RESEARCH

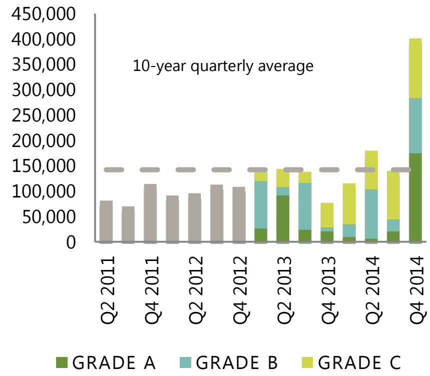
BRISTOL OFFICES

MARKET UPDATE **H2 2014**

Occupier market

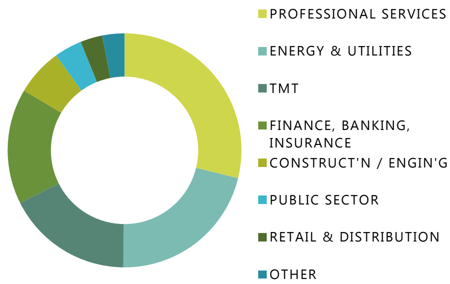
- Following a strong first half of the year, occupier activity increased during the second half of the year in line with the improving economic backdrop. Take-up in H2 amounted to a record 541,508 sq ft, up by 151% on H2 2013's level and marking the highest half-year take-up since 2008.
- There was 401,235 sq ft of space taken-up during Q4, representing the highest quarterly take-up since 2008. Q4 saw a significant take up of grade A space including two pre-lets concluded during construction - an unknown event since 2009 - PwC acquired space at 2 Glass Wharf and KPMG took space at 66 Queen Square.
- Consequently, take-up of Grade A accounted for 43% of total take-up in Q4, with the remaining 57% made up of Grade B and C space.
- Professional services remained the most active sector in H2, accounting for28% of take-up. The Energy & Utilities and TMT sector followed in second and third positions, accounting for 21% and 17%, respectively.
- The average size for deals in Q4 took a sharp upturn with OVO Energy acquiring 69,700 sq ft at 1 Rivergate, Mapfre taking 46,600 sq ft at One Victoria and DNV acquiring 26,000 sq ft at 1 Linear Park.
- Continued healthy take-up in combination with limited new completions has led to a noticeable decline in availability. Supply in Bristol City centre has fallen by over 40% in the last 12 months to stand at approx. 1.15m sq ft, its lowest level in over 6 years.
- Prime headline rents edged up to £28.50 per sq ft in Q4. We expect to see rental growth over the next 12 months while incentives continue to harden.
- The Bristol market has moved in favour of the landlord. With improved economic and property market fundamentals coupled with limited space under construction on a speculative basis (just 98,000 sq ft)., this balance will move further in favour of landlords in 2015.

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



Source: Knight Frank LLP

FIGURE 2
H2 2014 take-up by sector



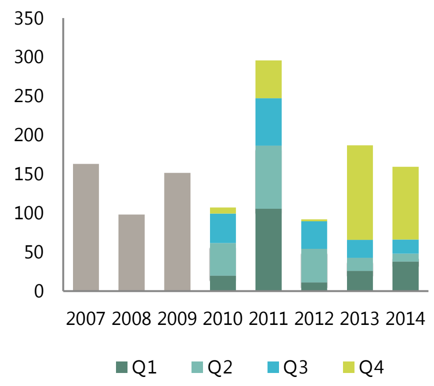
Source: Knight Frank LLP

Agent's view

It is difficult to envisage a quarter with take up matching Q4 2014. That said, demand remains strong with much of it for higher quality accommodation. This demand will put a further squeeze on the availability of Grade A and higher tier Grade B space, the take up of which will not be replaced any time soon.

One Victoria – 46,500 sq ft let to Mapfre

FIGURE 3
Bristol offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Knight Frank acquired Freshford and WCA House on behalf of AEW UK Core Property Fund in October 2014.

Knight Frank acquired Aztec West 2620 on behalf of Aviva Investors in December 2014.

Investment market

- Investment activity in Bristol increased in H2 2014. Total H2 volume stood at £111m, increasing from £48m recorded during H1 2014. Overall investment volumes for 2014 totalled £159m, a decrease from the 2013 levels of £190m.
- Although investment volumes increased in the second half of 2014, the market is still experiencing a lack of supply rather than any reduction in investor appetite, which remains strong.
- Improving market fundamentals and strong investor demand led to yield compression throughout 2014 for both prime and good quality secondary stock across the South West, although this is likely to stabilise throughout 2015. Hypothetically, Bristol's prime office yield (for a 15-year lease) stands at 5.50% at the end of 2014, its lowest level since Q4 2007, although there have been no prime transactions in H2 2014 to support this.
- Due to a lack of stock available, there were few significant transactions in the city centre during H2 2014. The largest city centre office investment was the purchase of Kings Orchard by Aviva in December 2014 for £29.75m, reflecting a net initial yield of 5.95%. The property, built in 1986 and extensively refurbished in 2007, is let to Bevan Brittan LLP with 12.5 years unexpired.
- Elsewhere in the city centre, 1 Linear Park at Temple Quay is believed to be under offer at c6.25% and comprises a prime multi let office with a WAULT of 4.6 years.
- Demand in the out-of-town office investment market has also increased but again has been restricted by the lack of buying opportunities. Buildings 620 and 230 Bristol Business Park was purchased by F&C REIT Asset Management for 6.93% in August 2014 (WAULT of 7.70 years). There have also been two substantial buildings transacted on Aztec West; 2630 was purchased by Mayfair Capital for 6.85% (£16.95m) in September 2014 (5 years unexpired) and 2620 was purchased by Aviva for 6.25% (£23.1m) in December 2014 (12.5 years unexpired).

TABLE 1
Selected investment transactions in H2 2014

Date	Address	Purchaser / Vendor	Price	NIY(%)
July 14	620 & 230 Bristol Business Park	F&C REIT / Bristol & England	£7.22m	6.93
Aug 14	Newminster House	Chadwick Holdings / LaSalle Investment Management	£2.40m	10.03
Sept 14	2630 Aztec West	Mayfair Capital / IVG	£16.95m	6.85
Oct 14	Freshford & WCA House	AEW / Ignis	£3.61m	15.31
Nov 14	Colston Tower	Resolution / Development Securities	£12.25m	8.22
Dec 14	Kings Orchard	Aviva / IVG	£29.75m	5.95

Source: Knight Frank LLP

Knight Frank
Newmark Knight Frank Global

COMMERCIAL RESEARCH
Anthea To, Associate
+44 20 7861 1236
anthea.to@knightfrank.com

INVESTMENT
Steve Oades, Partner
+44 117 917 4548
steve.oades@knightfrank.com

LEASING
Martin Booth, Partner
+44 117 917 4990
martin.booth@knightfrank.com

INVESTMENT
Nick Thurston, Associate
+44 117 917 4536
nick.thurston@knightfrank.com