RESEARCH

BRISTOL OFFICES

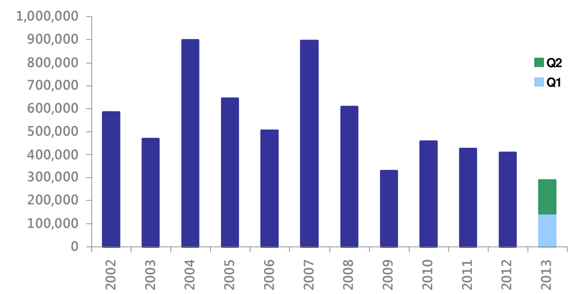
Market update Q2 2013

Knight Frank

Key highlights

- Take-up in Q2 was 143,931 sq ft, slightly down on Q1 but nevertheless a strong figure. Indeed, the half-year total amounts to almost 290,000 sq ft – some 54% ahead of the same period last year.
- Active named requirements currently stand at a healthy 472,000 sq ft – broadly in line with the levels seen in 2012 but significantly higher than in 2011.
- Prime headline rents have held steady at £27.00 per sq ft over the quarter, with net effective rents also remaining unchanged at £21.00 per sq ft.

City take-up (sq ft)

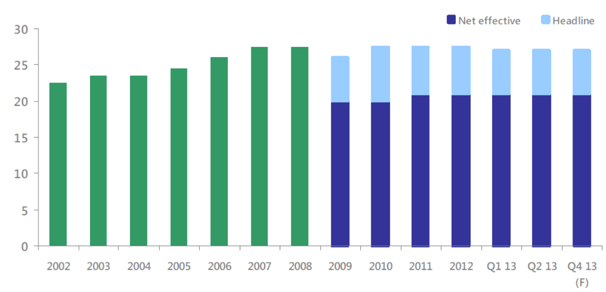


Source: Knight Frank Research

Office gossip

- While Q2 saw a relatively healthy level of activity, much of it was accounted for by a single deal, which saw Imperial Tobacco take possession of their new 85,000 sq ft global HQ on Winterstoke Road.
- Santander's acquisition of 6,350 sq ft within One Glass Wharf represents this year's first acquisition of new office space. However, with more deals in the pipeline, new space will feature increasingly in the coming months.
- Investment transactions in Q2 included Threadneedle's acquisitions of 18-21 Queen Square for £2.75m and 930 Aztec West for £5.6m, both at yields above 9%. SEA also purchased Bristol Office Park for just under £1.8m, reflecting a yield of 9.3%.

Prime headline & net effective rents (£ sq ft)

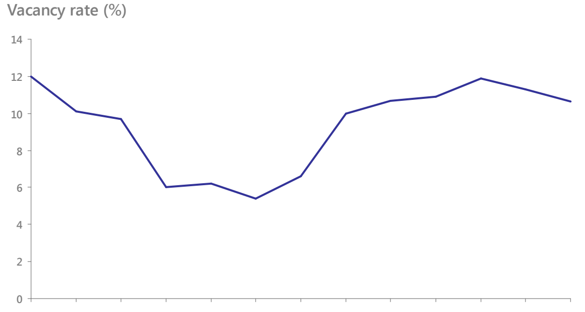


Source: Knight Frank Research

Looking ahead

- Q2 saw the commencement of further speculative development activity, with Skanska breaking ground on 66 Queen Square (59,967 sq ft). This is in addition to M&G's One Victoria scheme (47,054 sq ft), which is due to complete by December this year.
- With take-up nearing 290,000 sq ft for the first half of 2013, it is expected that annual take-up will exceed that of the last three years.
- While there is little prospect of headline rental growth in the second half of 2013, incentives are expected to gradually harden, as occupier demand accelerates and confidence returns to Bristol's main office markets.

