Appendix 1

Pacific House Business Case

4. Financial Case

4.1: Please complete the table in Annex B.

4.2 Please enter cost data in Table 10.

Table 10: Costs (2012 prices)		
a)	Total Gross Costs Undiscounted (based on Drawdown Schedule)	£4,600,000
b)	Total Repayments Undiscounted (based on Repayment Schedule)	£4,600,000
c)	**Total Net Costs Undiscounted a) – b)**	**£0**
d)	Present Value of total Gross Costs (Discounted) (based on Drawdown Schedule)	£4,294,149
e)	Present Value of Total Repayments (Discounted) (based on Repayment Schedule)	£3,541,458
f)	**Present value of Total Net Costs (Discounted) d) – e)**	**£752,691**

4.3 Please confirm that assumptions relating to income and costs are is based on market rates stating sources of evidence

Costs

The projected capital build and operating costs of the Harbour Innovation Mall are based upon evidenced estimates provided by the applicant Sea Change Sussex (SCS). SCS and its predecessor, Sea Space, have over 7 years' experience of developing and operating similar business centres in this geographical area. It developed the Innovation Centre and the Creative Media Centre in Hastings and therefore has a very strong grasp of the likely capital and revenue cost implications of developing, setting up and operating new business centres. SCS has based the projected costs for the Harbour Innovation Mall on the recently tendered costs for the development of Priory Quarter Phase 3 to ensure that they are as up to date as possible. SCS has its own in-house qualified and highly experienced project managers who will ensure that the project costs remain within budget and it will seek external verification of the assumed costs by an independent cost consultant if required at any point as part of the GPF application/appraisal process. A summary breakdown of the project's capital costs is presented below:

Predevelopment Costs - Design and Procurement (incl. contingency)	£500,000
Development costs – Works, Fees, Utilities	£5,000,000
Non-allocated contingencies	£250,000
Development Management Costs	£200,000
Marketing Costs	£50,000
TOTAL COSTS	£6,000,000

Income

The economic programme of flexible employment space brought forward by SCS' predecessor delivery vehicle, Sea Space, has delivered more than 40,000ft^2 of managed business space for small and micro-businesses over the last seven years. This includes two phases of the Creative Media Centre in Hastings town centre, now supporting more than 40 businesses and c. 130 jobs and 42

Appendix 2

NCS Eastbourne Borough Council CIL Viability Assessment Oct 2013

Eastbourne Borough Council Community Infrastructure Levy Viability Assessment

October 2013

Viability Appraisals

NCS

Office Viability Appraisal

DEVELOPMENT TYPE	Office Building
BASE LAND VALUE SCENARIO	Greenfield
DEVELOPMENT LOCATION (ZONE)	1 Districtwide
DEVELOPMENT DETAILS	2,400 Sqm Total Floorspace

Development Value						
Industrial	B1b B1c B2 B8		sqm	750	£ per sqm	£0
Office	B1a	2000	sqm	1345	£ per sqm	£2,690,000
Food Retail	A1		sqm	2700	£ per sqm	£0
Other Retail	A 1 A2 A3 A4 A5		sqm	1800	£ per sqm	£0
Residential Inst	C2		sqm	800	£ per sqm	£0
Hotels	C3		sqm	2400	£ per sqm	£0
Community	D1		sqm	915	£ per sqm	£0
Leisure	D2		sqm	1200	£ per sqm	£0
Agricultural			sqm	300	£ per sqm	£0
Sui Generis	Blank		sqm	1700	£ per sqm	£0
Sui Generis	Blank		sqm	940	£ per sqm	£0
Sui Generis	Blank		sqm	0	£ per sqm	£0
Development Value						**£2,690,000**

Development Costs							
Land	Plot Ratio						
Industrial	200%	0	sqm		£ per sqm		£0
Office	200%	4000	sqm	27.72	£ per sqm		£110,880
Food Retail	300%	0	sqm		£ per sqm		£0
Other Retail	150%	0	sqm		£ per sqm		£0
Residential Inst	150%	0	sqm		£ per sqm		£0
Hotels	200%	0	sqm		£ per sqm		£0
Community	150%	0	sqm		£ per sqm		£0
Leisure	300%	0	sqm		£ per sqm		£0
Agricultural	200%	0	sqm		£ per sqm		£0
Blank	200%	0	sqm		£ per sqm		£0
Blank	200%	0	sqm		£ per sqm		£0
Blank	0%	0	sqm		£ per sqm		£0
Construction				Stamp Duty		1.0%	£1,109
	Gross/Net						
Industrial	1.0	0	sqm	522	£ per sqm		£0
Office	1.2	2400	sqm	1230	£ per sqm		£3,542,400
Food Retail	1.0	0	sqm	610	£ per sqm		£0
Other Retail	1.0	0	sqm	975	£ per sqm		£0
Residential Inst	1.2	0	sqm	1069	£ per sqm		£0
Hotels	1.2	0	sqm	1300	£ per sqm		£0
Community	1.0	0	sqm	2132	£ per sqm		£0
Leisure	1.0	0	sqm	986	£ per sqm		£0
Agricultural	1.0	0	sqm	494	£ per sqm		£0
Blank	1.0	0	sqm		£ per sqm		£0
Blank	1.0	0	sqm		£ per sqm		£0
Blank	0.0	0	sqm		£ per sqm		£0

Abnormal Costs			0	£ sqm Build Cost		£0
Professional Fees @			8.0%	Build Cost		£283,392
Legal Fees			0.5%	GDV		£13,450
Statutory Fees			0.6%	Build Cost		£21,254
Sales/Marketing Costs			1.0%	GDV		£26,900
Contingencies			5.0%	Build Cost		£177,120
Planning Obligations			10	£ per Sqm		£20,000
Interest @	6.0%	12	Month Build	3	Mth Sale Void	£167,348
Arrangement Fee	1.0%	Cost				£41,965
Development Profit		17.5%	of GDV			£470,750
Total Cost						**£4,876,568**

POTENTIAL MARGIN FOR CIL	**-£2,186,568**
POTENTIAL CIL RATE PER SQ METRE	**-£911**

Office Viability Appraisal

DEVELOPMENT TYPE	Office Building
BASE LAND VALUE SCENARIO	Brownfield
DEVELOPMENT LOCATION (ZONE)	1 Districtwide
DEVELOPMENT DETAILS	2,400 Sqm Total Floorspace

Development Value

Industrial	B1b B1c B2 B8		sqm	750	£ per sqm	£0
Office	B1a	2000	sqm	1345	£ per sqm	£2,690,000
Food Retail	A1		sqm	2700	£ per sqm	£0
Other Retail	A 1 A2 A3 A4 A5		sqm	1800	£ per sqm	£0
Residential Inst	C2		sqm	800	£ per sqm	£0
Hotels	C3		sqm	2400	£ per sqm	£0
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Agricultural			sqm	300	£ per sqm	£0
Sui Generis	Blank		sqm	1700	£ per sqm	£0
Sui Generis	Blank		sqm	940	£ per sqm	£0
Sui Generis	Blank		sqm	0	£ per sqm	£0
Development Value						**£2,690,000**

Development Costs

Land	Plot Ratio					
Industrial	200%	0	sqm		£ per sqm	£0
Office	200%	4000	sqm	45	£ per sqm	£180,000
Food Retail	300%	0	sqm		£ per sqm	£0
Other Retail	150%	0	sqm		£ per sqm	£0
Residential Inst	150%	0	sqm		£ per sqm	£0
Hotels	200%	0	sqm		£ per sqm	£0
Community	150%	0	sqm		£ per sqm	£0
Leisure	300%	0	sqm		£ per sqm	£0
Agricultural	200%	0	sqm		£ per sqm	£0
Blank	200%	0	sqm		£ per sqm	£0
Blank	200%	0	sqm		£ per sqm	£0
Blank	0%	0	sqm		£ per sqm	£0
Construction				Stamp Duty	1.0%	£1,800
	Gross/Net					
Industrial	1.0	0	sqm	522	£ per sqm	£0
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Agricultural	1.0	0	sqm	494	£ per sqm	£0
Blank	1.0	0	sqm		£ per sqm	£0
Blank	1.0	0	sqm		£ per sqm	£0
Blank	0.0	0	sqm		£ per sqm	£0

Abnormal Costs			0	£ sqm Build Cost		£0
Professional Fees @			8.0%	Build Cost		£283,392
Legal Fees			0.5%	GDV		£13,450
Statutory Fees			0.6%	Build Cost		£21,254
Sales/Marketing Costs			1.0%	GDV		£26,900
Contingencies			5.0%	Build Cost		£177,120
Planning Obligations			10	£ per Sqm		£20,000
Interest @	6.0%	12	Month Build	3	Mth Sale Void	£172,771
Arrangement Fee	1.0%	Cost				£42,663
Development Profit		17.5%	of GDV			£470,750
Total Cost						**£4,952,500**

POTENTIAL MARGIN FOR CIL	**-£2,262,500**
POTENTIAL CIL RATE PER SQ METRE	**-£943**

Appendix 3

Eastbourne Borough Council CIL Draft Charging Schedule, Examiner's Report 2015

The Planning Inspectorate

Report to Eastbourne Borough Council

by William Fieldhouse BA (Hons) MA MRTPI

an Examiner appointed by the Council

Date: 13 January 2015

PLANNING ACT 2008 (AS AMENDED)

SECTION 212(2)

REPORT ON THE EXAMINATION OF THE DRAFT EASTBOURNE COMMUNITY INFRASTRUCTURE LEVY CHARGING SCHEDULE

Draft Charging Schedule submitted for examination on 10 October 2014

File Ref: PINS/T1410/429/7

Non Technical Summary

This report concludes that, subject to modification, the Eastbourne Community Infrastructure Levy Draft Charging Schedule provides an appropriate basis for the collection of the levy in the Borough excluding those parts within the South Downs National Park. The Council has sufficient evidence to support the schedule and can show that the levy is set at a level that will not put the overall development of the area at risk.

One modification is needed to meet the statutory requirements. This would introduce a nil rate for all residential apartment developments.

The recommended modification is based on issues considered through the written representations procedure, and is necessary to ensure that an appropriate balance is struck between the desirability of CIL funding the infrastructure required to support the development of the area and the potential effects on the economic viability of that development.

Introduction

1. This report contains my assessment of the Eastbourne Community Infrastructure Levy (CIL) Draft Charging Schedule in terms of Section 212 of the Planning Act 2008. It considers whether the schedule is compliant in legal terms and whether it is economically viable as well as reasonable, realistic and consistent with the National Planning Policy Framework ("NPPF") and Planning Practice Guidance ("PPG")[1].

2. To comply with the relevant legislation the local charging authority has to submit what it considers to be a charging schedule that sets an appropriate balance between helping to fund necessary new infrastructure and the potential effects on the economic viability of development across the area. The basis for the examination, which took place through written representations, is the submitted Draft Charging Schedule dated October 2014, which is effectively the same as the document published for public consultation in February and June 2014[2].

3. The Council proposes rates of £50 per sq metre for residential (C3) development, and £80 per sq metre for retail (A1-A5) development. All other uses would be subject to no charge. The rates would be charged in all parts of the Borough excluding those that are within the South Downs National Park.

[1] PPG ID-25 *Community Infrastructure Levy* updated 12 June 2014.
[2] Two rounds of consultation were undertaken on the Draft Charging Schedule due to the publication of amendments to the CIL Regulations in February 2014.

Is the Draft Charging Schedule Supported by Background Documents Containing Appropriate Available Evidence?

Infrastructure Planning Evidence

4. The Eastbourne Core Strategy was adopted in February 2013. This sets out the development that is planned to take place in the Borough up to 2027 in order to achieve a vision of Eastbourne being a premier coastal and seaside destination within an enhanced green setting[3]. There are ten spatial objectives, one of which is to deliver new housing, employment and shopping opportunities to meet the needs of all sections of the local community and sustainable growth within environmental constraints[4].

5. The Core Strategy aims to deliver at least 5,022 dwellings within the built up area, with a minimum of 70% being on brownfield land[5] and all meeting the minimum requirement of level 4 of the Code for Sustainable Homes[6]. In order to ensure that residential development remains viable, the proportion of affordable housing sought is 40% in high value areas and 30% in low value areas[7].

6. Job growth and economic prosperity is supported[8], and the role of the town centre as the primary comparison shopping destination promoted, along with appropriate retail development in designated district, local and neighbourhood centres[9]. All non-residential development over 1,000m^2 must meet the BREEAM "very good" standard[10].

7. The Council is committed to working with others to ensure that the necessary infrastructure to support future housing and employment development is available or will be provided alongside new development. An Infrastructure Delivery Plan (IDP), setting out all of the strategic infrastructure required over the plan period, is to be regularly updated[11].

8. The latest version of the IDP is dated October 2014. This provides an analysis of current infrastructure requirements in different parts of the Borough in relation to education provision; community facilities; health care facilities; utilities, waste and flood measures; open space and green infrastructure; transport; town centre infrastructure improvements; emergency services; and affordable housing[12]. A schedule of infrastructure projects is included, along with estimated costs, actual and potential funding arrangements, and an assessment of whether each is critical, important or desirable in relation to delivery of the Core Strategy[13]. The IDP concludes that certain types of transport and education infrastructure are critical, along with wastewater treatment, flood protection measures, and the provision of a community centre in the Sovereign Harbour Neighbourhood[14].

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[3] Core Strategy paragraph 1.2.2
[4] Core Strategy section 1.4.
[5] Core Strategy policy B1.
[6] Core Strategy policy D1.
[7] Core Strategy policy D5 and Figure 16.
[8] Core Strategy policy D2.
[9] Core Strategy policy D4 and Appendix C.
[10] Core Strategy policy D1.
[11] Core Strategy policy E1.
[12] IDP 2014 Figure 1 and Section 9.
[13] IDP 2014 Appendix A.

9. The Council has undertaken an analysis of the latest estimated costs, along with expected sources of funding, for the critical infrastructure identified in the IDP. Potential funding sources include planning obligations, Borough Council funds, Southern Water capital development programme, East Sussex County Council capital programme, the local sustainable transport fund, Highways Agency investment programme, local enterprise partnership and local transport body funds, the Borough Council capital investment programmes, parking reserves, and Network Rail investment programme. The analysis concludes that there is a total infrastructure funding gap of approximately £48 million, due to shortfalls in funding for early years, primary, secondary and further education provision (£40 million) and transport projects (£8 million)[15].

10. The Council has carried out a CIL revenue analysis based on the rates set out in the Draft Charging Schedule and specific residential and retail developments that are expected to take place in accordance with the Core Strategy[16]. This concludes that residential developments on around sixty sites, that do not currently have planning permission, could generate around £2.9 million in CIL revenue[17]. There is no evidence before me to suggest that this is an unreasonable estimate.

11. Whilst no sites are allocated specifically for retail development, the Core Strategy does envisage additional floorspace for both comparison and convenience shopping. The Council estimates that extensions to existing retail areas could generate around £2.1 million in CIL revenue over the plan period[18]. This is based on three schemes currently known about (Town Centre Arndale, Sovereign Harbour Retail Park, and Langney Shopping Centre), and, if anything, seems to be a conservative estimate of the amount of CIL that could be generated by such retail developments up to 2027.

