

MARKET APPRAISAL ON THE CURRENT AND POTENTIAL FUTURE DEMAND FOR BUSINESS SPACE IN THE HORSHAM DISTRICT



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making property work



BRIEF

Stiles Harold Williams have been instructed by Horsham District Council to provide a market appraisal on the current and potential future demand for business space within the Horsham District, with particular reference to the proposed out of town 50,000 sq m (500,000 sq ft) business park on land to the north east of Horsham being promoted by Liberty Property Trust.

I will provide information on past and current market conditions within the Horsham District and identify where the demand, historically, has come from.

I will also comment on the future pressures the District faces in terms of supply of employment land and the changing occupier demand fuelled by the growth of a more knowledge based economy. In addition I will provide comment on the effect of lack of suitable supply of employment land in the Horsham District and the impact this has on demand and the influence in the marketplace of outdated business space.

THE AUTHOR

I am a Fellow of the Royal Institute of Chartered Surveyors (FRICS) and a Partner in Stiles Harold Williams and head up our Crawley/Gatwick Office.

I have been with Stiles for 26 years and prior to that spent five years working for a small mixed practice firm of Chartered Surveyors based in Horsham, running their commercial agency business.

I spend most of my time talking to occupiers about their property requirements, advising building owners about their disposal options and developers about what product to build on their sites. 80% to 90% of my work is within a 20 mile radius of our Crawley office.

In the last 12 months I have personally disposed/let/acquired in excess of 20,000 sq m (200,000 sq ft) of business space throughout the Gatwick Diamond area.

STILES HAROLD WILLIAMS

Stiles Harold Williams are a multi disciplined commercial surveying practice, the largest independent firm in the South East, and employ over 130 staff. We have a total of 9 offices with our principal offices being located in Croydon, Crawley, Brighton and London.

We offer 32 property services, including property management, agency acquisition, disposal, letting and development advice, residential management, block management, building consultancy, business rates, landlord & tenant and specialist valuations covering motor trade, hotels and leisure, education and medical properties.

Our Crawley/Gatwick office has a total staff complement of 30 and was opened over 40 years ago.

SHW HORSHAM ACTIVITY

Below is a sample of our Horsham activity, both current and in the recent past.

- Letting and marketing advice on Springfield House, Horsham - A 2,322 sq m (25,000 sq ft) refurbished office building with suites available from 53 sq m (580 sq ft) upwards (7,000 sq ft let last year).
- Strategic advice to the freeholders of Comewell House, a 2,000 sq m (20,000 sq ft) office building with lease expiry at the end of 2014.
- Spire Court. The acquisition of 5,800 sq m (60,000 sq ft) facility for Southern Housing Group for their own occupation in 2004 and subsequent lettings of surplus space (6,800 sq.ft remaining). We also manage the building on behalf of SHG.
- Disposal of both Linden House, Parkside and five houses in Madeira Avenue on behalf of Royal SunAlliance 13,000 sq m (140,000 sq ft).
- Foundry Court. Disposal of site and eventual letting/sale of all 9 business units in sizes from 120 sq m (1,300 sq ft) upwards
- The Colonnades Pulborough. Lettings of various units for the owners from 120 sq m (1,300 sq ft) upwards since 2004
- TM Timber. Sale of their 130 sq m (1,400 sq ft) town centre offices and letting of new offices at Springfield House
- Ceres Power. Acquisition and building surveying report for Ceres Power on their 4,000 sq m (44,000 sq ft) HQ facility in 2009 in Foundry Lane.
- Graylands Estate. Letting of 4,700 sq m (50,000 sq ft) of office, industrial and warehouse space in units from 40 sq m (500 sq ft) upwards (2010-present) estate now fully let
- Sale of Youngman site in Billingshurst to Cordex and relocation of SGB to Broadlands Campus 1,300 sq m (14,000 sq ft)- SGB now in Leatherhead

OTHER KEY RECENT DEALS

Other notable recent transactions in the district include the following:

- Regus opening up a business centre on two floors in Afon, Worthing Road, specifically for the SMEs
- A J Walter relocating from Partridge Green to Slinfold into a new purpose built facility of 20,000 sq m (200,000 sq ft).
- RSPCA moving from Horsham town centre into a purpose built HQ of 9,000 sq m (90,000 sq ft) in Southwater.
- Fender Guitars moving from East Grinstead into Broadlands Business Campus taking 1,000 sq m (11,000 sq ft).
- Salts Healthcare expanding into 1,400 sq m (15,000 sq ft) within Horsham
- Thakeham Homes, expanding and relocating from Broadbridge Heath to Slinfold into 1,100 sq m (13,000 sq.ft)

