RESEARCH

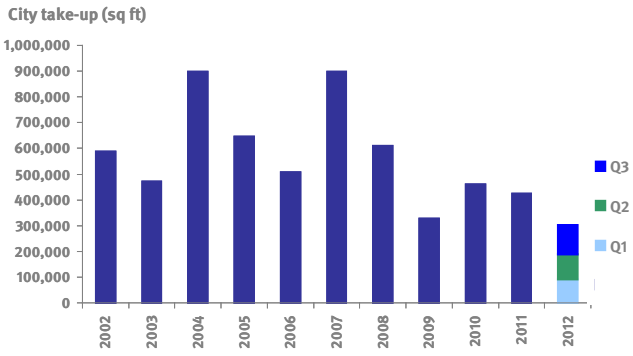
BRISTOL OFFICES

Market update Q3 2012

Knight Frank

Key highlights

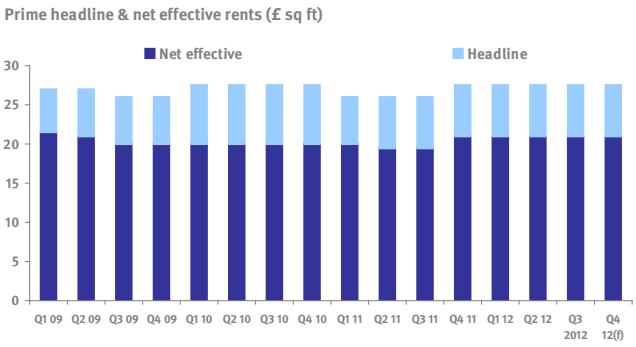
- Q3 saw the continued slow improvement in market conditions, with take up edging up to 113,000 sq ft. As in previous quarters, the number of larger lettings was limited. Indeed, only SDL (12,000 sq ft in The Pithay) and Maxim (11,000 sq ft in Redcliff Quay) acquired more than 10,000 sq ft.
- However, demand has been focused on Grade B space, with Simmonds & Simmonds making the only acquisition of Grade A space (7,800 sq ft at Linear Park).
- Net effective and headline rents were unchanged at £21.00 per sq ft and £27.50 per sq ft respectively, with no movement anticipated before the end of this year.



Source: Knight Frank Research

Office gossip

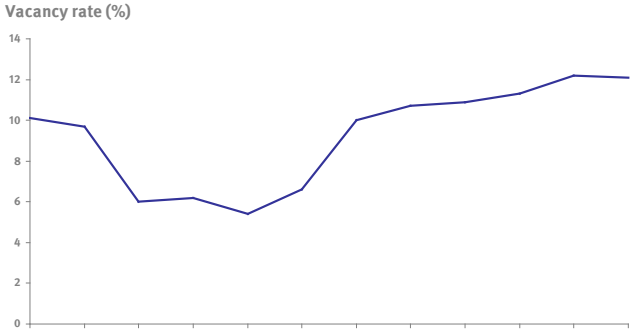
- Bristol City Council's launch of a potential requirement for 60-230,000 sq ft has intrigued the market. The council is in the process of rationalising its property portfolio and has a range of options, although a refurbishment of accommodation within its existing estate or a move to the Enterprise Zone is seen as the most likely.
- Active demand increased in Q3 to reach a healthy 493,000 sq ft. Major outstanding requirements include Canada Life (30,000 sq ft), Mapfre (40,000sq ft) and, out of town, EDF Energy (60,000 sq ft).
- In the investment market, the Topland Group has bought Whitefriars, one of Bristol's largest office buildings, from CBRE Investors for £6.5 million. This reflects a net initial yield in excess of 20%. The building provides 140,000 sq ft of office and ancillary accommodation, including a café and gymnasium.



Source: Knight Frank Research

Looking ahead

- PRUPIM have commenced the refurbishment and re-modelling of One Victoria Street (47,000 sq ft), with completion scheduled for Autumn 2013.
- With improvements in market sentiment, it is anticipated that take up in Q4 will be increased across all grades of space.
- However, landlords' ability to achieve significantly better terms will undoubtedly be limited, with rents expected to remain broadly unchanged as we move towards the year-end.