Conclusion about the Infrastructure Planning Evidence

12. Infrastructure required to deliver the Core Strategy, along with actual and expected sources of funding and a funding gap (£48 million), has been identified. The expected revenue from the proposed charging rates (£5 million) would make a modest contribution to filling the anticipated funding gap. Nonetheless, this demonstrates the need to introduce CIL to help to deliver the Core Strategy.

Economic Viability Evidence

13. The Council began work on CIL in 2012 with county-wide evidence on financial viability being commissioned by all local authorities in East Sussex, followed by bespoke assessments for Eastbourne in early 2013. This informed the Preliminary Draft Charging Schedule that was consulted upon in July and August 2013[19]. In response to the issues raised in the representations, further viability assessment work was carried out and, on the basis of this, changes were made to the proposed rates which are reflected in the Draft Charging

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[14] IDP 2014 paragraph 2.2.
[15] Infrastructure Funding Gap Analysis Final Report (June 2014).
[16] Community Infrastructure Levy Revenue Analysis Final Report (June 2014).
[17] Community Infrastructure Levy Revenue Analysis Final Report (June 2014) Appendix A.
[18] Community Infrastructure Levy Revenue Analysis Final Report (June 2014) paragraphs 1.5 and 1.6.
[19] Consultation and Cooperation Statement (February 2014) paragraphs 2.1-2.4.

Schedule that was published for consultation in February and June 2014. This subsequently became, subject to some minor factual updates[20], the version that was submitted for examination in October 2014.

14. The Viability Assessment (VA) used to inform the Draft Charging Schedule was published in October 2013[21]; this includes a study of land and property values[22] and construction costs[23], and detailed numerical assumptions are set out in a series of tables[24]. In response to representations made during the consultation period, and to questions that I asked during the examination, the Council commissioned further assessment work in December 2014[25].

The Types of Development Considered

15. The VA considered development in a number of categories considered to be representative of most types of development that would be likely to take place in accordance with the Core Strategy in the period to 2027. These comprised five types of residential development, including different sizes of dwellings and apartments, and ranging in scale from 5 units to 120 units; supermarkets (3,000m^2); general retail (300m^2); factories; offices; hotels; residential institutions; community centres; bowling allies; farm stores; car showrooms; and car repair garages[26].

16. The further work carried out in December 2014 included an assessment of food stores/supermarkets of five different sizes ranging from 150m^2 to 7,500m^2; a small general shop (100m^2); a roadside retail unit (500m^2); and a retail warehouse (5,000m^2) [27].

17. Given the good range of different uses and scales of development considered, I am confident that the viability of all forms of development, including discount operator food stores, likely to take place in accordance with the Core Strategy has been assessed.

The VA Methodology

18. The VA uses a "development appraisal approach", which estimates the value and cost (including of purchasing the land) of the different types of development and makes allowance for reasonable developer profits. The sum of the costs and profit is subtracted from the value of the development, and if the outcome is positive the development is assessed as viable. The size of the margin determines the maximum potential CIL rate that could be charged whilst maintaining viability[28].

19. Unlike standard residual land value methodologies, the VA factors in the threshold land value[29] as a key element of the development cost; this is intended to take account of all potential finance charges. The PPG

20 Schedule of Modifications (October 2014).
21 Community Infrastructure Levy Viability Assessment and Viability Appraisals (NCS, October 2013).
22 Valuation Study (HEB Chartered Surveyors, May 2013) attached as Appendix 1 to the VA.
23 Construction Cost Study for East Sussex (Gleeds, May 2012) attached as Appendix 2 to the VA.
24 Community Infrastructure Levy Viability Appraisals (NCS, October 2013).
25 Council written statement in response to the Examiner's questions 9 and SQ1 to SQ4 (December 2014).
26 VA paragraph 4.14 to 4.16.
27 Council written statement in response to the Examiner's question 9 (December 2014).
28 VA paragraphs 3.32 to 3.35.
29 Threshold land value is the minimum value at which the landowner will sell the land.

acknowledges that there are a number of possible methodologies that can be used to prepare economic viability evidence[30], and the approach used in the VA is broadly consistent with the principles set out in widely-recognised best practice[31].

20. However, as with any viability model, the outputs (here, the maximum potential CIL rates) are a result of the inputs. In other words, the assumptions about land values, construction costs, infrastructure costs, and financial contributions through planning obligations, developer profits, and the sales value of the development are all critical to determining viability and hence potential CIL rates. Some of these assumptions have been challenged by representors.

21. Land and property prices were considered across the Borough, and the analysis suggested that two principal residential sub market areas could be identified with variations being significant enough to apply differential assumptions for the purposes of the VA. However, there was not conclusive evidence to demonstrate that commercial and other non-residential values varied markedly across the Borough such that it was necessary to adopt a sub market approach for such developments[32]. Whilst this has been questioned in representations, I have not been provided with any substantive evidence to indicate that a differential approach based on geography should be adopted for commercial development.

Land Values

22. Rather than basing the threshold land value on a fixed percentage increase above the existing use value, the VA assumes that landowners will expect a minimum of 50% of the uplift in land value that occurs as a consequence of the development, with the remaining proportion going, ultimately, to the public through planning obligation financial contributions, CIL charges, or other mechanisms. The sharing of land value uplift between landowners and the public is an inevitable consequence of requiring development to contribute to the cost of infrastructure and other mitigation measures, and whilst there is no specific justification for a fifty-fifty split, such an approach seems reasonable and has not been seriously called into question by any of the representors.

23. There are some concerns about the basis for the retail land value assumptions. It is acknowledged that local transactional data is limited, but this has been supplemented by comparable information drawn from a wider geographical area[33]. Little specific alternative evidence about land values has been presented by representors, and I am therefore satisfied that the VA is based on appropriate available evidence in this regard.

Development Costs

24. Construction cost estimates are based on an analysis of a range of projects in the consultant's database supplemented where appropriate by BCIS

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[30] PPG ID-25-019.
[31] Viability Testing Local Plans: Advice for Planning Practitioners (Local Housing Delivery Group chaired by Sir John Harman, June 2012).
[32] VA paragraphs 4.2 to 4.4, and pages 16 and 17 of the Valuation Study (HEB Chartered Surveyors, May 2013) attached as Appendix 1 to the VA.
[33] Pages 24 to 26 of the Valuation Study (HEB Chartered Surveyors, May 2013) attached as Appendix 1 to the VA.

information[34]. Costs of providing drainage, internal access roads, utility connections and ancillary open space are included, whereas no allowance is made for potential abnormal costs[35].

25. Much of the retail development likely to take place in the Borough in accordance with the Core Strategy is likely to be on brownfield sites, meaning that there could well be additional costs including of demolition, site preparation, and other abnormals. However, it is not unreasonable to expect such costs, which will be site specific, to be reflected in a lower land value. Furthermore, as CIL is calculated on net additional floorspace, the amount charged will be reduced for schemes that involve the demolition of existing buildings. Some additional costs will be covered by the assumptions about financial contributions through planning obligations which I consider below.

26. Retail construction costs (£600 per sq metre) are based on the cost of a retail shell, and development values were estimated accordingly[36]. Such an approach allows for consistency across all forms of retail development, whereas attempting to factor in the specific requirements of individual retail operators including fitting out the building or landscaping the site, the costs of which can vary markedly, would be impractical and not allow meaningful comparisons to be made.

27. For residential development, the cost of providing affordable housing in accordance with the requirements of the Core Strategy was included[37], as were costs associated with achieving level 3 of the Code for Sustainable Homes[38]. Whilst the justification for choosing level 3, rather than level 4 in accordance with the Core Strategy, is not entirely clear, there is no substantive evidence before me to suggest that this would make such a significant difference to the costs of residential development that it would materially affect the conclusions relating to viability.

28. According to some representors, the cost assumptions about contingencies (5%) and professional fees (8%) are unrealistically low and fail to take account of marketing, legal and land acquisition fees. However, there is no information before me to justify any alternative figures, and those that are used are not significantly lower than referred to in advice to practitioners[39].

29. The VA makes allowances for financial contributions that would be likely to still be required notwithstanding the introduction of CIL. The assumptions of £2,000 per dwelling and £10 per sq metre for retail development are intended to cover the costs of addressing site specific issues that may arise, including providing safe access and local highway improvements, flood mitigation, and archaeological investigations[40]. This is consistent with the Regulation 123 list published in October 2014. As these allowances are greater than the average financial contributions made through planning obligations in the past[41], they

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[34] Construction Cost Study for East Sussex (Gleeds, May 2012) page 3, attached as Appendix 2 to the VA.
[35] VA paragraphs 4.18 and 4.19.
[36] Council written statement in response to the Examiner's question 9 (December 2014).
[37] VA paragraphs 4.5 to 4.8 and 6.5 to 6.6
[38] VA paragraph 4.17.
[39] Viability Testing Local Plans: Advice for Planning Practitioners (Local Housing Delivery Group chaired by Sir John Harman, June 2012) page 35 and Appendix B.
[40] VA paragraphs 4.20 to 4.22, and Council written statement in response to the Examiner's questions SQ6 and SQ7 (December 2014).

are, if anything, more likely to be on the high side rather than under-estimates.

Developer Profits

30. Developer profits are assumed to be a 20% return on gross development value for residential development, and 17.5% for commercial development in recognition that most commercial floorspace will be pre-let or pre-sold meaning that the level of risk is less than for residential development[42]. Such profits are generally considered reasonable for these types of development, and nothing that I have read demonstrates that they are inappropriate in this case.

Development Sales Values

31. Assumed residential sales values are based on actual market comparable evidence, as housing tends to be a relatively uniform product. However, whilst commercial property sales values are based on transactional data where possible, this is backed up by an analysis of estimated market rents and investment yield profiles[43]. Whilst some of the data used relates to sites outside the Borough, a reasonable range of locations and developments has been used. There is no information that I have been provided with to lead me to conclude that the assumed sales values are unduly optimistic, and as they are largely based on data relating to the last few years they may indeed prove to be conservative if economic conditions improve over the plan period.

Conclusion about the Economic Viability Evidence

32. Testing the viability of development across an area is not an exact science[44]. The VA adopts a reasonable and proportionate approach, and clearly has had regard to good practice based on experience gained elsewhere. Some assumptions may be optimistic, whilst others may be pessimistic. It is not possible to precisely weigh up the overall effect, but on balance the evidence provides a reasonable basis for assessing the viability of the various types of development across the area. Given the inevitable uncertainties that surround the assumptions, and because the costs of some developments may be greater, it is important that the proposed CIL rates are set significantly below the maximum potential rates identified in the VA in order to ensure that the viability of most development is not compromised.

Conclusion on Whether the Draft Charging Schedule is Supported by Background Documents Containing Appropriate Available Evidence

33. The Draft Charging Schedule is supported by detailed evidence of community infrastructure needs and the economic viability of development. On this basis, the evidence that has been used to inform the Draft Charging Schedule is robust, proportionate and appropriate.

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[41] VA paragraph 4.21 and Council written statements in response to the Examiner's questions 2, SQ6 and SQ7.
[42] VA paragraph 4.23.
[43] Page 11 and Appendices 2 and 3 of the Valuation Study (HEB Chartered Surveyors, May 2013) attached as Appendix 1 to the VA.
[44] Viability Testing Local Plans: Advice for Planning Practitioners (Local Housing Delivery Group chaired by Sir John Harman, June 2012) page 18.

Are the Proposed Charging Rates Informed by and Consistent with the Evidence?

Proposed CIL Rate for Retail Development

34. The VA concluded that supermarket development is viable and capable of generating maximum CIL rates of £397 per sq metre on brownfield sites and £456 on greenfield sites[45]. The further appraisal work carried out in December 2014 confirmed that small and medium-sized supermarkets (750m^2, 1,000m^2 and 2,000m^2) would be viable, but be capable of generating lower rates of CIL up to a maximum of £192 on brownfield sites[46].

35. The VA found that "general retail" (300m^2) is also viable, although maximum CIL rates would be £113 and £142 on brownfield and greenfield sites respectively[47]. The later assessment found that small general retail development, roadside retail units, and retail warehouses would all be viable and likely to be capable of generating higher rates of CIL[48].

36. The proposed CIL rate of £80 per sq metre for all forms of retail represents 42% of the maximum CIL rate for small and medium sized supermarket development on brownfield sites, and a smaller proportion for greenfield sites. For "general retail" (300m^2), the proposed rate represents 71% for brownfield development and 56% for greenfield development. For all other forms of retail development the proposed rate would represent a lower proportion of the potential maximum rate[49].

37. This suggests that the proposed CIL rate, when applied to the range of retail developments appraised, including that for discount operators and other small and medium sized shops, incorporates a significant margin to allow for the inevitable uncertainties that surround the estimates of development costs and values. Furthermore, there is no substantive evidence before me to demonstrate that the proposed rates are likely to threaten the viability of retail development across the Borough.

The Proposed CIL Rate for Residential Development

38. The VA concluded that all forms of residential development, other than that including apartments, are viable in both the low and high value areas. Maximum CIL rates would be £67 to £332 per sq metre depending on whether the development was on a brownfield or greenfield site, and the number and mix of dwellings[50].

39. The table below sets out the maximum CIL rates identified in the VA for the five categories of residential development assuming affordable housing provision in accordance with the requirements of the Core Strategy[51].

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[45] The VA, in paragraphs 6.11 and the table of page 33, refers to two different figures for the viability of supermarkets on greenfield sites. Paragraph 8.2 of the Council's written statement in response to the Examiner's questions SQ1 to SQ7 (December 2014) clarified that the correct figure is £456.
[46] Council written statement in response to the Examiner's question 9 (December 2014).
[47] VA paragraph 6.11 and table on page 33.
[48] Council written statement in response to the Examiner's question 9 (December 2014).
[49] The Examiner's percentage figures.
[50] VA paragraph 6.3 and tables on pages 29 to 32.
[51] VA paragraph 6.6.

	Mixed res dev 120 units	Starter homes & apartments 20 units	Apartment block 50 units	Infill 10 units	Exec infill 5 units
Low value area Greenfield site 30% affordable	163	9	-241	187	225
Low value area Brownfield site 30% affordable	83	-54	-284	108	143
High value area Greenfield site 40% affordable	182	32	-8	159	332
High value area Brownfield site 40% affordable	99	-38	-49	67	249

40. The proposed residential rate of £50 per sq metre represents 75% of the maximum potential rate for infill development of ten units on a brownfield site in the high value area. Such a form of development is unlikely to represent a large proportion of the overall amount of new housing, and the proposed rates would represent a much smaller proportion of the maximum potential rate for all of the other categories of brownfield and greenfield residential development in both high and low value areas (other than apartments and a mix of apartments and starter homes). This suggests that the proposed CIL rate, when applied to much of the residential development that is likely to take place, incorporates a significant margin to allow for inevitable variations in the costs and value of particular developments.

41. The VA concluded that apartment blocks are not generally viable in either low or high value areas, and a mix of starter homes and apartments is only viable on greenfield sites[52]. This is a highly significant finding because it is expected that around 60% of all new homes in the Borough up to 2027 will be in the form of apartment development[53]. The proposed charging rate would add an additional viability burden to, and thereby threaten the delivery of, a form of development that is clearly critical to meeting housing needs identified in the Core Strategy.