HORSHAM MARKET DYNAMIC

Horsham District has a total employment stock of 785,000 sq m (7.85M sq ft) and is home to a number of highly successful owner managed businesses, many of which are long established in the Horsham area. Whilst the District profile shows a large number of small businesses, with some 87% of District Businesses employing less than 9 people, It is also home to an impressive list of large businesses, listed below.

My experience over the years has consistently shown a strong preference for Horsham businesses to remain in the District. They therefore must be given the opportunity to grow or they will relocate out of the area.

- RoyalSun Alliance
- RSPCA(UK HQ)
- Sony DAC
- Fisher Clinical
- Trend Controls Systems
- Novartis (due to relocate in 2014 out of the District)
- West Sussex County Council
- Horsham & Chanctonbury NHS Trust
- Creative Assembly
- Fender Guitars (relocation from East Grinstead in 2011)
- AJ Walter Aviation

Horsham has a higher level of VAT registered businesses (50.5 per 10,000 population, compared with Crawley (38 per 10,000 population)

As a comparison the neighbouring town of Crawley, which has historically attracted the larger corporate and international companies, has a total built employment stock of circa 15,000,000 sq ft (1.5 M sq m).

HORSHAM/CRAWLEY EMPLOYMENT STOCK (SQ FT)

	OFFICES	INDUSTRIAL/WAREHOUSE	COMBINED
HORSHAM	1,800,000	6,000,000	7,800,000
CRAWLEY	5,500,000	9,500,000	15,000,000

In common with many other Sussex towns, Horsham has seen very limited speculative development over the last 10 to 15 years. Indeed, only Brighton and Crawley have seen consistent development of new commercial buildings

The existing accommodation the District has to offer is getting older and therefore less desirable to occupiers. Currently in Horsham there is very limited supply of Grade A office accommodation (see later for definition) available.

This lack of speculative development is compounded by current rental levels, which have not been high enough to justify development. Whilst we have to accept the impact on business confidence and demand of the recession of 2007/8, even pre 2007 this was still the case.

As the UK economy starts to recover and business confidence returns we believe that we will see a return to speculative development in key strategic areas in the South East. Crawley is an obvious potential opportunity particularly, again, given the lack of Grade A accommodation. However there is no reason, in our view, why Horsham could not be an alternative location particularly if we begin to see a continued improvement to demand throughout the region.

Historically, speculative developments, once created, can assist in moving rents upwards, and this has the dual benefit of providing confidence to building owners and other developers to consider developing prestigious employment space.

Stiles Harold Williams were involved in the development of City Park in Brighton (2004/5). At the time the best office rents were mid teens and there had been no speculative development for some years. A developer purchased an opportunity for an out of town office park totalling 18,000 sq m (200,000 sq ft) and speculatively built Phase 1, some 6,000 sq m (70,000 sq ft).

Shortly after completion this building was let to Legal & General who also took pre-lets on Phases 2 and 3 at rents in excess of £22 psf. The effect of this scheme provided confidence to other building owners/developers and further development occurred providing much needed Grade A employment space.

OFFICE SECTOR

The main office market is in Horsham town itself, which has a total built stock approaching **93,000 sq m (1M sq ft)**. The largest space occupier is RoyalSun Alliance closely followed by West Sussex County Council.

Over recent years RSA has undertaken a steady downsizing and this has resulted in 20,000 sq m (220,000 sq ft) of town centre offices coming on to the market between 2004 and 2010.

Apart from Linden House (sold yet still remains vacant) all the other surplus space is now occupied, with two of the four buildings going to Horsham based companies, the third went to a Sussex based occupier and the fourth (Linden House) was sold to a Sussex based developer.

Stiles Harold Williams were involved in Parkside, the largest of the four buildings 9,290 sq m (100,000 sq ft) and other than West Sussex County Council, who were the eventual purchasers; we received interest from a Crawley based occupier who wished to acquire the building for their own occupation.

