

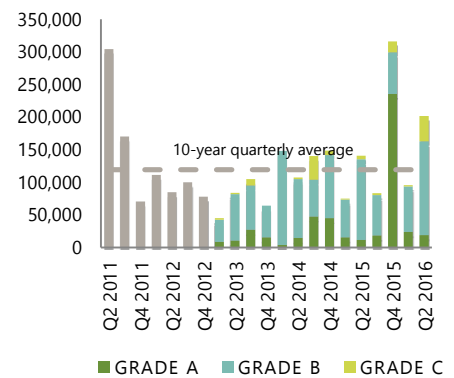
# CARDIFF OFFICES

## MARKET UPDATE H1 2016

### Occupier market

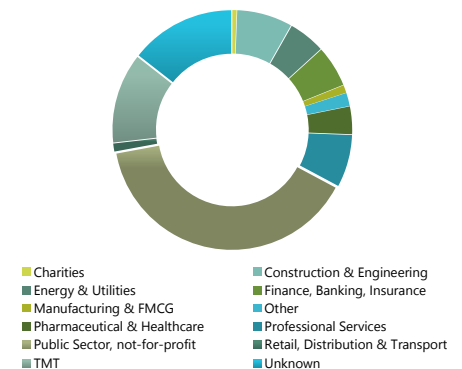
- Following a very strong second half to 2015, office take-up in H1 2016 fell by 25% to 297,700 sq ft let. Despite the fall, the H1 2016 total is 35% higher compared to the first six months of 2015 and represents the highest total for an H1 period since 2011.
- Supporting the brisk start was the 54,600 sq ft lease taken by HMRC at Brunel House, this being the largest transaction of 2016 so far. At mid-year, public sector organisations account for 39% of take-up. This compares to just 5% in all of 2015. With Cardiff identified by the Government Property Unit as a potential hub for the Civil Service, the influence of the public sector on office take-up will continue to increase.
- Significantly, two lettings above 20,000 sq ft completed in H1 2016. This compares to three in all of 2015. Aside from the HMRC letting at Brunel House, Cardiff University agreed to lease 29,000 sq ft at Friary House. The space, spread across three floors, will be used to house administrative and lecture functions.
- Following the completion on several large scale development schemes and several refurbishment schemes, Grade A availability increased by 76% in H1 2016 to reach 161,500 sq ft. This is the highest level of Grade A availability space for two years. Notable completions during the H1 period were Number 2 Capital Quarter (82,000 sq ft), St Patricks House (51,700 sq ft) and 1 Central Square (135,000 sq ft). At mid-year, 73% of this newly completed space is either let or under offer.
- A total of 327,815 sq ft was under construction at the halfway point in 2016. Of this total, 150,000 sq ft is pre-let. Broadcasting House was the largest new development scheme under construction at mid-year. BBC Wales have taken all 150,000 sq ft with occupation expected to be in Q1 2019. The second largest new development scheme in Cardiff is Number 3 Capital Quarter. The 75,000 sq ft JR Smart scheme broke ground in July with completion scheduled for Q4 2017.
- Supported by new development, prime rents increased by 13.6% in H1 2016 reaching £25.00 per sq ft by mid-year. The H1 rise represents the first uplift in prime rents since 2012.

FIGURE 1  
Take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2  
H2 2016 take-up by sector



Source: Knight Frank LLP

### Agent's view

The fundamentals of the Cardiff office market remain strong supporting an increase in headline rent and levels of take up above the long-term trend. Whilst Grade A supply has increased, the availability of prime space remains relatively limited with Grade A options largely comprising refurbishment projects in the city centre.

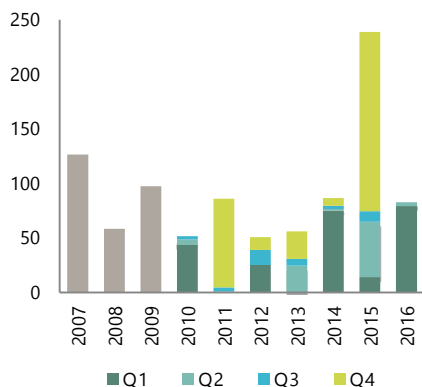
The refurbishment of Grade B buildings is increasing driven by the opportunity to increase rents for the best Grade B product. At mid-year, a significant number of deals were in solicitors' hands. As such, we expect the 2016 take-up to surpass the long-term annual average.



54,600 sq ft leased to HMRC at Brunel House.

FIGURE 3

## Cardiff offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

## Investment market

- Following a record level of office investment in H2 2015, investment turnover fell by 52% in the first half of 2016 with office sales amounting to £83m. Nonetheless, total office investment in H1 represents the highest for the period since 2007.
- The first half of 2016 saw seven transactions complete, which compares to eight recorded over the first six months of 2015. The acquisition of 3 & 4 Callaghan Square for £32m by Deutsche Asset & Wealth was the largest transaction of H1 2016. Current tenants of the two offices include British Gas, the British Transport Police Authority and Zurich Insurance.
- This Callaghan Square purchase was one of three sales over £10m completed by mid-year. This compares with just one in the first half of 2015. The £18.1m acquisition of One Kingsway by a private investor was the second largest transaction of H1 2016. The £13.5m sale of Churchill House to Oval Real Estate was the other sale over the £10m threshold.
- Overseas investors accounted for 47% of turnover at mid-year. This represents the highest concentration of overseas investment in the city since 2011. Overseas buyers will be further encouraged by the drop in value of sterling following the EU referendum result. This coupled with a strong occupational market and the relatively attractive yields when compared to the other major regional markets should support interest in H2.
- At mid-year, prime yields remained at 5.75%, now unchanged for 18 months. Nonetheless, yield levels are still 75 basis points above the market peak of 5.00% recorded in 2007.

### Selected investment transactions in H1 2016

Date	Address	Purchaser / Vendor	Price	NIY
Q1 2016	Callaghan Square, 3 & 4	Deutsche Asset & Wealth / National Grid UK PF	£32.1m	6.13%
Q1 2016	One Kingsway	Private Investor / Canada Life Assurance	£18.1m	6.58%
Q1 2016	Churchill House	Oval Real Estate / HSBC Bank Pension Trust	£13.5m	8.20%
Q1 2016	Tesco House, Maes Y Coed Rd	Oval Real Estate / Administrator	£7.8m	11.42%
Q1 2016	Atlantic House, Tyndall St	Winfull Group (Hong Kong) / Bailey Hodge Investments	£7.1m	-

Source: Knight Frank LLP



3 & 4 Callaghan Square sold to Deutsche Asset & Wealth for £32m



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