42. There is some evidence that the VA underestimated the viability of apartment developments as apartments have continued to be built in the last few years, and current prices of such new properties are higher than the values assumed in the VA[54]. However, the Council accepts that there is insufficient evidence relating to the time period used in the VA to justify significantly higher overall figures, and it would skew the outputs of the model to include data from a different time than that used for other variables. That said, a re-run of the model using a less conservative, alternative valuation of £2,800 per sq metre for apartment developments, rather than the figures of £2,700 for high value areas and £2,200 for low value areas, suggests that developments comprising apartment blocks and a mix of starter homes and apartments would be viable

52 VA paragraph 6.4 and tables on pages 29 to 32.
53 Council written statement in response to the Examiner's question SQ1 (December 2014).
54 Council written statement in response to the Examiner's question SQ2 (December 2014).

on greenfield and brownfield sites in all parts of the Borough[55].

43. However, whilst the value of new apartments may be greater than second hand stock, it is not clear that such an increase in valuation is justified for the low value areas. Furthermore, and due to the affordable housing requirements, the maximum potential rates for greenfield apartment development in high value areas would be only slightly above the proposed rate of £50, whereas the potential rate for brownfield sites in such areas would be below that figure. The Council has not suggested that it would be appropriate to forego the provision of affordable housing to increase the viability of apartment development in high value areas, and to do so would be contrary to the Core Strategy. Recent changes to national guidance mean that contributions for affordable housing should not be sought from developments of ten units or less[56], but the effect that this will have in Eastbourne is not at all clear at this time.

44. Therefore, it is clear to me that applying the proposed charging rate of £50 to apartments is not justified by the viability evidence, and that it would be likely to threaten the delivery of a form of development that is critical to the achievement of the objectives of the Core Strategy. The Council has advised that, in the event that I reach such a conclusion, consideration should be given to modifying the Draft Charging Schedule to introduce a nil rate for residential apartment development. Such an approach would be likely to reduce the amount of CIL revenue compared to that estimated in the revenue analysis report, and mean that a greater infrastructure funding gap would persist. However, evidence suggests that the proposed rates would reduce the amount of residential development, meaning that the assumed CIL revenue would be unlikely to be raised in any case. In other words, applying CIL to apartment development would not only prevent housing needs being met, but would also be unlikely to help to deliver additional infrastructure. It would not, therefore, have a positive economic effect.

45. The legislation allows for differential rates by reference to intended uses of development. The PPG makes it clear that the definition of "use" for this purpose is not tied to the Town and Country Planning (Use Classes) Order 1987, and gives the example of applying differential rates to social housing if that is justified by viability evidence[57]. In this case, the evidence indicates that the viability of apartments is quite different to other forms of housing development in Eastbourne. Part of the reason for this is the additional development costs associated with creating shared access, circulation and outside amenity areas. Furthermore, these features of apartment blocks mean that such buildings are used in a materially different manner to individual dwellings with private gardens. I am, therefore, satisfied that the application of a differential rate to apartment developments would be in accordance with the relevant legislation and national guidance.

46. For the reasons given above, I recommend that the Draft Charging Rate be modified to include a nil rate for residential apartment developments in both the low and high value areas [**EM1**].

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55 Council written statement in response to the Examiner's question SQ3 (December 2014).
56 PPG ID-23b-012, 28 November 2014.
57 PPG ID-25-022, 12 June 2014.

The Proposed CIL Rate for Other Categories of Development

47. The VA concluded that all of the other categories of development tested are not generally viable[58]. This has not been challenged by representors, and there is nothing that I have read that leads me to a different conclusion. Accordingly, the nil charge for all other types of development is justified.

Conclusion on Whether the Proposed Charging Rates are Informed by and Consistent with the Evidence

48. For the reasons given above, and with the exception of their application to apartment developments, the proposed charging rates are clearly informed by, and consistent with, the evidence relating to community infrastructure needs and the viability of development across the Borough as set out in the Core Strategy.

Does the Evidence Demonstrate that the Proposed Charge Rates would not put the Overall Development of the Area at Serious Risk?

49. Assuming that the Draft Charging Schedule is modified in accordance with my recommendation, the evidence suggests that residential and retail development will remain viable across most of the area if the charges are applied. Only if the assumptions used in the viability appraisals prove to be significantly wide of the mark, an eventuality which has not been shown to be likely by the evidence before me, would development across the Borough be made unviable by the proposed charging rates.

Other Matters

50. A number of other matters have been raised by representors. However, the approach to charging CIL that may be taken in exceptional circumstances, guidance about the how the system will operate, and reporting how CIL revenue is actually spent are all matters for the Council rather than for this examination. In so far as it is relevant to my considerations, I have had regard to the Regulation 123 list but it is not for me to advise on what is or is not included in that document. For that reason, it is not necessary for me to assess the detailed information provided by Sussex Police, although I note that police facilities have been added to the Regulation 123 list meaning that CIL could be used for such infrastructure if that were deemed to be appropriate by the Council.

51. I understand that the remaining brownfield land at Sovereign Harbour could accommodate 150 dwellings. Whilst such development would no doubt be beneficial to the area, in the context of the overall housing numbers it cannot be regarded as critical to the delivery of the Core Strategy. It is not, therefore, necessary to appraise specifically the viability of residential development in that area, and it will be for the Council to determine the level of affordable housing provision and other matters to be potentially covered by planning obligations.

52. No other matters raised in the representations affect my overall assessment or

[58] VA paragraph 6.10 and table on page 33.

conclusion.

Conclusion

53. In setting the proposed charging rates the Council has had regard to detailed evidence on infrastructure planning and the economic viability evidence of the development market in those parts of Eastbourne outside the South Downs National Park. The Council has tried to be realistic in terms of achieving a reasonable level of income to address an identified gap in infrastructure funding, while ensuring that a range of development remains viable across the Borough.

54. However, I have found that the evidence indicates that apartment developments, which are critical to the delivery of the Core Strategy, would be unlikely to be viable if CIL were to be charged, and therefore such development should be subject to a nil rate. On that basis, only development that has been shown to be viable would be charged CIL, and the rates are set well below the maximum potential rates identified in the VA.

55. Therefore, my conclusion is that, subject to my recommended modification, an appropriate balance would be struck between the desirability of CIL helping to fund the infrastructure needed to support the development of the Borough and the potential effects (taken as a whole) on the economic viability of that development.

56. Given the uncertainties that inevitably surround the future value of land, and the costs and values of various forms of development, the Council should actively monitor the effects of CIL to ensure that it has an overall positive economic impact and helps to deliver development and necessary infrastructure as set out in the Core Strategy over the coming years.

Legal Requirements

National Policy and Guidance	The Charging Schedule complies with national policy and guidance.
2008 Planning Act and 2010 Regulations (as amended)	The Charging Schedule complies with the Act and the Regulations, including in respect of the statutory processes and public consultation, consistency with the Eastbourne Core Strategy adopted in 2013 and Infrastructure Delivery Plan, and is supported by an adequate financial appraisal.

57. I conclude that, subject to the modification set out in Appendix A, the Eastbourne Community Infrastructure Levy Draft Charging Schedule satisfies the requirements of Section 212 of the 2008 Act and meets the criteria for viability in the 2010 Regulations (as amended). I therefore recommend that

the Draft Charging Schedule be approved subject to that one modification.

William Fieldhouse
Examiner

This report is accompanied by:

Appendix A – Recommended Modification to the Draft Charging Schedule.

APPENDIX A

Recommended Modification to the Draft Charging Schedule

In respect of my recommendation EM1, the Draft Charging Schedule should be amended to read as follows:

Type of development (Use Classes Order 1987 as amended)	CIL charging rate per square metre of net additional floorspace
Dwellings* (C3) other than residential apartments	£50
Retail** (A1-A5)	£80
All other uses	£0

* Where there is a net gain in dwellings ** Where the development is 100 square metres or greater

Appendix 4

Cushman & Wakefield Eastbourne Viability Report Jun 2016

CUSHMAN & WAKEFIELD

EASTBOURNE Borough Council

EASTBOURNE VIABILITY REPORT

PREPARED FOR

EASTBOURNE BOROUGH COUNCIL

JUNE 2016

CONTENTS

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

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

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.

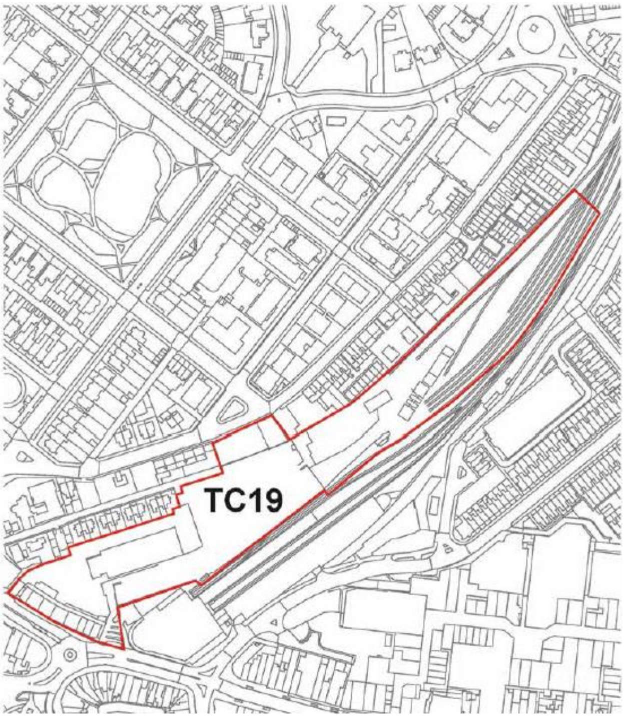
3. OPPORTUNITY SITES

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:

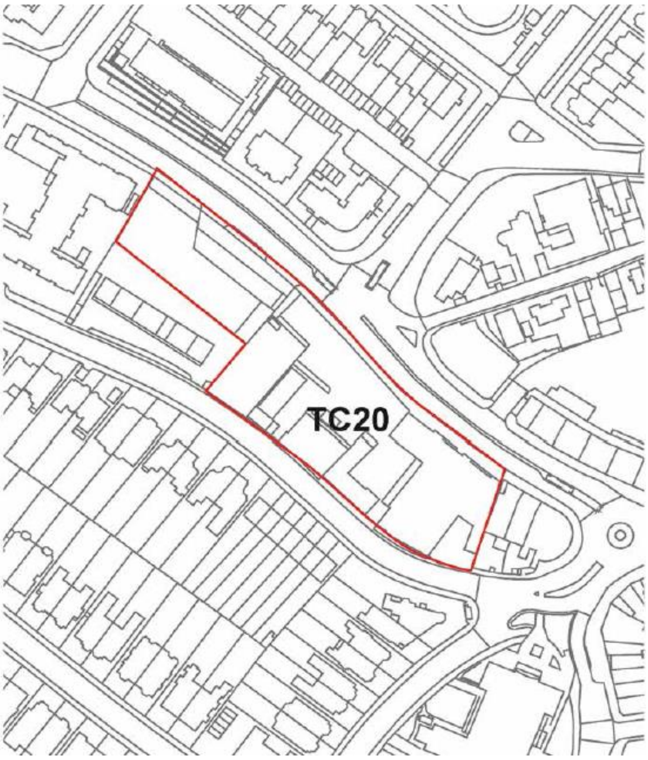
- Active frontages comprising retail window displays and principal pedestrian entrances to Terminus Road, a new public square at the junction with Grove Road, and adjoining the Upperton Road Gateway.
- Storey heights to range from 3 to 6 storeys above street level. Opportunities for a taller landmark 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 granting 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 floor-space 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. Itis 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

	Footprint (sq m)	*Gross External Area (sq m)*	*Efficiency*	*NIA (sq m)*
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

	Footprint (sq m)	*Gross External Area (sq m)*	*Efficiency*	*NIA (sq m)*
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 todays 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 concords 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

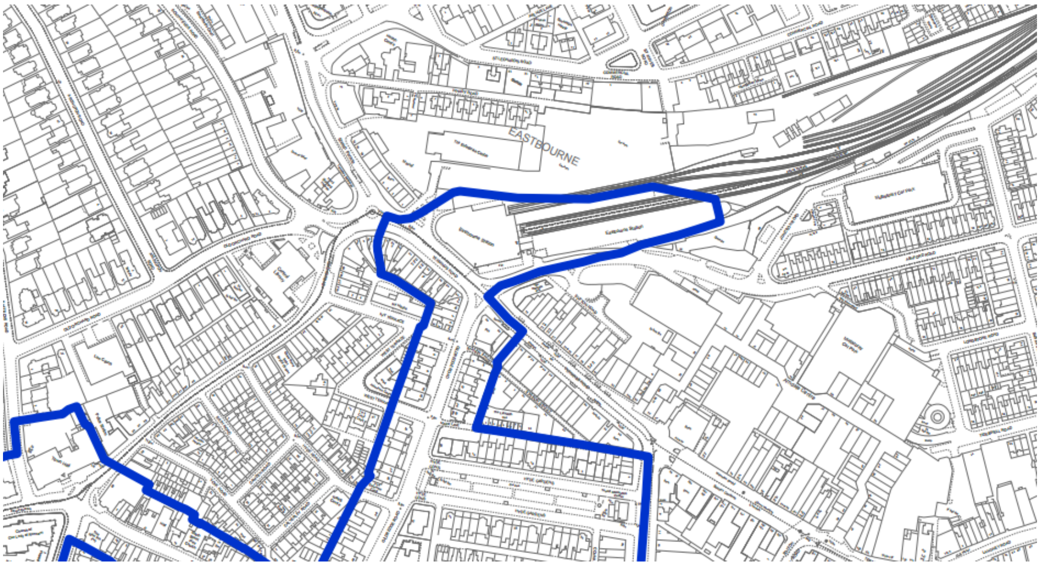
If the office space is reduced to 3,000 sq m (NIA) with a concurrent drop in car parking provision to 85 spaces, this produces a land value of +£1.7 million and a net viability of £0.2 million which illustrates the potential to deliver this quantum of floorspace.

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.

Appendix 5

GVA Employment Land Evidence Report Nov 2014

A Bilfinger Real Estate company

Report

GVA
10 Stratton Street
London
W1J 8JR

Eastbourne Borough Council
Employment Land Supplementary Evidence Report

November 2014

Contents

1. Introduction

1.1 Following publication of the draft Employment Land Local Plan (ELLP) and it's supporting evidence base a number of representations have been received by the Council that seek to challenge the proposed policy position and/or seek further clarity as to the justification for and appropriateness of assumptions and analysis within the evidence base.

1.2 To enable the Council to positively respond to these representations GVA have been appointed to provide further analysis of the key issues raised and ensure the supporting evidence base is clearly articulated and robust in order to support the ELLP.

1.3 The supplementary advice and evidence is comprised of two components. Firstly this report considers the specific issues raised through the representations, providing additional data analysis and supporting information. Secondly, an updated version of the 2013 Employment Land Review (ELR) has been prepared, which corrects factual and numerical errors within the final report. It should be noted that none of the data or analysis in the ELR has been altered.