This and other recent activity confirms Horsham as an attractive and recognised office centre. We see demand for Horsham town centre remaining steady in the future, however future supply issues (see later) could impact on this demand being capable of being satisfied.

We are already beginning to see frustrated occupiers not being able to find the quality of accommodation they would like in the Horsham area, and this will be compounded with the pressure on supply from permitted development (see later) and lack of speculative development of new product.

My experience shows that companies will seldom want to move to a lower quality building than they are vacating and it is important, therefore, to have a continuous supply of good quality, ideally Grade A, accommodation.

We identify Grade A buildings as being fit for the modern day business both in terms of design and facilities, to include a good level of car parking, raised access flooring, suspended ceilings with recessed lighting, air conditioning/comfort cooling and an energy efficiency rating of C and above, or in the case of a new build, a BREAM Rating of Good to Excellent.

Horsham also has a limited out of town office market, where the existing supply is not only from a small number of 'Farm Building' conversions (New House Farm), but also good quality offices in Southwater, where RSPCA relocated out of Horsham town centre to a purpose built facility, and on the Northern side, the Graylands Estate and Broadlands Business campus both off Langhurstwood Road, the latter two having poor road access and no visibility.

Both of these schemes have attracted companies to move into the district from Crawley, providing confirmation that North Horsham is an acceptable business location.

MANUFACTURING/STORAGE & DISTRIBUTION

Demand for accommodation for traditional manufacturing companies across the South East has reduced over the years and has been replaced by the more knowledge based, specialist/hi-tech value added manufacturer, and this is certainly the case in Horsham. Recent arrivals to the town include the likes of Ceres Power and Permasense, both of whom originated from Imperial College London. In addition to Norvartis the town also has other pharma operations.

Longer established companies in the District include AJ Walter Aviation who have recently moved to purpose built facilities(see later) to satisfy their expansion needs and Tesla Engineering a highly specialised manufacturing company who have been in the area for over 20 years.

We see the trend of demand from the 'high end value' manufacturer continuing to grow, not only from Companies already within the District, but also within the Gatwick Diamond region and further afield as evidenced by Permasense and Ceres Power

The District has a significant stock of older industrial/warehouse accommodation, particularly in the Billingshurst and Partridge Green areas and that stock appears sufficient to satisfy the demand in the south of the District, albeit many occupiers are seeking to upgrade their premises.

CURRENT DEMAND

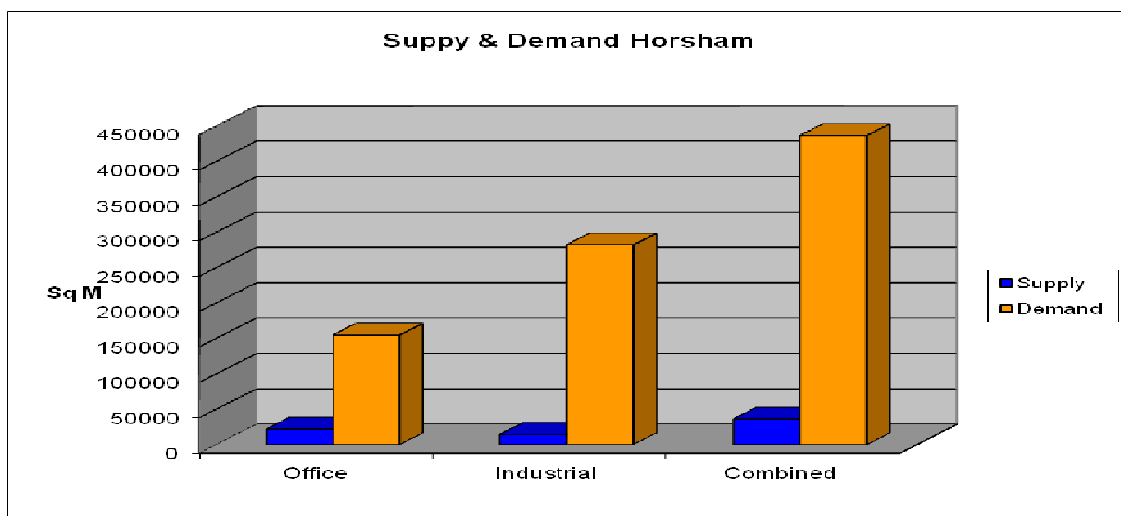
Stiles Harold Williams currently have registered demand from 439 applicants seeking over 400,000 sq m (4.3M sq ft) for business space across the Gatwick Diamond including Horsham. This is indicated in the graph below.