Vacancy rate (%)



Source: Knight Frank Research

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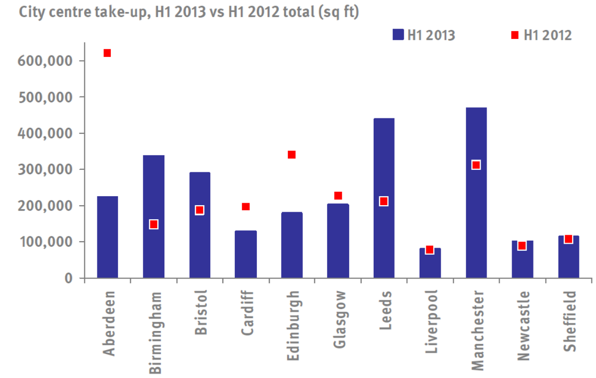
UK REGIONAL OFFICES ROUND-UP

Q2 2013

Occupier demand

- The regional office markets received a welcomed boost in Q2. Demand is relatively robust for the regions, with a growing list of sizeable requirements, mainly from corporate occupiers in the legal and financial sectors.
- The 11 markets combined recorded total take-up of 1,376,023 sq ft during Q2 – up 16% up on Q1 2013. Whilst overall total take-up for H1 2013 stands a modest 2% higher than H1 2012, this was largely due to Aberdeen's exceptional performance in 2012. Indeed, H1 2013 take-up in England's major regional markets has rebounded sharply from H1 2012, namely Birmingham (up 128%), Leeds (up 106%), Bristol (up 54%) and Manchester (up 51%).
- Whilst there was a healthy level of activity, similar to previous quarter, transactions continued to be predominantly characterised by smaller deals.

City centre take-up, H1 2013 vs H1 2012 total (sq ft)

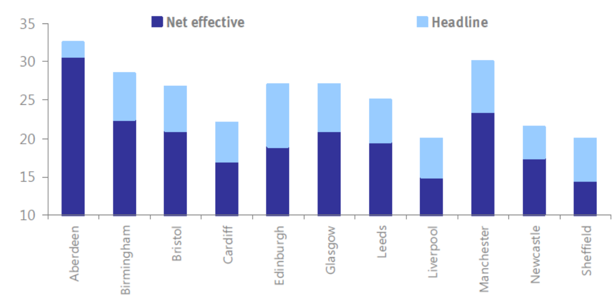


Source: Knight Frank Research

Supply and rents

- Availability of Grade A space slipped to 2,831,975 sq ft in Q2 2013 – 15% down on Q2 2012. This reflects the continuing erosion of Grade A space in most markets in the absence of new completions/development activity. A year-on-year double-digit fall was seen in Birmingham (-44%), Leeds (-32%), Glasgow (-17%), Manchester (-13%), Sheffield (-13%), Newcastle (-11%) and Liverpool (-10%), with the exception of Bristol (+31%) and Cardiff (+29%).
- There are signs that sentiment in the occupier market is improving. Headline rents and incentives have been largely stable, with only Aberdeen showing an increase in headline rents (from £31.50 to £32.50). While further significant growth in regional headline rents is unlikely over the remainder of 2013, net effective rents may harden as Grade A supply continues to decline.

Q2 2013 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Investment turnover for offices outside London and the South East was subdued in Q2. The latest figures from Property Data suggest c.£346m turnover, 42% down on Q1.
- Strong investor interest in prime office stock in the regions has been maintained, although a shortage of suitable product (prime and long-income assets) remains a major barrier to activity. In the secondary spectrum, investor interest is highly selective, confined to good quality secondary stock where there is potential to add value through asset management.
- Generally, prime yields were largely stable in the regional cities, albeit Q2 saw signs of improved sentiment for prime stock. Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow and Leeds saw prime yields move in by 25bps.

Prime office yields

	2012		2013		Yield sentiment
	Q3	Q4	Q1	Q2	
Aberdeen	6.50%	6.50%	6.50%	**6.25%**	→↘
Birmingham	6.50%	6.50%	6.25%	**6.00%**	→↘
Bristol	6.50%	6.50%	6.50%	**6.25%**	→↘
Cardiff	6.50%	6.50%	6.50%	**6.25%**	→↘
Edinburgh	6.50%	6.50%	6.50%	**6.25%**	→↘
Glasgow	6.50%	6.50%	6.50%	**6.25%**	→↘
Leeds	6.50%	6.50%	6.50%	**6.25%**	→↘
Liverpool	7.50%	7.50%	7.50%	**7.50%**	→↘
Manchester	6.50%	6.50%	6.25%	**6.25%**	→↘
Newcastle	6.75%	6.75%	7.00%	**7.00%**	→↘
Sheffield	7.25%	7.25%	7.25%	**7.25%**	→↘

Source: Knight Frank Research