1.4 Representations have raised a number of issues which relate primarily to the two core markets within the borough, with issues relating to the existing and future provision of office and industrial floorspace. A third set of issues have been raised which related specifically to the allocation of employment land at Sovereign Harbour.

1.5 This report is structured to address each group of issues in turn, addressing the office market first, followed by industrial and finally considering Sovereign Harbour. Each section sets out the strategic and local market context then provides analysis of key data and trends before drawing conclusions.

The Appropriateness of Continuing to Protect Employment Land

1.6 The over-arching purpose of this report is to provide further support for the ongoing protection of employment land through the ELLP, providing supplementary evidence to clarify and provide additional justification for the chosen approach to land identification and protection.

1.7 Eastbourne Borough is a strategically important hub within East Sussex, acting as the southern anchor of an economic corridor that connects the key commercial locations within Eastbourne itself, Polegate and Hailsham. The corridor has been the focus of economic and commercial development activity and provides strong connectivity in the East Sussex context.

1.8 As the major urban area within the corridor Eastbourne will remain a focal point for the corridor's economy, suggesting a range of spaces and locations will be required within the Borough to accommodate growth. The key to the corridor is the labour market access, therefore for Eastbourne to play a leading role new capacity will be required in existing locations and new places that can offer connections to centres of population.

1.9 The starting point for this report is the existing ELR which established that there was an evidenced requirement to both protect the existing employment land provision within the borough alongside the protection and promotion of B class employment within Eastbourne town centre and at the allocated, but undeveloped land, at Sovereign Harbour.

1.10 The ELR recognised that the unique context of the borough meant that employment land in Eastbourne is an extremely finite resource. A combination of a tight geographic boundary, large areas at high risk of flooding, considerable areas of landscape and open space designation and the relationship to the South Downs National Park limit the opportunity to allocate or develop new land.

1.11 As such, whilst it is recognised that some existing employment sites faces issues in terms of their stock quality the re-use of these sites through redevelopment and intensification in the future for B class employment will be vital for continued economic success.

1.12 Employment land capacity is already being challenged through a loss to higher value uses in out of town locations and increasing pressure for change of use through the extension of permitted development rights. While some change has been considered acceptable this erosion of capacity is unlikely to be sustainable over the plan period.

1.13 The ELR assessed the economic growth potential of the borough over the plan period to 2027, identifying that there will be an increased demand for employment land for B class uses resulting in a requirement of **39,572sqm** of additional employment floorspace.

1.14 Further confidence in this requirement can be drawn from the wider market performance in East Sussex which has demonstrated an established demand and private sector delivery of new space in similar contexts. A number of developments both in Eastbourne and more widely within neighbouring local authority areas such as Wealden and Hastings have been delivered by the private sector and attracted occupiers.

1.15 The analysis of existing supply also demonstrated a lack of choice within the property portfolio for all anticipated needs in the future. This lack of choice was identified to affect both the scale and nature of floorspace provided but also in terms of locations for particular activities.

2. The Provision of Office Floorspace

2.1 The representations to the ELLP consultation raise two core issues relating to the future plans for office provision within the borough. Firstly questions have been raised relating to the balance of provision for future office development within the Borough between the town centre and outside of town centre locations.

2.2 Secondly, the appropriateness of occupier density assumptions used within the ELR have been questioned, with representation feeling that space could be more efficiently used and employment could be accommodated within a smaller quantum of floorspace.

2.3 Within this section we address these issues. We start by providing a brief overview of the office market, which sets the context for providing new floorspace within the borough over the plan period.

Office Market Context

2.4 In general, following a number of years of stagnation, the South East office market has shown signs of recovery and growth over the past 6-12 months, with increasing levels of demand and take up felt across the region.

2.5 Research published by BNP Paribas (Q2, 2014) suggests that rental values in the south M25 market have increased by 9% since 2012, reaching a level which exceeds peak rents achieved in 2008. Over the same period Knight Frank estimate that investment activity has reached a seven year high as yields have also improved.

2.6 In part this increase in value has been driven by a lack of supply as take up has remained consistently below trend. However, the three months to July 2014 have shown transaction levels increasing with quarter on quarter levels 12% higher in Q2 2014 (Colliers, 2014).

2.7 A restricted development pipeline and growing demand for space is leading to a fall in vacancy levels across the South East. The constrained supply in core market areas such as the Thames Valley has driven improvements in take up of space across the wider south east with a number of 'secondary' locations experiencing their highest levels of take up for two years.

2.8 Perception surveys undertaken by Deloitte suggest that business confidence growing with a much lower perception of economic uncertainty being reported and an increased appetite for risk and investment. This suggests that, following a period of cautiousness for occupiers, demand and take up will continue to rise primarily in the core locations but also creating a 'ripple effect' across the wider regions (Savills, 2014).

2.9 Research undertaken for the East Sussex Local Economic Assessment (LEA) highlights the competitive advantages and opportunities for the county within the commercial property market. It recognises the cost effectiveness of space when compared to the south east region alongside the presence of a number of sectors that will be important to the economic growth of the UK.

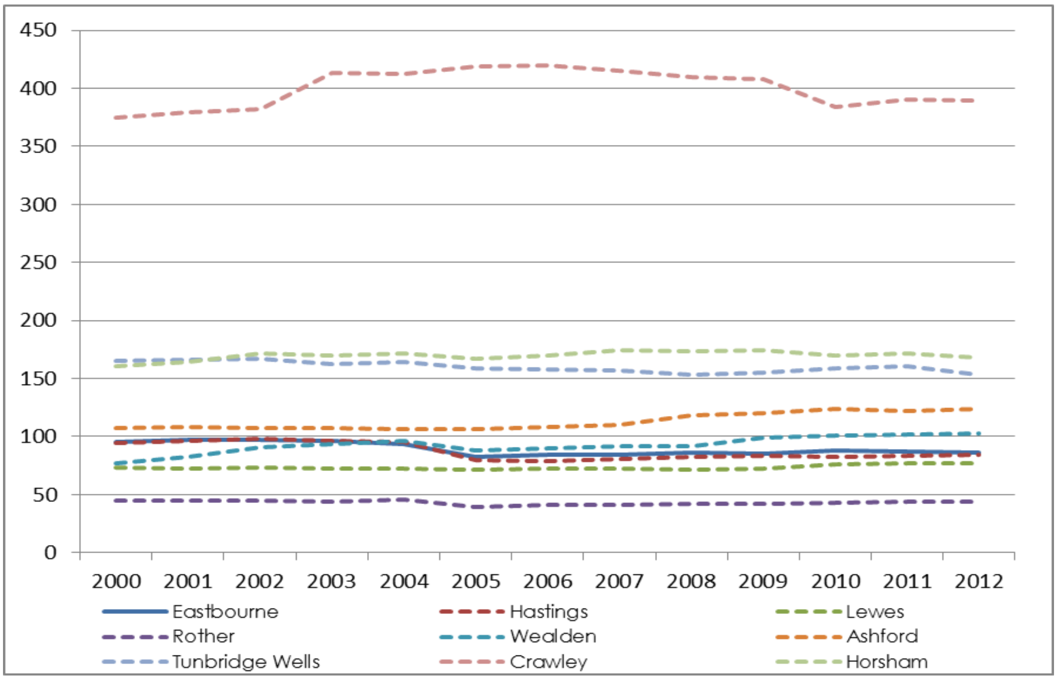
2.10 It suggests that these assets alongside improving infrastructure and a good quality of life provide a good basis for the County to improve its economic performance in the future. Eastbourne, within the Eastbourne-Polegate-Hailsham corridor, provides the combination of environment, labour force and market presence to continue to be the core focus for office activity in the future.

Eastbourne Floorspace Trends

2.11 Looking more closely at provision within Eastbourne we see that the stock office floorspace has been relatively consistent since 2000 both in absolute and relative terms.

2.12 Drawing on data provided by the Valuation Office Agency (VOA) it is evident the Eastbourne has a relatively modest scale office market when considered alongside neighbouring or nearby local authority areas.

Figure 1 - Office Floorspace Stock



Source: VOA, 2014

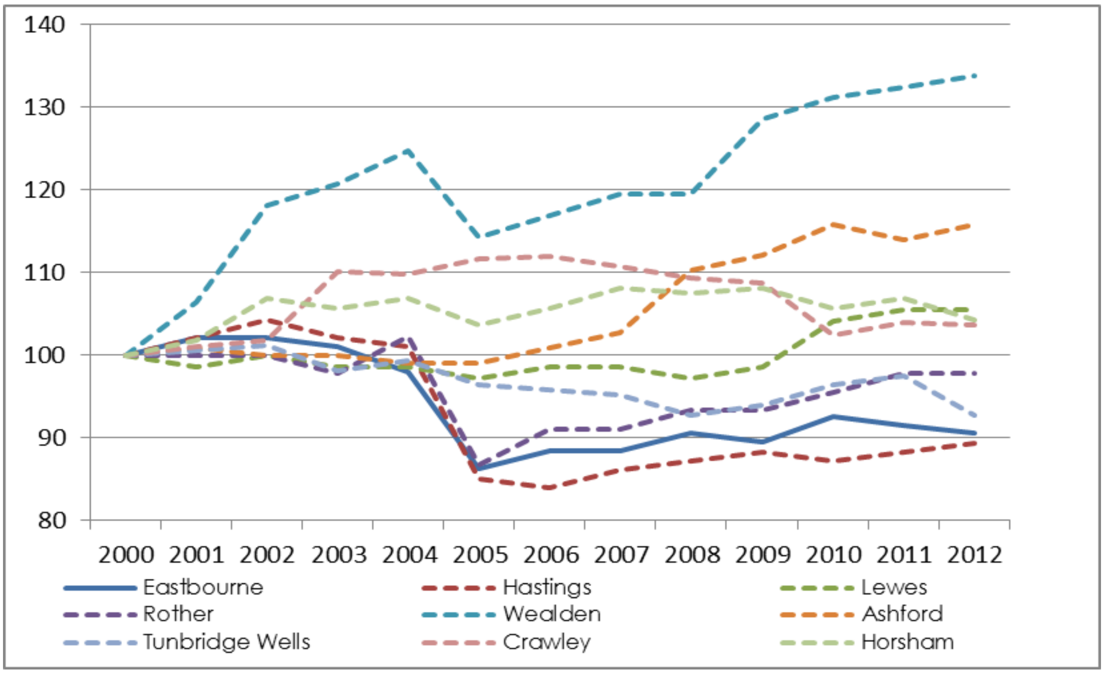
2.13 As shown in Figure 1 the borough accommodated c. 86,000sqm of office floorspace in 2012 with only Rother, Lewes and Hastings providing less stock. By contrast, Wealden, Ashford and Tunbridge Wells all accommodate over 100,000sqm of floorspace.

2.14 There has been relatively little net change in floorspace over the period between 2000 and 2012, with stock decreasing by approximately 9% in total. However this long term change masks smaller fluctuations in which saw stock increase in the period to 2003 before falling to its lowest level (82,000sqm) in 2005. Since 2005 stock has grown albeit with a more recent loss of space (c.2,000sqm) between 2010 and 2012.

2.15 Eastbourne is one of only 4 local authority areas to have had a net loss of space over the period, the others being Hastings, Rother and Tunbridge Wells. Of these Hastings recorded the highest scale of loss at 11% of stock.

2.16 Analysis of the relative performance of the office stock suggests that whilst losses within Eastbourne have had a significant effect generally the market has performed in line with wider sub-regional market trends.

Figure 2 - Office Floorspace Relative Performance



2.17 Proportionally the losses of stock within Eastbourne have been more significant than in neighbouring areas, changing the relative position of Eastbourne within the market. However, as with a number of areas who experienced losses in the mid-2000's the market has shown signs of recovery with floorspace gains in the period to 2010.

2.18 Changes to the planning system introduced by the Government in May 2013 extended general permitted development rights to allow for the conversion of existing office premises into residential units. The purpose of the approach was to remove the need for planning permission and therefore reduce the overall cost of conversion, increasing delivery rates of new housing.

2.19 Whilst planning permission is not required developers are required to submit a Prior Approval Notice to the planning authority, enabling them to 'track' changes that are occurring. Almost 18 months after the legislation came into effect we are now seeing the first indicators of the impact of the change, with the Prior Approvals now providing some data to estimate the scale of the trend.

2.20 Since May 2013 there have been 12 Prior Approval Notifications submitted to the Council which, if delivered would see the loss of almost 5,500sqm of floorspace, over half the total loss of office floorspace recorded by the VOA between 2000 and 2012. The Annual Monitoring Report for the 2012-13 identifies a gross commitment of c.700sqm of B1a floorspace, suggesting that with the losses to other uses office supply in the borough will contract.

2.21 However, it is worth exercising a note of caution in extrapolating this data given it only reflects a short period of time and therefore a long term trend cannot be established. The permitted development rights are currently only extended for a 3 year period (assuming they do not become permanent following government consultation on the issue) as such a number of land owners may be seeking to establish the development principle before the deadline to protect their future options. If this is the case then the stock may not actually be converted and the capacity not lost.

2.22 The current data suggests this could be a factor in Eastbourne, with only 3 of the twelve notifications currently under-construction or completed, representing just under half the total floorspace 'at risk'.

2.23 Therefore, whilst there is a need to monitor the impact of conversion as more time passes and data becomes available the short run trend could suggest that a large replacement of stock (on an equal basis to losses) may not be required.

2.24 It is important to note that the approach taken within the ELR seeks to make allowances for losses of capacity through the redevelopment of stock through both extended permitted development rights and more traditional approaches to change of use.

2.25 By making allowances to offset 'windfall losses' and also provide some 'headroom' capacity within the demand forecast the ELR increases the overall requirement for office floorspace beyond that resulting from the employment growth forecasts.

2.26 This allowance has been based on the data available at the time of preparing the ELR, using the figures within the Annual Monitoring Reports prepared by EBC to establish a trend-based average stock loss per annum which was then aggregated for the plan period. The headroom allowance has then been made on top of this based on our estimation of what level of flexibility may be required and also deliverable to compensate for some future losses.

2.27 These allowances are made on the basis of ensuring there is sufficient capacity for economic growth in the future irrespective of location. As will be discussed in more detail in the following sections how this capacity is then distributed within the Borough is determined by our understanding of market requirements rather than solely seeking to redistribute space based on land availability.

Providing a Choice of Office Locations

2.28 Clearly as a key town centre use there needs to be sufficient provision made within the town centre to maintain this function. However, in order to provide occupier choice and broaden the range and type of stock available provision will also be required in out of town locations.

2.29 It would be undesirable to direct all future Grade A office development to the town centre as this is unlikely to provide the necessary choice or flexibility to respond to the market and accommodate any future development or occupier interest. Likewise a solely town centre approach would mean occupiers that do not rely on the wider benefits of a town centre location could also be 'lost'.

2.30 It is important to note that location decisions by investors and developers are unlikely to be 'sequential'. Those developers which are interested in developing outside of the town centre are unlikely to shift their focus towards the town centre purely on the grounds that sites are not allocated out of town.