Historically, a large proportion of the demand for commercial property in the Horsham area has come from companies already in the District and needing additional expansion space to satisfy their growth, however, we are finding increasing demand from companies not in the area but who would readily relocate to Horsham if the right product was available to satisfy their business needs. It is very important to recognise that the District needs to have the continued supply to satisfy both elements of that demand.

We have always found a very strong desire from companies within the Horsham District to remain in the area if the right product is available to satisfy their business needs. In addition the District has many attributes which are attractive to companies considering relocating from outside.

A sample of current demand is as follows:

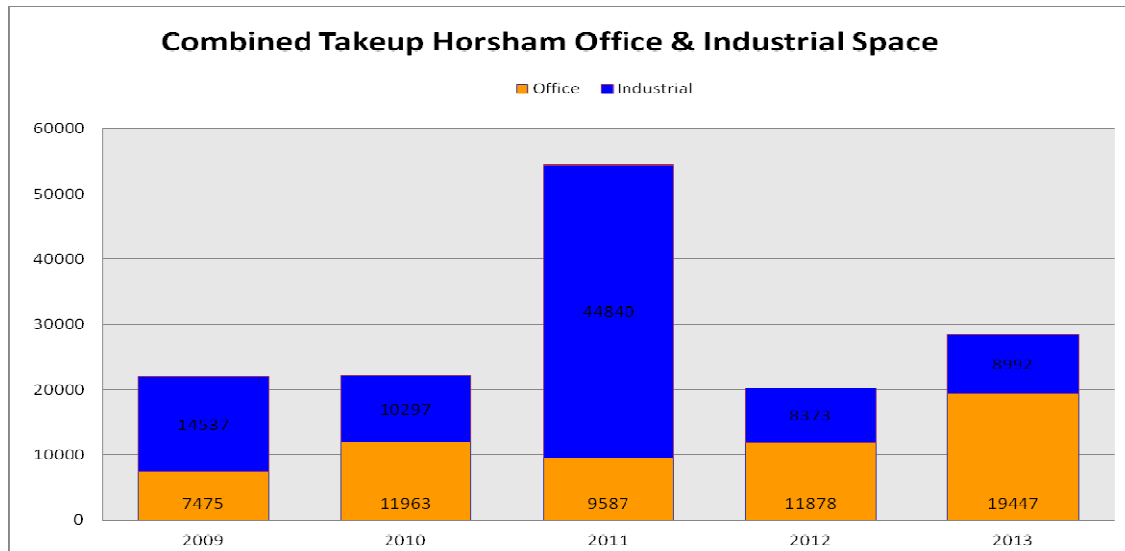
- 2 Pharma Companies seeking a total of 32,787 sq m (30,000 sq ft). Both Horsham based), one seeking traditional warehouse space, the other is looking for more Research & Development
- Horsham based Research company seeking 4,645 sq m (50,000 sq ft) warehouse/laboratory space, will consider moving North and out of the District, were under offer in Crawley(Manor Royal)
- Clients of CJ. 6,503 – 9290 sq m (70-100,000 sq ft) offices between SW M25 down to Brighton
- Removal Company. 371 – 929 sq m (4-10,000 sq ft) Horsham based requirement for traditional warehouse
- Clients of CBRE. 3,716 – 5574 sq m (40-60,000 sq ft) offices for Haywards Heath based occupier, who is prepared to move from Haywards Heath because of lack of quality stock within that town
- Clients of SHW-743-929 sq m (8-10,000 sq ft) Production/office space for high value Horsham based company, will look at Crawley
- Horsham based clients of JLL seeking 1-1,500 sq m (10-15,000 sq.ft Offices) Horsham only at this stage
- Healthcare Company 371-743 sq m (4-8,000 sq ft) offices, based in Horsham and wishes to remain in Horsham
- Clients of CBRE 6-800 sq m(8,000 sq ft) for unknown client, Horsham, Crawley, Dorking Redhill area
- Clients of Hillier Commercial- Brighton based occupier seeking 5-700 sq.m of high office content warehouse, search area includes Horsham, preference to remain close to Brighton
- B8RE-acting fro Brighton based occupier in the Medical industry seeking 8-1,000 sq m (8-10,000 sq.ft) offices close to Gatwick, will consider Horsham
- Sussex Based R & D company with facilities in Horsham and elsewhere seeking 5-6,000sq m for new facility in Sussex



NB: Where the enquiry has a range of size options, we have taken the 'mean' figure. The above clearly shows an imbalance of demand compared with the current supply.

