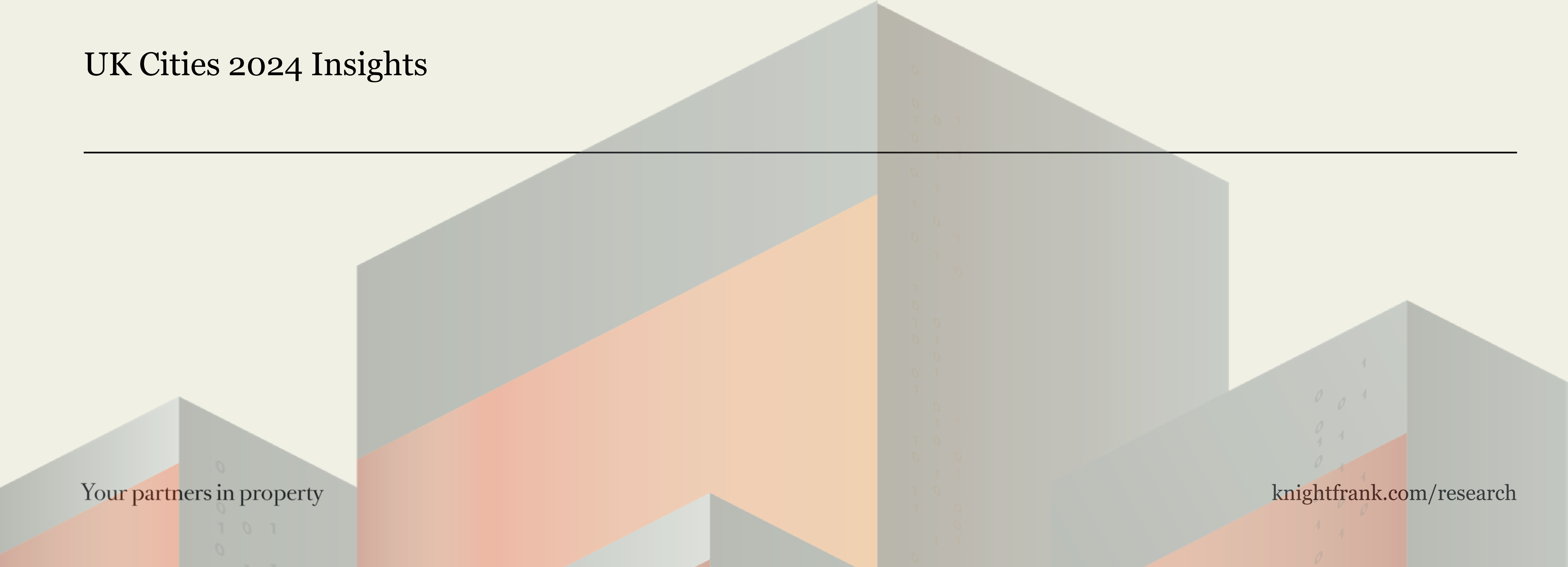
Bristol

UK Cities 2024 Insights



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Occupier

Take-up

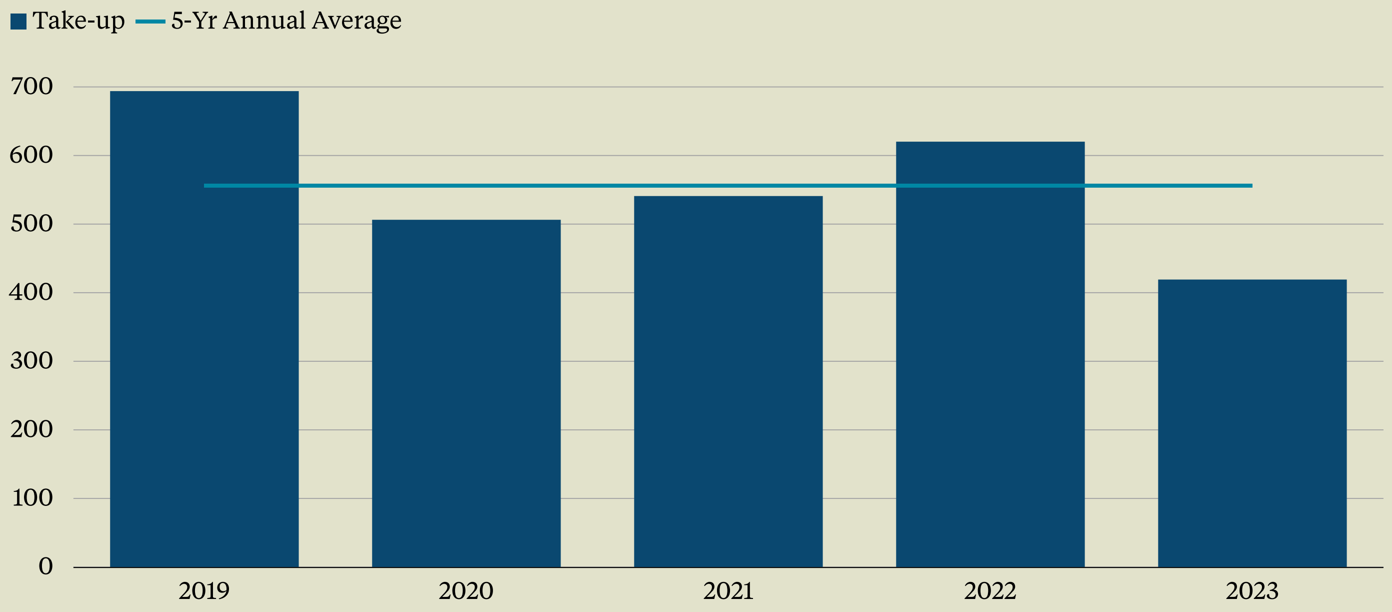
Occupier activity below trend in 2023

Key Takeaways

- Occupier activity in Bristol proved slow in 2023, with take-up finalising at 419,180 sq ft, 25% below the 5-year annual average.
- During the year 93 deals completed, 20% less than in 2022 and just short of the 5-year annual average.
- Reflecting the low level of 'best-in-class' supply, the percentage of grade A take-up was low in 2023 at 40%.