2.31 The two locations are likely to attract different types of development and therefore different occupier interests. Rather than simply transfer investment towards the town centre, an out of centre occupier is more likely to consider opportunities in other local authority areas which meet their needs if land/space is not available within the town centre.

2.32 Occupiers are increasingly seeking to occupy space that reflects and enhances their image and brand and acts as a key component in attracting new employees. Hence there has been an increased focus on the look, feel, design and functioning of property and a subsequent increased requirement for new 'bespoke' space. As such, they will seek spaces that best reflect their operational and client needs.

2.33 A number of sectors for which the borough has growth potential will be attracted to the town centre, particularly activities such as professional/business services (legal and accounting activities for example) which require a 'front door' that is easily accessible for clients.

2.34 Similarly some 'creative' based sectors will also seek town centre locations to benefit from the wider amenity/leisure provision, which will appeal to staff, and ability to network with other similar businesses.

2.35 For these businesses, which will be more reliant on high quality broadband provision, the town centre will provide a further benefit as a location where high speed internet access is most likely to be provided (given the density of users). As such some will move to the town purely to benefit from these connections.

2.36 For Eastbourne town centre a further occupier driver will be the presence of core public transport services. Some businesses will seek rail access to London in particular and also other economic hubs in the area to access clients, staff or suppliers. These will be drawn to the town given it combines floorspace with direct access to the Station.

2.37 On the other hand some occupiers will not wish to be 'in town' on the grounds that it is perceived to be a more expensive option and they may suffer from wider challenges created by higher traffic levels, restricted parking regimes or lower security of premises outside of office hours.

2.38 For some business activities these factors are less critical and strategic road access for staff, parking, larger, self-contained floorplates and security will be a much more significant set of location drivers. This will be exacerbated for business activities, such as call centres, that do not require access to / from clients or other businesses.

2.39 Therefore it is important to ensure a balance can be struck, which maintains the vibrancy and vitality of the town centre but also provides stock choices.

2.40 This need to provide a range and choice of locations is supported by the NPPF which, whilst recognising office activity to be a key town centre use, does not limit future provision to within the town centre boundary. In Eastbourne's case the lack of any significant out of town office stock would suggest the 'sequential approach' can be over-ridden by a need to provide a different type of offer to meet the needs of identified future demand.

2.41 Indeed NPPF Paragraph 21 sets the direction for LPAs to identify strategic sites (or set criteria to identify them) for local and inward investment to meet "anticipated needs over the plan period". LPAs must also plan positively for the location and expansion of creative or high tech industries, and facilitate flexible working practices. The work undertaken to prepare the ELLP identified a lack of choice in the market, underlined by anecdotal reports of businesses already within the borough being unable to identify suitable new premises.

2.42 Paragraphs 7 and 17 of the NPPF establish that sufficient land of the right type must be available at the right time and in the right places in order to support growth and innovation. Accordingly, plans must take account of market signals, such as land prices, to ensure land is allocated which is suitable for development and meets the needs to businesses. Therefore, based on the evidence, it can be demonstrated that the 'right type' of land is not currently available through the town centre-orientated office supply and there is a need to diversify the portfolio.

2.43 This is further supported by the NPPG, which accepts that through the sequential approach, out-of-town locations can be appropriate where clearly justified on the basis of suitability, viability and availability of locations for main town centre use. It is our view that the NPPG approach is entirely consistent with the need to continue to provide capacity for office development outside of the town centre.

2.44 More widely, there has been recognition in planning policy terms that unwavering protection of retail, and other town centre uses such as offices will not necessarily reverse the decline of town centres. A broader, market-driven approach has therefore been encouraged through amendments to permitted development rights enabling conversion to residential, and through policies advocating against long-term protection of employment sites without reasonable prospect of employment use (paragraph 22 of the NPPF).

The Nature of the Eastbourne Office Market

2.45 The NPPF and NPPG are clear that the provision of out of town office floorspace is acceptable, particularly where it can be demonstrated that the existing portfolio of stock does not provide the range of spaces the market may require. This lack of choice relates to both the stock typologies available and the locations themselves.

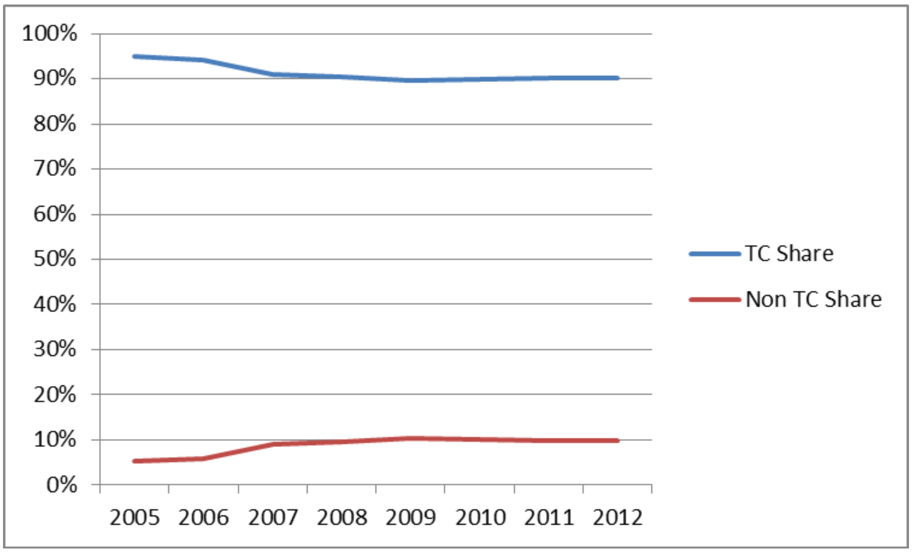
2.46 The ELR and ELLP identified, through a site survey process, a need to 're-balance' the local office portfolio, encouraging the delivery of out of town office space to fill a key gap in the local offer.

2.47 The ELR was based on a qualitative assessment of stock provision and stopped short of identifying the 'share' of floorspace between town centre and out of centre provision within the borough. To fully understand the balance of space between the two areas in more detail we have reviewed floorspace data relating to office delivery.

2.48 As a starting point we have identified the share of office floorspace recorded by the VOA within the borough and how this is 'shared' between locations. The historic VOA data is available at the mid-layer super output area (MSOA) level, enabling headline stock data to be disaggregated to the sub-area level. The town centre is represented by the 5 MSOA's that best reflect the core town centre. Whilst these MSOAs cover an area slightly larger than the town centre boundary established within the Town Centre Local Plan (TCLP) they provide a 'best fit' which is appropriate for this analysis to capture the town centre office market.

2.49 The challenge with this data is that it only runs until 2008 and a similar dataset is not readily available for the remaining years. Therefore to provide a 'best estimate' of the stock profile since this change we have used data from the Council's planning application database (summarised within the AMRs) to establish how much office space has been delivered and lost each year, adding this to the total stock established through VOA to create an updated time series. Given the differing sources of data total stock may not align between the 'headline' VOA data presented above and the analysis below. This, in part, will also reflect changes to any individual rating assessments, which may deflate the VOA figures.

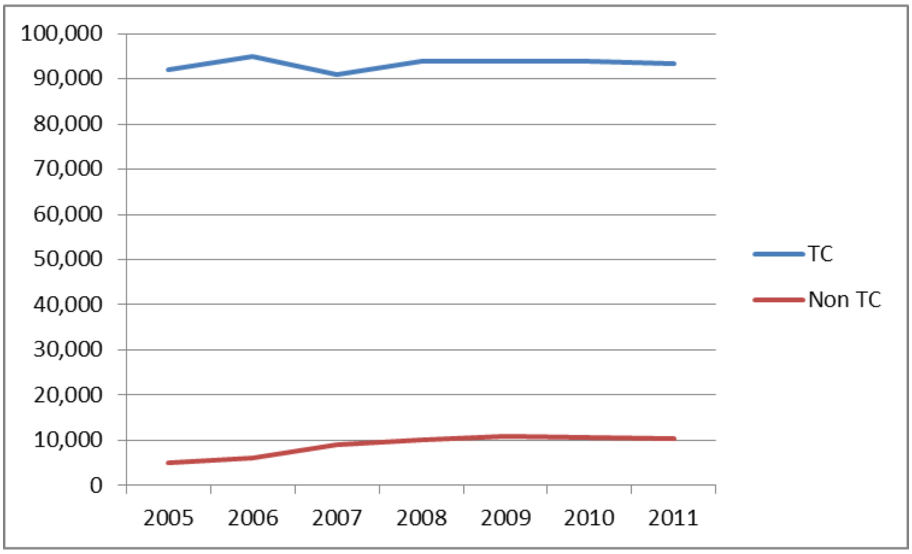
Figure 3 – Proportional Share of Office Floorspace Provision



2.50 As shown in Figure 2 the vast majority of office floorspace lies within the town centre, with an estimated 90% of total provision located within the 5 MSOAs that represented the town centre. It is noticeable that, over time there has been a slight shift in the balance between town and out of town provision, suggesting that there is a demand for space outside the town centre.

2.51 Over the period since 2005 the share of provision out of town has doubled, from 5% of total stock in 2005 to 10% in 2012. Importantly, as shown in Figure 4, this increasing share has not been driven by a loss of town centre capacity, but an increase in the amount of stock being delivered outside of the town.

Figure 4 – Quantum of Office Floorspace Provision



2.52 As commented above there has been a modest loss of space within the town centre, however this has been offset by almost 5,000sqm of new space being delivered outside of the town centre. It is this new stock delivery that has begun to 're-balance' the Eastbourne office market rather than major losses.

2.53 Whilst this data should be considered indicative it does highlight an important trend locally. There would appear to be demand for space outside of the town centre when it is delivered, however at present this may be being frustrated due to a lack of supply in the market. A ratio of floorspace of almost 9:1 between the town centre and out of town suggests that the borough has an unusual concentration of activity, which does not fully reflect or respond to market signals.

2.54 The impact of the Prior Approval Notifications on the balance of in and out of town provision is likely to be modest. Analysis of the data suggests that the changes of use may impact both locations, albeit the impact will be greater within the town centre.

Table 1 - In and Out of Town Change of Use

	Number of Notices	Office Floorspace lost (sqm)
Town Centre	7	4,715
Non Town Centre	5	768
Total	12	5,483

2.55 Given a lack of readily available and directly comparable data it is difficult to provide accurate comparators of stock share between locations in other local authority areas. However, in 2009 GVA did prepare an Employment Land Review Update for Maidstone Borough Council that considered the same issue. At the time the study estimated that approximately 70% of floorspace was within the town centre, and 30% out of town. Recommendations in that Study suggested that the 70:30 ratio be maintained to meet market requirements and provide the necessary choice within the market.

2.56 Clearly this provides a single, dated, example of alternative market shares and as such is of contextual interest but ultimately of limited value for making decisions for Eastbourne. Therefore to understand better market dynamics and whether the local market is 'unusual' we have compared actual market activity (drawn from the CoStar Focus database) across a range of towns within the wider market area to identify the shares of space transacted in and out of town centres.

2.57 Each town centre has been identified using Local Plan boundaries, with the non-town centre area drawn to reflect activity on the periphery of the urban area at a distance reflecting the relationship between Eastbourne town centre and the rest of the borough to ensure unequal geographic comparisons are not used.

2.58 As shown in Table 2 Eastbourne demonstrates the most significant concentration of activity within the town centre, with 78% of deals and 95% of all floorspace take up lying within the town centre.

Table 2 - In and Out of Town Market Activity

		No. Deals	Floorspace	Av. Rent	% Deals in TC	% Floorspace in TC
Eastbourne	TC	18	6,086	£67	78%	95%
	Non-TC	5	350	£159		
Ashford	TC	42	7,828	£163	48%	48%
	Non-TC	45	8,423	£135		
Lewes	TC	16	1,638	£176	46%	24%
	Non-TC	19	5,262	£103		
Crawley	TC	35	13,852	£136	32%	14%
	Non-TC	75	82,057	£165		
Hastings	TC	27	12,285	£50	69%	85%
	Non-TC	12	2,140	£172		
Hailsham	TC	8	1,186	£116	73%	73%
	Non-TC	3	438	£64		

2.59 It is noticeable that the 'larger' towns considered in the analysis tend to have a larger proportion of market activity outside of the town centre. This tends to reflect the relative scale of the town centre and out of town centre provision with towns like Crawley (Manor Royal), Ashford (Eureka Park) and Lewes (Brooks Road) all offering large edge or (or out of town) business park environments.

2.60 It is noticeable that in locations such as Eastbourne and Hastings, where there is less out of town space, the value difference between the two locations is considerable, again indicating that demand may be stronger than the current supply position.

2.61 The data also reinforces the relative scale of the Eastbourne office market within the Eastbourne-Polegate-Hailsham corridor, with significantly less office transactional activity within Hailsham and none recorded within Polegate.

Future Changes

2.62 To understand whether the approach taken within the ELLP is appropriate in terms of the share of space delivered within and outside of the town centre and the ultimate 'portfolio' balance it would create we need to bring a number of the components considered above together.

2.63 By considering the current stock estimate and pending losses from Prior Approval Notifications alongside the demand forecast and site 'allocations' within the ELR it is possible to estimate the future balance between the town centre and out of centre locations.

Table 3 – Future Provision Estimate

	Town Centre	Non-Town Centre	Total
Stock Estimate	92,926	10,158	103,084
Prior Approval Losses	-4,715	-768	-5,483
ELR 'Allocations'	3,000	20,000	23,000
Total	91,211	29,390	120,601
Share	76%	24%	

2.64 As shown in Table 3 taking these factors into account the future share of provision would result in approximately three quarters of office floorspace being provided within the town centre. This would maintain the town centre as the core focus of the office market, but also create a greater level of choice for potential occupiers.

2.65 Clearly this analysis represents a 'static' analysis of a dynamic market and therefore the losses (in particular) are likely to fluctuate over time. However, given the long term trends in the Eastbourne office market and their impact on the in/out of town balance to date we would not expect these to considerably impact the predominant focus on the town centre in the future.

Conclusions

2.66 Given our analysis of the office market and supply positions within Eastbourne it has become clear that provision is highly concentrated within the town centre, and this is markedly different from 'market norms' across the wider sub-region.

2.67 It is our experience, evidenced by market activity, that there is a need to provide choice within a market in order to capture economic interest and potential. This is critical given location decisions by investors and developers are unlikely to be 'sequential' given a number of key factors including:

- Developer and occupier audience different
- Provision of different stock typologies
- Seek different locational attributes
- Car parking
- Security
- Accessibility
- Cost
- Quality/nature of place

2.68 As noted, rather than simply shifting demand from out of centre to town centre locations occupiers and developers are more likely to move their activity to another location that is able to provide the sites or environment they require.

An Appropriate Occupier Density

2.69 In assessing the amount of floorspace required to accommodate the forecast scale of employment growth within the Borough over the plan period the ELR used an office employment density of 12sqm per employee (NIA) to convert jobs into floorspace need. The ELR justified this on the grounds that the nature of growth within the Borough would not necessarily support greater space efficiencies (such as increased flexible working) which would result in a lower overall density.

2.70 The NPPF, NPPG and HCA Density Guide (2010) all recognise that employment densities vary by activity type and location, therefore a single density figure is not provided for each use class, allowing densities to be adjusted to reflect local circumstances.