The graph below shows the total take up (Source: Costar Focus*) of both office and Industrial/warehouse space over the last 5 years, which gives an average annual take up of 29,500 sq m (317,300 sq ft).

As the economy shows clear signs of recovery and moving out of recession, we expect to see this take up (subject to supply) increase over the next 1-5 years.



CURRENT AND POTENTIAL FUTURE SUPPLY

The current supply as at January 2014 is 35,862 sq m (386,000 sq ft) (Source: Costar Focus*). This provides less than 15 months supply on the last 5 years average annual take up.

This lack of supply is likely to result in companies seeking suitable accommodation outside of the District, and we are already seeing this happen (see later). As some of the existing stock gets older it becomes less attractive and less efficient to those companies operating out of those business premises. Again, this puts further pressure on those businesses to relocate and if there is insufficient supply of quality product they will look further afield. Already a lack of Grade A office accommodation in Horsham is frustrating current demand.

Pressure on supply is further being brought to bear because of two factors.

1. The recent change in the General Development Order (GDO) allowing offices to be converted to residential under Permitted Development has already reduced existing supply in Horsham. We estimate that within the next 6 months over 100,000 sq.ft of existing office stock could be lost to residential. Horsham has a particular problem with PD rights in so much as the town is a very desirable place to live, resulting in high end residential resale values that will outbid current office values. We anticipate some of the better quality office accommodation being at risk under PD rights further compounding the availability of employment land. We are experiencing similar dynamics in the surrounding towns, including Haywards Heath, East Grinstead and Horley.

2. Central Government has indicated in 2018 that commercial properties with an Energy Performance Certificate rating (EPC) of F or G are not likely to be occupiable without significant upgrade. Again, this could have a further impact on supply of the older quality accommodation.
3. If we look at that future supply there have been some changes which again compound the supply problem and this is even after allowing the difficult trading conditions that we have experienced since 2007.

The last review of future Employment Land in the Horsham District (2010) suggested there was 16.5 hectares of available and vacant employment land capable of providing potentially a further 62,627 sq m (674,000 sq ft) of business space, this coupled with the existing supply would only satisfy the demand for the next 3 years.

There have been some changes to that future identified supply which we list below:

ADDRESS	SIZE (HECTARES)	USE	COMMENT
St.Johns House/ Springfield Hse	0.8	B1a offices	Springfield House now letting as offices. St Johns House likely to go residential under PD .
Oakhurst Business Park	1.7		Available
Oakhurst Business Park Southwater	0.3		Only 0.3 hectares remaining with interest being shown
Mackley Estate Small Dole	1		At southern end of the District
Nowhurst Business Park Broadbridge Heath	6.8	B2/B8	Likely to be more focused on Industrial
Stane Street Slinfold	5.7		Now home to AJ Walter Aviation, and no longer available
ADDITIONAL POTENTIAL SUPPLY			
Broadlands Business Campus	2	B1a, B1c	Poor location and unlikely to be developed out in the short term due to access
Novartis Wimblehurst Road	12	B1, B2 B8	Yet to be formally released, but potential for owner occupier transaction. being a unique facility.

Of the original 16.5 Hectares only 9 hectares remains so the vacant land supply has reduced by 40% in three years during the recession. .

WHAT HAPPENS TO DEMAND IF THERE IS INSUFFICIENT SUPPLY?

Experience shows whilst companies would always wish to expand within their existing geographical location primarily because they have the staff infrastructure and connections, if the right accommodation is not available they will move to a location to obtain the building which is fit for their business at the time.