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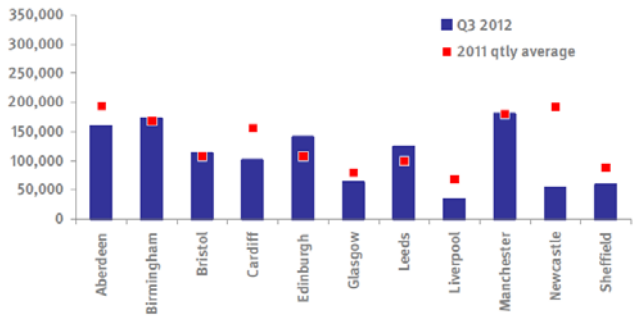
UK REGIONAL OFFICES ROUND-UP

Q3 2012

Occupier demand

- Office take-up across the eleven regional cities continued to be subdued, totalling 1,195,011 sq ft during Q3 2012 - down 15% on Q3 2011 and also down 16% on Q2 2012. Take-up in the eleven cities combined for the first nine months of 2012 was 7% down on the same period in 2011.
- Similar to the previous quarter, a number of markets experienced lower take-up in Q3 2012 compared with the 2011 quarterly average. Take-up was strongest in Edinburgh and Leeds, with Birmingham, Bristol and Manchester also experiencing just above average activity during the quarter.
- Occupiers continued the 'fight to quality' in most markets. We have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.

City centre take-up, Q3 2012 vs 2011 quarterly average (sq ft)

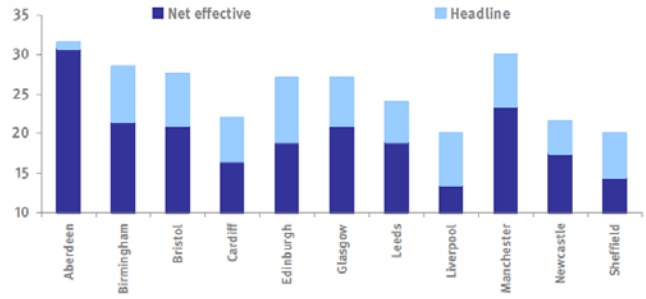


Source: Knight Frank Research

Supply and rents

- The limited amount of new space brought to the market in Q3 resulted in another fall in availability, with total new Grade A supply across the region amounting to 3,230,062 sq ft – 2.4% below the Q2 2012 total.
- While prime headline rents are unlikely to increase from their current levels before the year-end, we do anticipate rent free incentives will harden in 2013 as Grade A supply becomes even more restricted.
- Speculative development activity remains generally limited. At the end of Q3 2012, speculative development across the 11 cities combined was up 17% on Q2 2012 but down 12% on Q3 2011. Birmingham and Manchester are the only two cities which have in excess of 100,000 sq ft underway.

Q3 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Q3 investment turnover was £477m outside London and the South East, an improvement on Q2 but nevertheless 45% below the 10-year quarterly average.
- The largest single transaction in Q3 was Union Investment's £60m purchase of 1 George Square in Glasgow, reflecting a net initial yield of c.6.25%.
- There remains sustained strong investor interest for prime office stocks. However, a major barrier to activity remains a lack of suitable product, namely prime, long-income assets.
- While Q2 brought a softening in prime office yields in the regions, prime yields were largely unchanged in Q3, with the exception of Liverpool which prime yields moving out by 25bps to stand at 7.50%. Yields on secondary assets remain vulnerable to a further outward shift.

Prime office yields

	2011	2012			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.25%	6.25%	6.50%	**6.50%**	◄ ▲
Birmingham	6.00%	6.25%	6.50%	**6.50%**	◄ ▲
Bristol	6.25%	6.25%	6.50%	**6.50%**	◄ ▲
Cardiff	6.25%	6.25%	6.50%	**6.50%**	◄ ▲
Edinburgh	6.25%	6.25%	6.50%	**6.50%**	◄ ▲
Glasgow	6.25%	6.25%	6.50%	**6.50%**	◄ ▲
Leeds	6.25%	6.25%	6.50%	**6.50%**	◄ ▲
Liverpool	7.00%	7.00%	7.25%	**7.50%**	◄ ▲
Manchester	6.00%	6.00%	6.50%	**6.50%**	◄ ▲
Newcastle	6.50%	6.50%	6.75%	**6.75%**	◄ ▲
Sheffield	7.00%	7.00%	7.25%	**7.25%**	◄ ▲

Source: Knight Frank Research

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