2.71 The HCA Density Guide provides the core reference point for employment land calculations and this identifies a range of occupancy density for B1a accommodation of between 8sqm for a call centre and 47sqm for a data centre. The general office density is identified as 12sqm, which includes headquarters, administrative and client facing activities.

2.72 Despite the ELR using a density that aligns with government density guidance representations were made to the ELLP consultation challenging the use of 12sqm as an appropriate density, arguing that it did not reflect the ongoing space efficiency being achieved by a number of occupiers and suggesting that more efficient use of land could be used by planning future office stock at 10sqm per employee.

2.73 In order to understand whether this level of density would actually be achieved if policy were to be formulated based on an assumption of greater density we have drawn on research undertaken by the British Council for Offices (BCO) and IPD in 2013 which looked specifically at office occupancy trends.

2.74 The BCO's 2013 Occupier Density Study surveyed the BCO membership to identify the relationship between floorspace provision and occupancy (in terms of employee numbers), this survey drew on occupiers themselves, building architects and building owners. Overall the sample consisted of 2.5mn sqm of floorspace across 381 properties, providing a base dataset that covered a wide range of stock types, ages and locations.

2.75 To supplement this sample-based approach the study also drew on data held by IPD, which again draws on information provided by occupiers. This comprised circa 8.5mn sqm of office floorspace shared almost equally between public and private sector occupiers. An additional perception survey was also completed to identify future trends.

2.76 Once the data had been collated it was analysed to identify trends by sector and geography. At the headline level the Study found that across the UK the mean density per workplace was 10.9sqm (NIA) with 38% of the sample properties being occupied at density below 10sqm and 58% occupied at a density between 10sqm and 12sqm.

2.77 For the South East region the average occupier density was calculated to be 12.7sqm (NIA), a lower density than achieved within Greater London which itself had an average of 11.3sqm (NIA). It appears from the data, and our wider experience in advising on office development, that higher densities (between 8 and 10 sqm) tend to mainly be achieved within Central London where the cost of floorspace and nature of business activity drives occupiers to increase efficiency.

2.78 The BCO also identified general occupier density by broad economic sector, breaking down the general trends to understand how certain activities utilise space.

2.79 The ELR identified a range of potential growth sectors within Eastbourne, highlighting the likely opportunity for office-based growth across primarily locally orientated professional services, technology and media and potentially smaller scale corporates. Whilst the public sector has contracted in recent years this was also seen as a long term opportunity.

2.80 Data from the BCO survey suggests that these sectors would operate at a range of densities:

- Corporate activity 13.1sqm;
- Professional services 12.3sqm;

- Public sector 12.1sqm; and
- Technology, media and telecommunications 10.5sqm.

2.81 Based on these sectors (which most closely align to the ELR forecast) the average density for the borough would be 12sqm per employee, reflecting the average density achieved across the South East office market.

2.82 The study also suggests that whilst there have been recent trends of increasing density, principally driven by the need to reduce costs through the recession, occupier density has begun to plateau suggesting that for many occupiers there are no further opportunities for using space more efficiently.

2.83 However, the study recognises that this trend is not uniform across all actors and that individual circumstances will drive future changes of density. What is clear from the BCO study is that any 'general' trend such as this cannot be relied upon solely to provide a definitive indication of how occupiers may act in the future.

2.84 Overall, given this data we would suggest that the original ELR assumption of 12sqm per employee is an appropriate occupier density for planning purposes.

2.85 Within the local context it is also important to recognise that the ELR is tasked with forecasting demand based on an average occupier density across the whole Borough. This is likely to incorporate a range of office typologies from the higher density Innovation Mall through to lower density offices for professional service firms.

2.86 The potential development at Sovereign Harbour encapsulates this potential range of stock. Whilst the first phase of development will deliver the high density Innovation Mall (with an estimated job density of c.8sqm per employee) the remainder of the site is likely to be used for more generalised office stock, which will achieve a lower occupier density.

2.87 In any event it is likely that the actual occupier density of the Innovation Mall will be lower than the calculated from the gross job numbers. A key target of the Innovation Mall is to be a catalyst for jobs growth across the Borough, supporting business start-ups even if they do not permanently occupy space within the building. Some of these businesses will use co-working and hot-desking spaces within the Mall, whilst others may not access the Mall at all. Therefore the jobs within the building may be less than the total job impact, reducing occupier density below job density.

2.88 Given this unique dynamic of the Innovation Mall it would be inappropriate to base the Borough-wide forecast on such a specific density based on a 'non-typical' building typology.

3. The Protection of Industrial Floorspace

3.1 The second key issue raised in representations to the ELLP and also becoming manifest through planning applications, is the relevance and need for policies that protect existing industrial land exclusively for B Class uses.

3.2 As noted in the ELR there is a finite resource of developable land within the borough and therefore the retention and improvement of existing industrial estates and sites is vital to accommodate future employment growth. Whilst some losses have been permitted in the past capacity is now at a critical point and future losses could significantly harm the borough's future potential.

Strategic Market Trends

3.3 The market for industrial property has shown signs of improvement in the last year with an improving economic outlook having a significant impact on occupier demand for industrial premises. This has created competition within the market and is driving a number of occupiers (particularly third party logistics operators) to acquire any available good quality stock to ensure they have the necessary operational capacity in the future.

3.4 This increased demand and known requirements within the market are outstripping the availability of good quality space, particularly in London and South East, where occupiers are reliant upon design and build opportunities. The knock on effect has been increased demand for development land in well located areas, with land prices increasing by an average of 3.5% over the first 6 months of 2014 (Source: GVA Industrial Intelligence Report, Autumn 2014).

3.5 Speculative development has therefore resumed, albeit on a relatively small scale, as site owners seek to capture some of the existing requirements within the market. This demand tends to be driven by distribution activity at a range of scales, including from online retailers and food retailer 'dark stores'.

3.6 Demand pressures are also impacting rental levels. The South East saw rental growth at 2.1% for the year to with forecasts suggesting this trend will continue next year, with rents expected to increase by a further1.9% expected.

The East Sussex Market

3.7 Whilst not considered a ‘prime’ location for these distribution activities the industrial market within East Sussex has shown considerable resilience during the recession and has, and continues, to deliver new floorspace in a number of locations.

3.8 The large industrial areas across the County have continued to perform relatively well, retaining occupiers and also delivering new or refurbished space. However, even smaller industrial estates or ‘new’ locations have accommodated new development. Particular strength and resilience has been demonstrated within the Eastbourne-Polegate-Hailsham corridor where vacancies have remained low and new development has been delivered.

3.9 The development of the Chaucer Business Park at Polegate demonstrates the nature of provision is being delivered by the private sector. The development is providing a range of Grade A industrial and warehouse units ranging in size from 200sqm to 1,500sqm.

3.10 The first phase of development has been completed and attracted a number of occupiers and achieving a rent of approximately £120/sqm. The site benefits from good access to the A22/A27 and is a redevelopment of a former industrial site, albeit some space is delivered on previously undeveloped sites.

3.11 Similarly a new industrial park has been developed on the outskirts of Hastings, with Northridge Industrial Estate forming redeveloping existing industrial land to provide new, high quality floorspace. The estate forms part of the Ivyhouse Lane industrial area which provides a number of older industrial premises.

3.12 The new estate provides terraced industrial and warehouse units between 175 and 1,100sqm. These are of a lower specification than the space provided at Chaucer Business Park and are currently advertised at approximately £80/sqm.

3.13 These two examples alongside others such as the Atlas Industrial Park in Rye demonstrate that a market for light industrial premises exists across the County and that development can be delivered by the private sector through the re-use of brownfield sites.

3.14 These examples also highlight that development occurs in a range of locations, that those sites that are best connected to the main road network are not the only ones that can be delivered. Chaucer Business Park clearly benefits from its location at the junction of the A22 and A27 and this is reflected in the higher rents achieved here than other locations.

3.15 However, neither the Rye Harbour area nor the north east of Hastings are particularly strongly connected to the main trunk road network yet are proving relatively success developments. What appears to be key is that the scale and specification of units is tailored to the needs of the local market. Both Atlas and Northridge offer lower specification units than Chaucer (for example) but have attracted occupiers.

3.16 It is this fine tuning of provision to the market it serves that is ensuring development 'viability', with values and specifications clearly inter-relating to attract occupiers. This successful approach adopted in these locations has been to provide new floorspace with a similar character to the wider existing provisions but upgrading the quality and attractiveness of the sites through redevelopment.

The Eastbourne Market

3.17 As recognised within the ELR generally the industrial market within Eastbourne has been resilient with relatively low levels of vacancy and consistent levels of demand activity even through the recession.

3.18 Recent market performance suggests that where an appropriate offer is brought to market in the 'right' location and at a locally relevant price point then space is being let and that there is frustrated demand within the area.

3.19 Where good quality space has been provided in the borough it has tended to attract occupiers and has demonstrated the local markets ability to deliver, and occupy, new/refurbished floorspace. Despite there being relatively little new or refurbished space within Eastbourne take up between January 2008 and September 2014 has been relatively evenly split between new/refurbished space and second hand space.

Table 4 - Take Up by Quality

Industrial Floorspace Quality	Total Floorspace	Average Achieved Rent (£/sqm)
New or Refurbished	11,956	75
Second Hand	12,110	72

Source: CoStar Focus, 2014

3.20 As shown above data sourced from CoStar suggests that just under 12,000sqm of new floorspace has been demanded over the period since 2008 and just over 12,000sqm of second hand floorspace has been taken up.

3.21 Achieved rents for the new stock also appear to be higher, although the difference is relatively small. However, what is noticeable is that achieved rents for new space within Eastbourne are above those recorded for Northridge Industrial Estate in Hastings and Apex Industrial Park in Rye, suggesting that new development could be viable here. More detailed analysis of the viability of new industrial floorspace within Eastbourne has been provided in a separate report.

3.22 The recent development of, and demand for, refurbished/new employment floorspace on previously vacant sites or underutilised industrial sites has highlighted the opportunity that exists to re-use land within the borough for B class employment purposes.

3.23 The development of Southbourne Business Park within the Courtlands Road industrial area has delivered new, small light industrial units intensifying the employment use of a former Llewellyn's depot and storage yard. The development provides a type of space that complements the wider Courtlands Road offer in terms of light industrial floorspace and has attracted a number of engineering, storage and other industrial occupiers.

3.24 Since the first units were completed in 2006 the area has attracted a good occupancy rate and achieved rents in excess of £65/sqm.

3.25 More recently the Hammonds Drive Industrial Estate has seen new development proposals for the former White Knight Laundry site, which was previous in single occupation. The planning application for the site (approved in August 2013) provided for alterations to Units 1-3 Hammonds Drive (the existing White Knight Laundry) and erection of 9 new Class B1/B8 units approved ranging from 175sqm to 235sqm.

3.26 The site is still to be fully delivered however it has secured one 'pre-let' on a unit alongside the retention of some laundry activities. The site is being promoted as a 'fully managed' business park and space is currently being marketed as a pre-let opportunity at around £85/sqm, we understand secured rents are marginally below this quoting rent.

3.27 The ELR forecasts that the Eastbourne industrial market forecast is likely to continue to grow over plan period, requiring additional space to be provided. The ELR identified gap in the existing portfolio for flexible floorspace for advanced manufacturing/creative & tech based sectors and for good quality, managed SME workspace. This was identified as a key opportunity for securing the re-use and redevelopment of currently vacant or under-utilised sites over the plan period.

3.28 Confidence in the future demand for industrial floorspace has been underlined by inward investment enquiries received by Locate in East Sussex. This information indicates that they have been approached by five separate companies who are actively looking for space within the borough but currently are not able to secure the space they need.

3.29 These requirements would appear to be in addition to the requirements raised through the ELR process for a number of key local businesses were seeking to relocate within the Borough. Whilst these requirements were very much anecdotal, it would appear that there has been little movement of businesses since the ELR was completed and would suggest these requirements would still exist.

Market View

3.30 In preparing this Report we have undertaken consultation with a small number of 'sub-regional' agents who are active within the Borough and have an 'up to date' understanding of demand and supply dynamics.

3.31 Overall the impression was that the industrial market is starting to improve, with a clear preference being shown for smaller units resulting in a decrease in the amount of industrial stock available. This demand was further evidenced by the speculative developments occurring within the Eastbourne and Polegate area at the former White Knight site and Chaucer Business Park.

3.32 It was recognised that Eastbourne operates within a market that includes Polegate, where demand was viewed to be particularly strong. Of the 80,000 sqft of floorspace permitted at Chaucer 16,000 sq ft has been delivered of which c.80% occupied, and phase 2 is about to commence (due to complete in Q1 2015). Occupiers at Chaucer tend to be local businesses looking for light industrial/warehouse type space, and include a mix of owner occupiers and tenants.

3.33 Interest in the new build stock is linked to the flexibility of the stock, as well as low maintenance costs, quality, amenities and availability of parking. Good transport links were also important, suggesting a focus on the Eastbourne-Polegate-Halisham corridor, which whilst having poor connectivity compared to the wider south east well connected compared to other local areas.

3.34 There are also some noticeable 'inward investment' trends driven by locational strengths which have led to some businesses moving from locations such as Brighton to take advantage of the road links, they were also attracted by the availability of freehold units (which are limited in other parts of E. Sussex).

3.35 New stock has proved to be more resilient during recession, with demand for the 1970s/80s units which makes up the majority of stock in Eastbourne, falling further. Rents and capital values for this type of stock are now back at pre-recession levels, and are considerably higher than older second hand stock. Indicative values are set out below:

Table 5 – Indicative Market Rents by Stock age

	White Knight (new)	5-10 Years Old	30 Years Old
Rent (£psf)	£8.5	7.5	5.5
Capital value (psf)	£125	100	70
Cap Rate	14.7	13.3	12.7
Yield (%)	6.8	7.5	7.9

3.36 Future prospects were also felt to be good, based on the presence of some unique economic activities. For example it was felt the established pump industry sector in the area, which operates on a national scale, including advising NASA –was a key source of demand and growth in the future.

The Former Cosmetica Site

3.37 Specific representations have been made to the ELLP relating to the future use of the former Cosmetica industrial unit and site on Faraday Close, within the Hampden Park area of the borough. Following the ELLP consultation a planning application has been submitted for the site seeking to deliver a new Aldi foodstore.

3.38 The planning application and ELLP representations have focussed on the fact that the current site and building has been vacant for approximately 5 years since the previous occupied went out of business. The planning statement argues that there has been little demonstrable appetite shown by the market for its re-use as a B class employment site given the current building is outmoded, unsuitable for future economic use and uneconomic to adapt to modern standards. The applicant highlights that permission was granted in 2009 for the unit to be sub-divided into smaller units, but this was not taken forward.

3.39 As such, despite "continued marketing" the applicant argues that no viable B class use can be found for the site and therefore an alternative form of employment generating use (i.e. a foodstore) is the "only genuine and deliverable scheme for the site".

3.40 It is not contested that the current building occupying the site is of a defunct typology, nor that it is unlikely to meet the needs of future business activity. Indeed, the ELR recognises the need for the site to be redeveloped and the opportunity this presents to intensify employment activity within the Hampden Park area.

