilising at a slightly higher mean asking rent price than the years prior. Further to this, surrounding the delivery of Havelock Place there was a steep increase in asking rent prices from 2013-2014, which have stabilised at a mean of c.£11.25psf. These improved levels maintained following public sector floorspace delivery suggest the ability to support the local office market with direct investment.

Figure 16 – Hastings Asking Rents (with Key Public Sector Floorspace Delivery Plotted)



Source: Costar Suite, 2016

6.5 As shown below in Table 6, the average size of current office units in Hastings is 702sqm. The largest number of office units within Hastings fall within the smaller size brackets (38% in the <185sqm size bracket, and 32% in the 185 – 464sqm size bracket).

Table 6 – Hastings Existing Office Space

Size Bracket	No. of Offices	Total sqm	Mean sqm
<185 sqm	30	3,336.6	111.2
185 - 464 sqm	25	7,451.1	298.0
465 - 1,849 sqm	14	11,232.2	802.3
1,850+ sqm	9	32,736.7	3,637.4
<b>Total</b>	<b>78</b>	<b>54,756.6</b>	<b>702.0</b>

Source: Costar Suite, 2016

6.6 Table 7 shows that 34 deals were completed in Hastings over the 2010 to 2015 period, comparable to Eastbourne's 35 deals. In Hastings this totalled 10,670sqm, approximately double the total take-up figure of 5,949sqm in Eastbourne over the same period. The largest number of deals were for the smallest sized units in the <185sqm size bracket (20 out of 34 deals, equating to 59%).

**Table 7 – Hastings Office Floor Space Take-up (2010 – 2015)**

Size Bracket	Total Deals	Total Take-up (sqm)	Average Annual Take-up
<185 sqm	20	2,055	102.7
185 - 464 sqm	10	2,841	284.1
465 - 1,849 sqm	3	2,692	897.3
1,850+ sqm	1	3,083	3082.9
<b>Total</b>	<b>34</b>	<b>10,670</b>	<b>313.8</b>

*Source: Costar Suite, 2016*

6.7 As shown in Table 8 below, the majority of deals made in each year over the 2010 – 2015 period were in the smallest size bracket, followed by the second smallest size bracket. There was only one deal in the largest 1,850sqm+ size bracket, which happened in 2015.

**Table 8 – Hastings Office Deals (2010 – 2015)**

Size Bracket	2010	2011	2012	2013	2014	2015
<185 sqm	4	2	2	5	5	2
185 - 464 sqm	0	2	2	0	6	0
465 - 1,849 sqm	1	0	0	2	0	0
1,850+ sqm	0	0	0	0	0	1
<b>Total</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>7</b>	<b>11</b>	<b>3</b>
<b>(Total sqm)</b>	<b>1,370</b>	<b>691</b>	<b>901</b>	<b>2,135</b>	<b>2,325</b>	<b>3,249</b>

*Source: Costar Suite, 2016*

6.8 Overall the office market in Hastings, has shown continued strength, particularly in regard to increasing asking rents and deals undertaken. This is supported by growth in the wider regional economy and a climate of recovery.

## 7. Conclusion

- 7.1 This analysis of recent performance within the office market areas that influence both demand for and the supply of office space within Eastbourne presented within this report shows that, at whatever scale the market is considered, there has been considerable improvement in demand, construction of stock, rental levels and vacancy rates.
- 7.2 At the strategic level the South East market has continued to strengthen as the UK economy recovers and continues to focus on higher value knowledge based industries for which it has always had a particular strength. Along the South Coast markets have shown similar trends and recent delivery of new stock is likely to continue to support future growth.
- 7.3 More locally, whilst demand levels have remained reasonably consistent, East Sussex has seen a strengthening in rental performance and, in parallel, a significant upturn in construction deliveries in 2015.
- 7.4 These wider market trends have begun to translate into the Eastbourne market which, even prior to the completion of Pacific House, had seen asking rents increase by almost 50% from £7.30 to £10.90 since 2008. This suggests increasing landlord confidence in the market and reflects recent deals for good quality space which has let at above these average levels.
- 7.5 The fact that these improvements have been occurring prior to the potential catalytic effect Pacific House can have on the office market is an encouraging sign that, with Pacific House now active, the market can continue to strengthen, increasing demand from new occupiers.
- 7.6 The performance of the Hastings office market provides considerable supporting evidence for the impact that new, publicly backed, office space can have on driving an uplift in performance. Prior to the delivery of the CMC, Priory Quarter and Havelock Place the office market within the town had struggled, however rents have consistently increased (and have now settled at a much higher average), occupancy rates have increased and a range of new businesses have been attracted to the town.
- 7.7 Whilst there are still some signs within Eastbourne that there is an ongoing mis-alignment between some stock supply and potential demand, as evidenced through a higher vacancy rate, this redundant space is being removed from the market through permitted development, allowing the market to strengthen around fit for purpose, good quality provision.
- 7.8 Alongside the boost provided by Pacific House (and the potential of the wider Sovereign Harbour Innovation Park) both the strategic trajectory of the office market along the South Coast and more localised market trends over the past 3 years indicate that the future

prospects for the Eastbourne office market are significantly more positive than past/historic performance may suggest.