RESEARCH

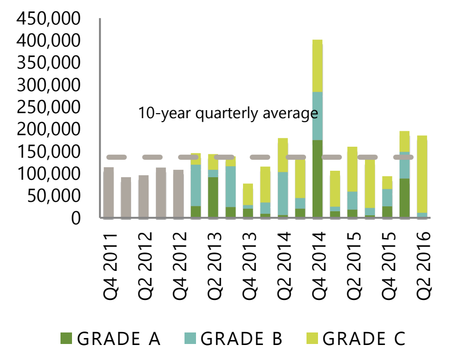
BRISTOL OFFICES

MARKET UPDATE **H1 2016**

Occupier market

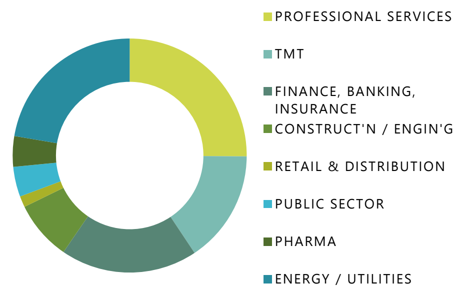
- While some markets in commercial property have experienced a slow-down in activity during the lead up to the EU referendum, office take-up in Bristol increased by 70% when compared with H2 2015.
- Q1 and Q2 represented the second and third highest quarterly take-up in over 8 years. This provides a strong indication of a continuing appetite for new office space.
- Leasing deals in H1 involved a diverse group of occupiers which have either expanded or relocated to Bristol. Interestingly, no one sector accounted for more than 25% of total take-up.
- The majority of the occupier deals in H1 involved Grade C offices, which accounted for 58% of the total. Grade A office deals on the other hand only accounted for 23% of transactions, however, this was more of a reflection of the limited availability of new quality office stock as opposed to a lack of appetite.
- Notable deals in H1 included EDF Energy, which took 81,202 sq ft at Bridgewater House in Q1 and Direct Line, which acquired the freehold of 63,123 sq ft at 'The Core' in Q2. However, the vast majority of the deals which took place in H1 were sub-10k sq ft.
- Nevertheless, the appetite for space across all size bands continues to place supply-side pressure in the market. As of Q2, Grade A availability stood at its lowest level in 9 years.
- The completion of a range of refurbishments in H2 2016 will bring forward 134,000 sq ft of space to relieve the extreme shortage of quality office stock. However, there remains some time until the market sees the completion of new Grade A space, with Aurora at Finzels Reach expected in Q4 2017.
- In the meantime, prime headline office rents are expected to increase from £28.50 per sq ft to £30 per sq ft by the end of the year.

FIGURE 1
City centre take up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H1 2016 take-up by sector



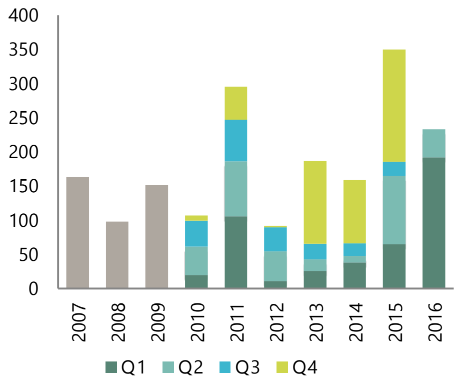
Source: Knight Frank LLP

Agent's view

Strong activity in H1, despite the risks associated with a once in a generation political vote, has shown that occupiers view Bristol as a long term destination for business. The attractiveness of the city has seen many occupiers willing to take-up Grade B and even Grade C office space in order to establish a presence in Bristol. The delivery of further new and refurbished space will be key to Bristol's continued success. Despite increased uncertainty on a national level created by the 'Brexit' vote, there is no evidence of any planned schemes being slowed or halted within Bristol's markets. As a result of the shortfall of new office schemes, we are likely to see rents increase to £31 per sq ft by the end of 2017.

EDF have taken 81,202 sq ft of Grade A space within Bridgewater House. The letting represents one of the largest ever lettings of an up and standing building in the city.

FIGURE 3
Bristol offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Knight Frank sold 2000 Aztec West on behalf of Aprirose in June 2016 for 19.90m

Investment market

- Bristol experienced a surge in interest in H1 2016, with a total of £233m transacted across 16 deals. This was up 26% on H2 2015 and more importantly represented the highest level of investment recorded since H2 2006.
- Tellingly, there was a distinct difference in the investment volumes for each quarter, with £192m transacted in Q1 and only £41m in Q2.
- Since the result of the EU referendum, a considerable number of UK investors have assumed a more cautious approach, which explains the below average number of transactions in Q2.
- The decision to close many open-ended funds has been well documented and its publicity has fuelled negative sentiment. With the situation now settling, buyers will be looking to take advantage of price corrections although vendors will not be under pressure to sell.
- Demand still remains relatively strong from overseas investors, benefitting from the weakening of the pound. We expect to see a continued flight to quality and long-income opportunities as the market focusses on property fundamentals.
- The largest deal in H1 was the sale of Bridgewater House, which forms part of the 4.7 acre mixed-use redevelopment scheme, which sold for £56.3m in March. Other notable deals include the sale of 2 Temple Back East in March for £34.1m (6.50 unexpired to law firm Osborne Clarke) and the sale of 2 College Square in January for 22.78m (multi-let 6 year weighted average unexpired lease term)
- Prime office yields in H1 have now softened by 25bps to 5.50%. This marginal shift reflects investors being less optimistic on rental growth in the future.

TABLE 1
Selected investment transactions in H1 2016

Date	Address	Purchaser / Vendor	Price	NIY (%)
Jun 16	2000 Aztec West	Surrey County Council / Aprirose	£19.90m	6.19%
May 16	1000 Aztec West	Commercial Estates Group / CIT Group Ltd	£8.37m	9.35%
Mar 16	Bridgewater House	Overseas Investor / Palmer Capital Partners	£56.30m	5.35%
Mar 16	Prudential Buildings	Longmead Capital / Goodman	£16.90m	7.45%
Mar 16	2 Temple Back East	Ardstone / DEKA	£34.10m	5.83%
Jan 16	Keypoint, Almondsbury	Overseas Investor / CBRE Global Investors	£16.75m	5.70%
Jan 16	2 College Square	CBRE Global Investors / M&G Real Estate	£22.78m	4.97%

Source: Knight Frank LLP

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