3.41 Having considered the former Cosmetica site in the light of the successful industrial developments elsewhere in Eastbourne and the East Sussex market more widely it would appear to offer a number of the same attributes to sites that have been redeveloped to provide more modern business accommodation.

3.42 Whilst each site will clearly have its own considerations broadly the site offers a number of characteristics that, over the plan period, would be likely to support the re-use as a B class employment location, including:

- The established commercial nature of the surrounding area;
- The relative strength of the surrounding commercial proposition;
- The ability to deliver a new access directly to Lottbridge Drove;
- The visibility of the site from the main access to Eastbourne; and
- Its proximity to Hampden Park Station.

3.43 The evidence provided within the planning application outlines the marketing approach to the site this suggests that, in the main the site has been promoted as part of a wider portfolio of sites acquired by the current owner. The proactive marketing techniques appear to have been employed when the site first became vacant (2008/09) at the height of the recession.

3.44 Tingley Commercial, as retained agents for the site, and Thorneycroft undertook some direct marketing via promotion of the portfolio to businesses within the areas sites were located. For Eastbourne this entailed 'cold-calling' businesses that employed between one and fifteen people over a period of 6 months. The site was also promoted via the Thorneycroft website and Tingley's introduced it to companies in their database who had a known interest in properties in Eastbourne.

3.45 The property details were also circulated to all 'local' and West End agents via a 'clearing house' service, this advertised the leasehold and freehold availability of the existing and/or refurbished units. There appears to have been no formal or structure approach to marketing the site at the regional or national level and no clear evidence of 'advertising' its availability through the usual industry outlets such as Estates Gazette and Property Week or online commercial property sites such as CoStar.

3.46 Since 2009 it appears little marketing activity has taken place despite new owners purchasing the site in 2012, a sign board has remained in place on Faraday. Since the new owners took control of the site both JLL and Strutt and Parker have been involved in discussions regarding the future demand for the site, however no guide to the outputs from these discussions have been forthcoming.

3.47 The major challenge with the marketing approach outlined within the planning application is whether it fully explored the full range of options for future use of the site for B class activity, as stated in the Planning Statement itself. The approach appears to have focussed on either letting the building in its current form, which the applicant themselves admit is not appropriate. Or by undertaking a sub-division and refurbishment approach, which is likely to create lower quality space than other developments in the area.

3.48 From the details provided the site has never been fully promoted as a wholesale development opportunity nor has the potential for a purpose built light industrial scheme been actively explored. This would appear to be a missed opportunity given the delivery of other, former single occupier sites, within the East Sussex market.

4. Alignment with National Planning Policy

4.1 The production of the NPPF in 2011 was intended to set economic growth at the heart of future planning decisions, ensuring that the country had the capacity and opportunity to accommodate future business requirements.

4.2 Paragraphs 7 & 17 of the NPPF state that the distribution of development land for business should have the right types of land available in the right places at the right time to meet occupier requirements suggesting that a portfolio of sites and premises is needed over the longer term. This is taken forward within paragraph 21 which instructs LPAs to identify strategic sites (or set criteria to identify them) for local and inward investment to meet "anticipated needs over the plan period".

4.3 However Para. 22 advocates the release of allocated employment sites where there is no reasonable prospect of them being used for employment purposes and that applications for alternative uses of land or buildings should be treated on their merits having regard to market signals and the relative need for different land uses.

4.4 Whilst in the strictest sense paragraph 22 should be only be viewed in context that it is written (i.e. to inform plan-making and creation of policy) in reality the ability to demonstrate a reasonable prospect (or otherwise) of being used for employment purposes has become a key test for planning applications.

4.5 Therefore, the retention of employment land designations for B class uses should be considered in the context of evidenced "anticipated needs" over the full plan period rather than as a reactive to short term or immediate market conditions.

4.6 This is an important distinction in planning terms given that employment land is always likely to generate a land value that is below other potential uses and will therefore always be under pressure for redevelopment. It is not the purpose of the plan making process to maximise the value of all sites and land within an area. Instead, as the NPPF establishes, it is the purpose of the plan making process to ensure there is sufficient capacity for all anticipated needs.

4.7 Given the demand forecast within the ELR establish a likely quantitative and qualitative future requirement for additional B class floorspace it is reasonable to conclude, given a lack of alternate land resource, that existing sites will play a significant role in meeting this future need.

4.8 Provided wider growth needs can be met using other land resources there is no over-riding rationale in planning policy terms to surrender employment land when it can be demonstrated, both in market terms and through forecasting the scale and nature of growth, that the capacity will be needed for economic purposes.

4.9 As stated previously it is accepted within the ELR that a number of buildings within the borough were unlikely to be suitable to meet all future needs, however this does not mean that the employment land and sites themselves are redundant over the life of the plan. Indeed, the majority of the sites within the borough provide the attributes necessary for them to continue to be attractive locations for businesses in the future in the local context.

4.10 With identified needs, demonstrated market delivery locally and within the market more widely, a lack of additional room for growth and strong locational attributes of existing employment land, it seems appropriate to consider there is more than a “reasonable prospect” of the sites being utilised over the full plan period.

The Robustness of the ELR Approach

4.11 Representations to the ELLP have raised a number of procedural points relating to the nature ELR process and its alignment with national guidance. It is worth noting that the ELR was completed before the publication of the NPPG, therefore the over-arching guidance for the ELR came from the 2004 DCLG publication and the strategic direction set by the NPPF.

4.12 Despite being published prior to the NPPG the approach and methods used to complete the ELR can be seen to be broadly in line with the recommended approach to assessing future requirements through the use of locally relevant forecasts and in terms of the site assessment process.

4.13 In terms of assessing the ‘needs’ for “economic development” the NPPG outlines the following recommended (albeit not compulsory) factors should be considered:

- **Recent pattern of employment land losses** – which the ELR considers through the site assessments both in terms of parts of designated sites no longer in B class use and those sites that have been removed from the portfolio and therefore not included in the assessment. The scale of losses forms the basis of the analysis of the need for churn and windfall losses using data from the Council’s AMR;
- **Market intelligence** – which has been incorporated through a review of transaction and vacancy data held by CoStar and Focus, as well as consulting local property agents, land owners and economic development professionals;
- **Market signals** – which have been reviewed through the tracking of market data over time, the review of existing sites and analysis of planning permissions and new development;
- **Other relevant information** – which has been included through use of wider market data, research and engagement with local stakeholders;

- **The existing stock** – which has been reviewed by onsite survey;
- **The locational and premises requirements of particular types of businesses –** the business types have been identified via a locally relevant sector based forecast, and the land/premises/locational needs of these established drawing on our professional experience; and
- **Identification of oversupply/market failure –** demand forecasts have been compared to the supply of land and floorspace and appropriate allocations made to meet this need in order to avoid any oversupply over the plan period.

4.14 The NPPG provides little direction as the scope and nature of engagement and consultation required to undertake an assessment of employment land requirements however it is clearly desirable to work with local stakeholders to ensure the ELR is grounded in the local economy and market and relevant to future local economic potential.

4.15 The ELR sought to engage with key local stakeholders in the form of relevant public sector bodies (including the Borough Council planning and economic development teams, SeaChange Sussex, Locate in East Sussex, East Sussex County Council), business representatives (through the local Chamber of Commerce and the LEP), and also with commercial property agents. Land owners and their representatives were also engaged.

4.16 Engagement was undertaken through three methods:

- Face to face meetings with local authority officers and two landowners;
- Telephone meetings with property agents and SeaChange; and
- An employment land workshop held at the Town Hall on 5th June to which all identified stakeholders were invited.

4.17 Invites to the workshop were sent by post and email to the organisations listed below, those who attended the session are highlighted:

Table 6 - ELR Workshop Invitees

Alfa Laval	National Westminster
Barclays	Newey & Eyre
Be Powerplay	Peugeot
Birchwood Motor Group	Picross Precision Engineering Ltd
BOC Edwards	Reid & Dean
Brewers	Richard Maile
Caffyns	Ross & Co
Clarke Roofing Southern Ltd	Royal Bank of Scotland
Colbran & Wingrove	Secret Garden
Compton Estate	Smith & Ouzman Ltd
DB Auto Repairs Ltd	Carillion (for Sovereign Harbour Ltd)
Eastbourne & District Chamber	Spitfire Architectural
Eastbourne Car Auctions Ltd	Stephen Lloyd
Ellis Building Contractors Ltd	Stile Harold Williams
Federation of Small Businesses	Sussex Downs College
Gardners Books Ltd	Sussex Police
GPS Direct	Teale Planning
HMD Seal/Less Pumps	TEVA UK Ltd
Hobbs Recovery Services Ltd	Tingley Commercial
Hotchkiss Ltd	University of Brighton
HSBC	Veritek
John D Clarke	West End Studios
Lloyds Bank	White Knight Laundry
Manor Creative	Yeomans Toyota
Mercedes Benz	RGP Ltd

4.18 Where requested individual meetings were arranged and held with stakeholders. Following the workshop presentation slides and an attendance list were circulated to all attendees given their stated desire to continue a dialogue relating to employment matters.

Assessing Town Centre Opportunities

4.19 A further critique of the ELR approach has been the assessment undertaken to support the provision of 3,000sqm of office floorspace within the town centre. In part this issue was raised in relation to the balance of in/out of town provision and whether the ELLP and ELR approach was out of conformity within the NPPF. Consideration of this issue is contained within Section 2 of this report.

4.20 The second part of the criticism was whether the ELR approach provided a sufficient consideration of the capacity for office development within the town centre given it focussed on the assessment of Development Opportunity Areas within the draft TCLP.

4.21 It is worth recognising that the approach to employment land studies is not the same as the more extensive land availability assessments undertaken for housing provision. Despite the NPPG bringing together housing and employment land assessments it is recognised that such comprehensive 'trawls' or site searches are not required for employment land given the more fixed occupier and businesses requirement.

4.22 As an accepted 'town centre' use there is a different purpose for an employment land review in assessing office provision than in identifying land outside of the town centre. The purpose of an employment land review in a town centre situation is more focussed on the appropriate balance and range within the whole portfolio rather than identifying sites per se. It is assumed, in general, that office activity would be acceptable in any location within the town centre therefore allocating and defining sites is less necessary.

4.23 Given the complex relationship between different uses within a town centre site identification in an employment land review is likely to be a fruitless task if areas of change are not identified. Given established town centre uses it is not appropriate to earmark sites for change if they are active or have not demonstrated a market demand for change. This is unlike 'out of town' employment land where, if new sites are required, there is a clear rationale for identifying sites based on both the quantum of space and the site attributes.

4.24 Therefore, in assessing Eastbourne town centre the focus has been on understanding where office space is understood to potentially come forward and how these best meet the needs of office actors. It is accepted that this is not an exact science but, based on our experience of advising commercial occupiers and developers we believe it is appropriate to consider sites against certain criteria. As identified within the ELR for Eastbourne, as we have in other locations, these sites have been considered in terms of:

- Site area and shape – both the size and shape influence the attractiveness of the site to developers. Size is clearly important to enable a suitable scale of building to be accommodated alongside associated servicing, parking and landscaping space. Shape is also important (particularly on smaller sites) as irregular shaped plots reduce the ability to deliver the 'regular' floorplates that businesses seek or that are easily sub-divided to make smaller suites. The development of regular shaped buildings also helps to reduce development complexity and hence cost;
- Neighbouring uses – influence the attractiveness of sites for office use positively and negatively. Provision of 'amenity' uses in close proximity will support development, however if an area has a single, dominant land use it may deter office development. In these areas the office will struggle to establish a presence and may be impacted by neighbouring uses through noise and other 'bad neighbour' activity;

- Access to public transport – as a key consideration for occupiers to both access clients and markets (particularly London) and to provide travel choice for staff; and
- Parking provision – will be important as part of the offer to employees. With limited public transport penetration to some of Eastbourne's workforces car accessibility will continue to be an influential consideration, particularly if alternative provision is made out of town with parking on site. This may not necessarily need to be made on site in the town centre but, where it is off-site, office stock should be closely aligned to existing public car park provision. Potentially, the Council could seek to 'incentivise' parking charges within their car parks to encourage office occupiers.

4.25 The review of Development Opportunity Sites within the ELR is intended to identify the 'hierarchy' of potential sites in the town centre for office use based on a market orientated view of their attractiveness. We do not rule out any of the sites per se, but suggest those that are likely to be most appropriate and attractive to the market. In line with the direction of the NPPF, office proposals, should they come forward on any site, will be assessed in the usual development control manner for acceptable town centre uses. The identification of the DOS 2 and 3 is intended to provide a strategic direction for promotion of town centre opportunities.

4.26 Given the qualitative need for Eastbourne to diversify its office stock and market (as discussed in Section 2) the ability for the town centre to accommodate more stock does not automatically lead to a lowering of the need to deliver space in other places. As set out in the NPPG and NPPF future supply should meet both a quantitative and qualitative need and, as established through this report and the ELR, there is a clear qualitative need for the Borough to provide out of town space to meet local economic needs.

5. B Class Allocation at Sovereign Harbour

5.1 The representations to the ELLP questioned the appropriateness of the continued allocation of B class land at Sovereign Harbour. Despite the reduction in the scale of the allocation from 30,000sqm to 20,000sqm of B1 activity representations argued that development of B class employment space was not viable in and of itself and that the delivery of a publicly funded Innovation Mall on part of the site would mean commercial development was not achievable.

5.2 We consider each of these issues in turn.

The Viability of Development at Sovereign Harbour

5.3 In order to test the potential viability of commercial development at Sovereign Harbour, we have appraised the development outputs and assumptions explained below using a development appraisal approach. This effectively follows the residual valuation method, whereby:

Gross Development Value - Gross Costs incl. Profit = Residual Value

5.4 This is a relatively 'simple' appraisal model, but provides a sufficiently robust understanding of high level viability for planning policy purposes. It should be recognised that under the guidance of the NPPF and NPPG it is the purpose of planning policy to be based on a scheme that is likely to be viable over the plan period and therefore demonstrates a 'reasonable prospect' of delivery. It is not the purpose of the planning system to maximise the value of each site, but ensure that all property and land requirements can be met and delivered over the plan period.

5.5 The model is based on a number of assumptions relating to the costs and values of the proposed development. At present the model is based on a number of industry standard sources and also the market assessment and business plan that has underpinned the Innovation Mall Growing Places Fund Bid, which has been considered sound by both East Sussex County Council and DCLG.

5.6 Development cost levels have been drawn from the Building Cost Information Service (BCIS), which is produced by RICS and 'localises' standard construction costs for different project types to reflect local circumstance. For this assessment we have a base construction cost of £1,400/sqm (£130/sqft), in line with BCIS assumptions for Grade A space in the Eastbourne market.

5.7 Clearly costs may vary depending on the quality and level of building fit out, however using this 'upper level' value provides a strong basis for understanding development viability and may provide some contingency for dealing with any abnormal costs. However, this would need further detailed testing once details of the scale and nature of abnormal costs are known.

