RESEARCH

BRISTOL OFFICES

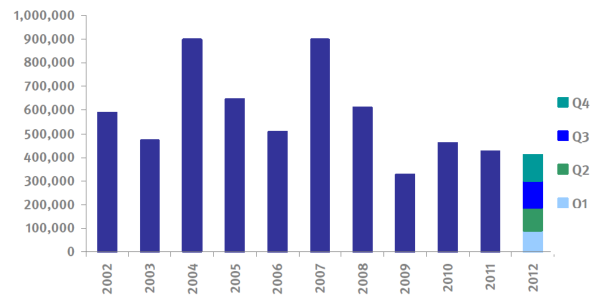
Market update Q4 2012

Knight Frank

Key highlights

- Q4 take-up of 108,503 sq ft lifted the annual total for 2012 to 409,225 sq ft, 4% below 2011's total and 8% below the five-year annual average.
- In contrast with many of the UK's other regional office markets, Bristol's 2012 was characterised by comparatively limited take-up of Grade A stock (accounting for just just 9.5% of space taken in the year) and an absence of larger deals and pre-lets.
- Transactions involving Grade A space in Q4 included Parmenion Capital's acquisition of 6,000 sq ft at 2 College Square and Saffrey Champness' acquisition of the last remaining floor at Ashfield Land's St Catherines Court, totalling 6,805 sq ft.

City take-up (sq ft)

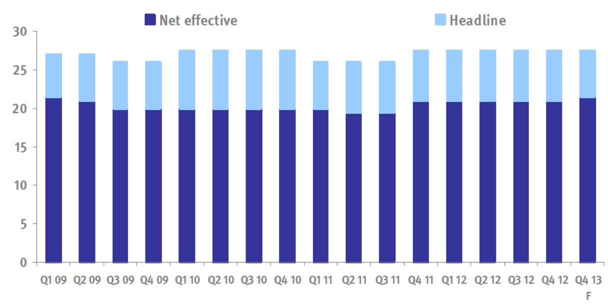


Source: Knight Frank Research

Office gossip

- Active demand increased marginally during Q4 to stand at a healthy 495,000 sq ft, 48% higher than its level in Q4 2011. The financial services sector is particularly active in Bristol and the city is proving attractive to both London and regionally-based legal practices looking to expand their operations.
- With c. 330,000 sq ft of Grade A space on the market, Bristol is the only city of the 11 key regional markets to have more Grade A space available than a year ago.
- The availability of secondary space has continued to edge upwards. However, with changes in the ownership of properties a more aggressive stance has been taken by landlords to secure deals, as evidenced by recent activity at One Castlepark and Whitefriars.

Prime headline & net effective rents (£ sq ft)

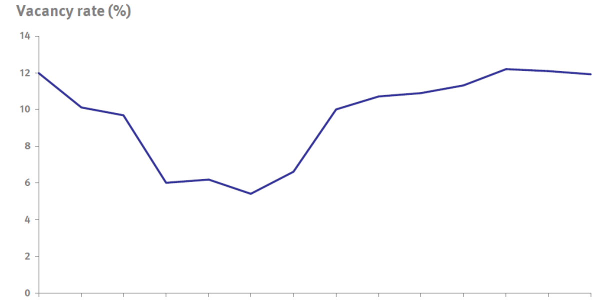


Source: Knight Frank Research

Looking ahead

- There is growing expectation that current active demand will feed through to increased take-up in the first half of 2013. Grade A space will also feature more prominently, as some of the key requirements bear fruit.
- While this is unlikely to result in headline rents growing above their current level of £27.50 per sq ft, the reduction in supply will lead to a slight hardening in incentive packages in 2013.
- Availability is also likely to continue to fall in North Bristol, having already come down to 470,000 sq ft. The proposed lettings to EDF at Key Point (63,000 sq ft) and Nvidia at Aztec 930 (30,000 sq ft) will redress the supply / demand imbalance.

Vacancy rate (%)



Source: Knight Frank Research

Agency contact
Martin Booth, Partner, Bristol
+44 (0)117 917 4990
martin.booth@knightfrank.com

Research contact
Oliver du Sautoy, Associate, Commercial Research
+44 (0)20 7861 1236
oliver.dusautoy@knightfrank.com

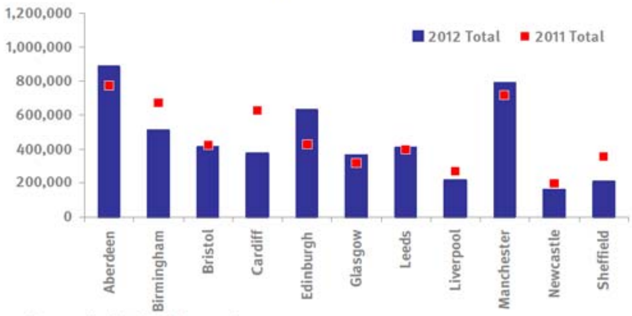
UK REGIONAL OFFICES ROUND-UP

Q4 2012

Occupier demand

- Take-up in the key regional office markets was generally resilient in Q4 2012. Across the 11 markets combined, total quarterly take-up of 1.22m sq ft was up 2% on Q3, although, 2012 as a whole was marginally lower than 2011.
- Annual take-up for 2012 totalled 4,930,430 sq ft - some 4% down on 2011 and 11% down on the 10-year annual average. A number of markets enjoyed stronger 2012 take-up compared with 2011 including Edinburgh (+47%), Glasgow (+15%), Aberdeen (+14%), Manchester (+10%) and Leeds (+3%).
- Transactions completed in 2012 comprised predominantly secondary space and relatively small lot sizes. However, the 'fight to quality' in most markets continued and we have seen renewed requirements from professional services firms prompted by forthcoming lease expiries.

City centre take-up, 2012 total vs 2011 total (sq ft)

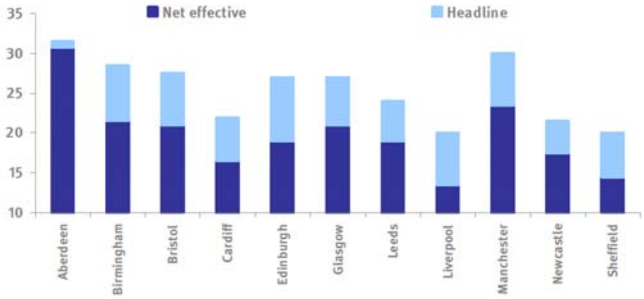


Source: Knight Frank Research

Supply and rents

- While the speculative development pipeline remains generally limited, Q4 saw another quarterly increase from Q3's 661,431 sq ft to 734,545 sq ft. Despite the improved speculative activity, general sentiment remains cautious and developers will demand a significant pre-let before any large new-build scheme can progress.
- Supply continues on a downward trend in the absence of new completions. At the end of Q4 2012, Grade A supply across the 11 cities combined was down 18% on Q4 2011, with the largest falls seen in Edinburgh (-38%), Glasgow (-36%), Leeds (-30%) and Birmingham (-27%).
- Headline rents remained stable in Q4. However, more generally, incentive packages are either hardening or expected to harden across the regional cities, as a result of this steady erosion of Grade A supply.

Q4 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- The latest figures from Property Data reveal that Q4 investment turnover was c.£550m outside London and the South East, an improvement on Q3 but nevertheless 36% below the 10-year quarterly average.
- There remains strong investor interest in prime office stock, although a shortage of suitable product, namely 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 unchanged in the regional cities in Q4 albeit this is based largely on sentiment. Secondary office yields are under pressure and sentiments remains cautious.

Prime office yields

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

Source: Knight Frank Research