EXAMPLES

1. Nestlé were in Croydon town centre since the late 1950s and have for the last few years been in the market for a suitable HQ facility within the Croydon central area. 18 months ago Nestlé relocated their entire workforce of 800 people from the centre of Croydon to 1 City Place, an out of town internationally branded business park directly opposite Gatwick Airport with excellent car parking.
2. I am currently advising a Horsham based hi tech specialist manufacturer who we relocated into the town some four years ago when they had a total staff complement of three. They now employ 26 personnel and are seeking suitable premises to provide them with the right image and facilities as their business has expanded. They have a strong desire to remain within Horsham but the most suitable buildings are located on the Manor Royal estate in Crawley. Inadequate supply of the right product may force them to move out of the district.
3. The most recent significant District relocation was A J Walter Aviation who, have recently moved to a purpose built facility in Slinfold of some 20,000 sq.m(200,000 sq.ft) from their former outdated stock at Partridge Green (this now only has a small amount remaining). A J Walter looked extensively at alternative facilities to satisfy their business needs and were prepared to consider a relocation out of the District to satisfy their business needs. At the time of their requirement and as luck would have it, a suitable site came available in Slinfold, which gave A J Walter the opportunity of having a purpose built facility and remaining in the District. AJW employ over 350 people worldwide with their HQ in Slinfold. Without the availability of the Slinfold site opportunity when they were in the market they may well have relocated out of the District.

It is therefore imperative to ensure a regular supply of quality business premises to satisfy the growing local demand within the Horsham district. Failure to provide this will result in a loss of those companies to adjoining areas that provide the right accommodation.

SITE SPECIFIC ISSUES

The proposed location will, in my view, attract interest from a wide geographical area, as the site has a number of key locational advantages over Langhurstwood Road and Southwater.

- Visibility from principle roads (A264)
- Excellent communications to the national motorway network via the M23 at Pease Pottage and M25 some 12 miles away.
- A dedicated railway station which should provide regular services to Gatwick Airport within 10-15 minutes, and London in less than 1 hour
- Being able to get to Gatwick within 15 minutes by car.

These are increasingly becoming key drivers on decision making processes unlike other opportunities to the south of the District ie, Southwater and Broadbridge Heath, the proposed site is the right side of town to attract companies from the north, particularly Crawley which will have its own land supply issues.

Whilst there is a site identified in the Employment Land review of 2010 at Broadlands Business Park, the access to Langhurstwood Road has in the past put companies off from even considering that as an alternative location with no amenities and no visibility. We suspect that this will continue to be the case, however, the principle of Crawley companies relocating into the northern part of Horsham has already been established not only at Broadlands but also at Graylands.

Despite the very poor access at Broadlands Business Park and Graylands (the same side of Horsham as the subject site) and lack of amenity, both have attracted occupiers from the Crawley/East Grinstead area in the last 5 years.

The Manor Royal Estate at Crawley and home to over 500 businesses has very little land available (in the last 12 months supply has reduced from 23 Hectares to 4). In addition being bounded in the North by the Gatwick Airport exclusion zone, and Crawley Town to the South there is no additional expansion space.

We see no reason why occupiers from The Manor Royal would not relocate to a well located and served Business Park on the subject site (two Manor Royal companies are now at Graylands and Broadlands)

We would expect the developers to offer a range of Business units both in terms of size and design to match the diversity of demand within the District We would also expect to see a provision of 'Incubator' units. This would enable the developers to 'grow' their own demand from within the Park.

We would also expect to see some control on the employment density across the Park. A recent transaction on 10 acres of prime employment land within the Gatwick Diamond region has only generated 100 jobs.

CONCLUSION

- 1) The average annual take up in Horsham of some 29,450 sq m (317,300 sq ft) is likely to increase now there are clear signs that the UK economy is in recovery. We have already seen the high level of vacancy in Horsham town centre a few years ago being reduced.
- 2) Older stock (particularly offices) is already being regenerated into residential, thereby reducing availability further and putting pressure on supply.
- 3) The effect of reduced supply may mean the loss of existing occupiers to neighbouring areas, and many are looking at Crawley now.
- 4) Encouraging speculative development will provide much needed Grade A employment space and help to move rents on which in turn will provide confidence to other owners to invest in upgrading their accommodation and improving supply going forward.

- 5) Horsham is continuing to attract knowledge based businesses and companies from the North, sufficient pipeline supply of suitable available business premises is key to that continued growth and retaining them within the District
- 6) The site is well located to capitalise on demand from within the District and the Gatwick Diamond Region in the North
- 7) Quality supply of suitable employment opportunities in my view generates demand. Our experience of the disposal of Parkside is a clear indication that the District can with the right availability attract occupiers from outside the District



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