5.8 Alongside the construction costs we have included the following 'industry standard' variable costs:

Table 7 - Development Costs Assumptions

	Assumption	Base
Contingency	5%	on build cost
Professional Fees	8%	on build cost
Sales, marketing and legal fees	4%	on development value
Profit	20%	on build cost
Finance	8%	of build costs

5.9 Drawing on the successful Innovation Mall GPF bid, and the accompanying marketing report, we have assumed that the market would support an achieved rent of £183/sqm (£17/sqft). To assess the residual value of the scheme we have assumed a yield of 7.5%, again consistent with the assessment of the Innovation Mall.

5.10 Using these cost and value assumptions we have tested the headline relationship between them in delivering the 20,000sqm (NIA) office space allocation proposed within the ELLP.

Table 8 - Development Costs Assumptions

		Value	Cost
Development Value	Rent	£183/sqm	
	Yield	7.5%	
	Capital Value	**£48,796,800**	
Development Cost	Construction Cost		£35,263,724
	Contingency		£1,763,186
	Professional Fees		£2,821,098
	Sales, marketing and legal fees		£1,951,872
	Profit		£7,052,745
	Finance		£2,821,098
	Total Costs		**£51,673,723**
Residual Value			**-£2,876,923**

5.11 At present, there is a negative residual value, representing 5.6% of development costs and 6% of development value. This would suggest that immediate delivery of commercial floorspace may be challenged. However we believe that, based on our understanding and experience of the catalytic effect small business workspace and innovation centres can have on the property market, this relationship could be greatly enhanced.

5.12 We have undertaken a sensitivity analysis to understand the impacts of differences in the core construction costs and rent levels on the viability of development at Sovereign Harbour. This shows, a percentage, the residual value achieved by each combination of build and rent levels.

Table 9 – Sensitivity Analysis

		Build Costs (£psf)				
Rent £psf		110.00	120.00	130.00	140.00	150.00
	12.50	-4.82%	-12.61%	-19.25%	-24.97%	-29.95%
	14.00	6.27%	-2.34%	-9.70%	-16.06%	-21.60%
	15.50	17.27%	7.80%	-0.25%	-7.22%	-13.30%
	17.00	20.00%	17.88%	9.10%	1.54%	-5.07%
	18.50	20.00%	20.00%	18.39%	10.21%	3.08%
	20.00	20.00%	20.00%	20.00%	18.83%	11.17%
	21.50	20.00%	20.00%	20.00%	20.00%	19.22%

5.13 Whilst the above analysis is strategic it does suggest that a 'viable' development could be achieved as a result of higher rents or reduced construction costs. The ability to achieve a positive value even at higher construction cost levels (albeit requiring higher rents) indicates that there is an opportunity for higher 'abnormal' costs to be overcome.

Innovation Centres and Market Delivery

5.14 The second issue relating to the achievability of employment floorspace development at Sovereign Harbour has been the current development of an Innovation Mall by SeaChange Sussex, funded by the public sector through the Growing Places Fund.

5.15 In summary the representations contend that the provision of 'subsidised' workspace will make it more difficult to deliver space on commercial terms at Sovereign Harbour as significant constraints will still need to be overcome as a cost to the development. Therefore rents will necessarily need to be high, and at a premium compared to the Innovation Mall, making it even more challenging to attract occupiers.

5.16 It would appear that whilst there is clearly a benefit to the first phase of development being publicly funded there is a flaw in ascertaining that this will necessarily lead to commercial floorspace being uncompetitive. There is a significant weight of evidence that the contrary is true, that the presence of publicly funded innovation centres can help to establish new commercial locations and offer, particularly where locations don't have an established market presence or where new economic sectors are being encouraged.

5.17 It is worth noting that, despite the public subsidy for the construction of the building there is no indication in the available information to suggest that the Innovation Mall would be let on subsidised terms. The business plan underpinning the proposal has been based on achieving a rent of 17/sqft (circa £180/sqm) excluding service charge.

5.18 This is significantly above the average achieved rent within the borough, which our analysis of deal data indicates is approximately £11/sqft (£118/sqm). Clearly this value reflects the predominant second character and nature of the office stock supply within Eastbourne and therefore does not accurately reflect the potential rents that could be achieved for new, high quality stock. The ELR noted rents in the region of £14.50/sqft (£156/sqm) had been achieved in the town centre for good quality refurbished stock (Ivy House); this suggests a higher rent level for new space is not likely to be unachievable.

5.19 Whilst the Growing Places Fund money is provided by the public sector unlike previous funding programmes it has been set up as a revolving fund, essentially providing a loan to SeaChange which will have to be repaid. The GPF funding bid for the Mall is intended to overcome the issue of weak mainstream commercial lending to bring the development forward and, whilst they accept a lower return on investment, SeaChange's business model for the Mall is consistent with any other property developer.

Publicly Funded Innovation Centres are Catalyst for Growth

5.20 In many locations across the UK it has become established practice for public funded SME space to 'lead' or support new commercial districts and offers. These are often used to 'pump prime' locations in advance of future deliver on commercial market terms. They act as a 'proof of concept' in many cases, attracting and growing SMEs that creates a level of interest and activity that, over time, can secure further business activity.

5.21 The major mixed use development of the Old Vinyl Factory in Hayes presents a similar model to the one proposed for Sovereign Harbour. Cathedral Group has secured significant funding through the London LEP to deliver a "Central Research Lab" effectively a shared workspace for start-up modern manufacturing businesses. The Lab will provide a mixture of individual workspaces and shared machinery to support small batch production and prototyping to support a new generation of business activity in this isolated part of London.

5.22 The vision proposed by Cathedral Group is that the Lab will provide an early phase of a much more significant commercial district within the development, the rest of which will be delivered and let on market terms. The Lab is seen as critical to kick starting demand for commercial space in the area given there has been no major economic activity locally since the cessation of manufacturing by HMV.

5.23 Other examples include the LDA funded Sustainable Industries Park, which in its early phases saw infrastructure provision, site remediation and floorspace supported by public sector grants and loans. This has established a base for green technology businesses (principally within waste and energy) with space now delivered by private sector investors and developers.

5.24 Outside of London publicly funded and supported innovation centres play a similar role to the examples highlighted above but are also utilised to broaden the economic impact of existing sectors, economic assets and major actors.

5.25 SEEDA and Medway Council funded the delivery of the Medway Innovation Centre at Rochester Airfield, seeking to enhance the level of advanced manufacturing activity within the area building on the skills and knowledge provided by BAE Systems research capabilities. The Innovation Centre is now seen as a catalyst for further commercial development at the airfield as the Council develops a wider masterplan to support the delivery of 'mainstream' commercial floorspace.

5.26 Similarly the Innovation Centre allied to Silverstone Circuit has been a critical first stage in growing a cluster of High Performance Engineering and Elite Motorsport activities in South Northamptonshire. The Centre provides bespoke workspace for HPE businesses and has demonstrated the scale of the potential market in this sector.

5.27 Following the adoption of a Masterplan for the circuit site by South Northants Council which set out the vision for a larger cluster the site has been acquired by MEPC who have permission to deliver over 200,000sqm of commercial floorspace principally for engineering businesses.

5.28 Clearly these two sites in particular benefit from existing economic assets that do not exist at Sovereign Harbour however, similar to Sovereign Harbour, neither had significant profile as commercial business locations with their character defined by the non-market activities they accommodated. It is the presence of publicly funded innovation centres that have 'opened up' the area to further, commercially led, development

Publicly Funded Workspace Complements Commercial Development

5.29 Even in areas where there is a long established commercial track record in delivering business floorspace the presence of publicly funded small business and start up space is seen as complementary and co-exist as part of a single commercial district.

5.30 These offers can vary significantly, from the types of specialised innovation centres discussed above through to more general serviced and shared office spaces. The London and the South East has seen a number of these centres delivered, largely within established commercial districts, as shown in the summary table below.

`Table 10 - Publicly Funded Workspace

Public Sector led Innovation Centre	Location	Type	Other Information
Sustainable Industries Park	Choats Road, Barking, Dagenham	Cleantech business park	75,000sqm of land with infrastructure to support BREEAM Excellent business space. £10.3 million was committed by the Mayor for the works programme
Basepoint Evesham	Vale Park, Evesham	Mix of office and business incubator units	Located within Vale Park Business Centre (aka Vale Park West), which is a 40 acre business park providing new production, distribution and office buildings
Hastings Innovation Centre	St Leonards-On-Sea, East Sussex	Office and workshop units for up to 70 companies	Located on Churchfields Industrial Estate, which is North-West edge of Hastings
Basepoint Business Centre	Folkestone	Open plan modern offices	Located within Shearway Business Park - 25 acre business park adjacent to Junction 13 of M20 - includes mix of offic, warehouse and industrial units as well as National Fitness Centre Operator
Hatfield Incubation Centre	Maclaurin Buidling, Hatfield Business Park	Mixed commercial	Located within Hatfield Business Park, Hatfield, Hertfordshire - 3.5million sq ft bespoke business space
Basepoint Winchester	Winnall Valley Road, Winchester, Hampshire	Flexible office space - 65 self contained units	City location on Winnall Valley Road, which has a number of B class uses in close proximity to the site
Basepoint Southampton	Andersons Road, Southampton	Range of office, workshop and studio units (affordable business units)	Located in a 'progressive new commercial area' close to the city centre

5.31 The delivery of new workspace in Hastings using a range of public funding has been seen as a key mechanism for driving economic recovery and growth within the town. There are a number of developments which have both established new markets in the area as well as attracting activity to existing estates.

5.32 Within the town centre the delivery of Priory Square utilised public funding to deliver a new office quarter, however the units themselves are let at market rates within the town and are now setting the 'peak' rents within the market. This indicates that far from creating challenges in letting space at market rents publicly funded space can help to support and improve the rental profile of an area, improving the viability position in areas with a weak market.

5.33 Elsewhere the funding of small managed workspaces complements the wider offer and aims of more comprehensive business districts, working in tandem to provide a type of space that is not always commercially viable given the likely fluctuation in occupancy. However they are generally seen as valuable given they can support the 'next generation' of occupiers within locations, increasing demand and stabilising (or increasing) rents over time.

Conclusions

5.34 The residual value of commercial development at Sovereign Harbour today suggests that delivery would be challenged, with current values and costs leading to a negative residual value.

5.35 However, it is likely that this represents a worst case scenario as currently there is no proven track record of commercial activity at Sovereign Harbour or high quality commercial B1 delivery within Eastbourne more widely, therefore values are likely to be supressed.

5.36 However, as has been experienced in a number of locations, the delivery of the Innovation Mall can begin to address some of these weaknesses, creating a catalyst for economic activity in the area and driving up demand and hence prices. This will have the potential to both increase achieved rents but also reduce the risk of investment, allowing yields to tighten, delivering an improved capital value of development.

5.37 Our review of the headline viability suggests that increasing rents by 7% (a rise from the assumed £183/sqm to £195/sqm) would shift the value to cost relationship sufficiently to create a positive residual value.

5.38 Similarly, by proving the market in this area and reducing yields to 7% from the assumed 7.5% would also shift the balance to a positive residual value.

Appendix 6

JLL Appraisal – Update to Tables 8 & 9 of GVA 2014 Report

JLL Sensitivity – Update to Tables 8 & 9 of GVA 2014 Report

JLL appraisal to update Tables 8 & 9 of GVA report titled 'Employment Land Supplementary Evidence' dated November 2014

Development Appraisal
JLL
23 June 2016

JLL appraisal to update Tables 8 & 9 of GVA report titled 'Employment Land Supplementary Evidence' dated November 2014

Summary Appraisal for Phase 1

Currency in £

REVENUE

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**	**Net MRV at Sale**
Offices	1	215,278	16.25	3,498,268	2,973,527	3,498,268	2,973,527

Investment Valuation					
Offices					
Market Rent	2,973,527	YP @	8.0000%	12.5000	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	8.0000%	0.9623	35,765,976
GROSS DEVELOPMENT VALUE				**35,765,976**	
Purchaser's Costs		6.80%	(2,277,234)		
				(2,277,234)	
NET DEVELOPMENT VALUE				**33,488,741**	
NET REALISATION				**33,488,741**	
OUTLAY					
ACQUISITION COSTS					
Fixed Price			1		
				1	
CONSTRUCTION COSTS					
Construction	**ft²**	**Rate ft²**	**Cost**		
Offices	271,268 ft²	139.53 pf²	37,850,638	**37,850,638**	
Contingency		5.00%	1,892,532		
				1,892,532	
PROFESSIONAL FEES					
Professional Fees		8.00%	3,028,051		
				3,028,051	
MARKETING & LETTING					
Sales, Marketing & Legal		4.00%	1,430,639		
				1,430,639	
FINANCE					
Debit Rate 8.000%, Credit Rate 0.000% (Nominal)					
Land			0		
Construction			1,926,107		
Letting Void			3,684,497		
Total Finance Cost				5,610,605	
TOTAL COSTS				**49,812,466**	
PROFIT					
				(16,323,724)	

Performance Measures

Profit on Cost%	(32.77)%
Profit on GDV%	(45.64)%
Profit on NDV%	(48.74)%
Development Yield% (on Rent)	5.97%
Equivalent Yield% (Nominal)	8.00%
Equivalent Yield% (True)	8.42%
IRR	(16.23)%
Rent Cover	-5 yrs -6 mths
Profit Erosion (finance rate 8.000%)	N/A

JLL appraisal to update Tables 8 & 9 of GVA report titled 'Employment Land Supplementary Evidence' dated November 2014

Development Appraisal
JLL
23 June 2016

JLL appraisal to update Tables 8 & 9 of GVA report titled 'Employment Land Supplementary Evidence' dated November 2014

Table of Profit on Cost% and Land Cost

	Construction: Rate pf²				
Rent: Rate pf²	-20.00 pf²	-10.00 pf²	0.00 pf²	+10.00 pf²	+20.00 pf²
	119.53 pf²	129.53 pf²	139.53 pf²	149.53 pf²	159.53 pf²
-3.00 pf²	-35.921%	-40.743%	-44.890%	-48.494%	-51.656%
13.25 pf²	(£1)	(£1)	(£1)	(£1)	(£1)
-1.50 pf²	-28.887%	-34.223%	-38.814%	-42.806%	-46.309%
14.75 pf²	(£1)	(£1)	(£1)	(£1)	(£1)
0.00 pf²	-21.897%	-27.740%	-32.770%	-37.146%	-40.986%
16.25 pf²	(£1)	(£1)	(£1)	(£1)	(£1)
+1.50 pf²	-14.949%	-21.295%	-26.759%	-31.513%	-35.688%
17.75 pf²	(£1)	(£1)	(£1)	(£1)	(£1)
+3.00 pf²	-8.044%	-14.885%	-20.779%	-25.909%	-30.415%
19.25 pf²	(£1)	(£1)	(£1)	(£1)	(£1)

Sensitivity Analysis : Assumptions for Calculation

Construction: Rate pf²
Original Values are varied in Fixed Steps of £10.00

Heading	Phase	Rate	No. of Steps
Offices	1	£139.53	2 Up & Down

Rent: Rate pf²
Original Values are varied in Fixed Steps of £1.50

Heading	Phase	Rate	No. of Steps
Offices	1	£16.25	2 Up & Down