Bristol Annual Take-up

sq ft, 000s



Source: Knight Frank Research, Macrobond

Take-up by Sector

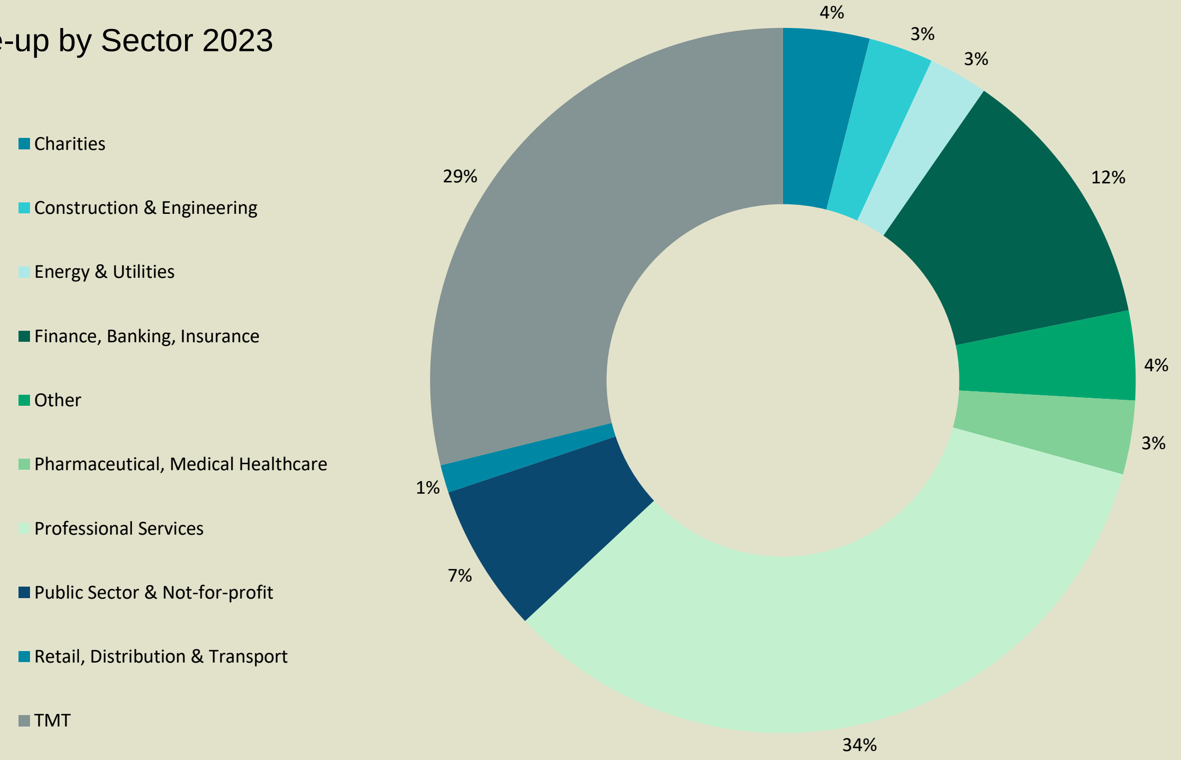
Professional services target Bristol.

Key Takeaways

- Occupier demand was underpinned by the Professional Services and TMT sectors, each accounting for 34% and 29% of take-up respectively.
- The largest leasing transaction involved Dyson, who took 66,317 sq ft of space at 1 George's Square. This was the only deal over 50,000 sq ft to complete in 2023.

Take-up by Sector 2023

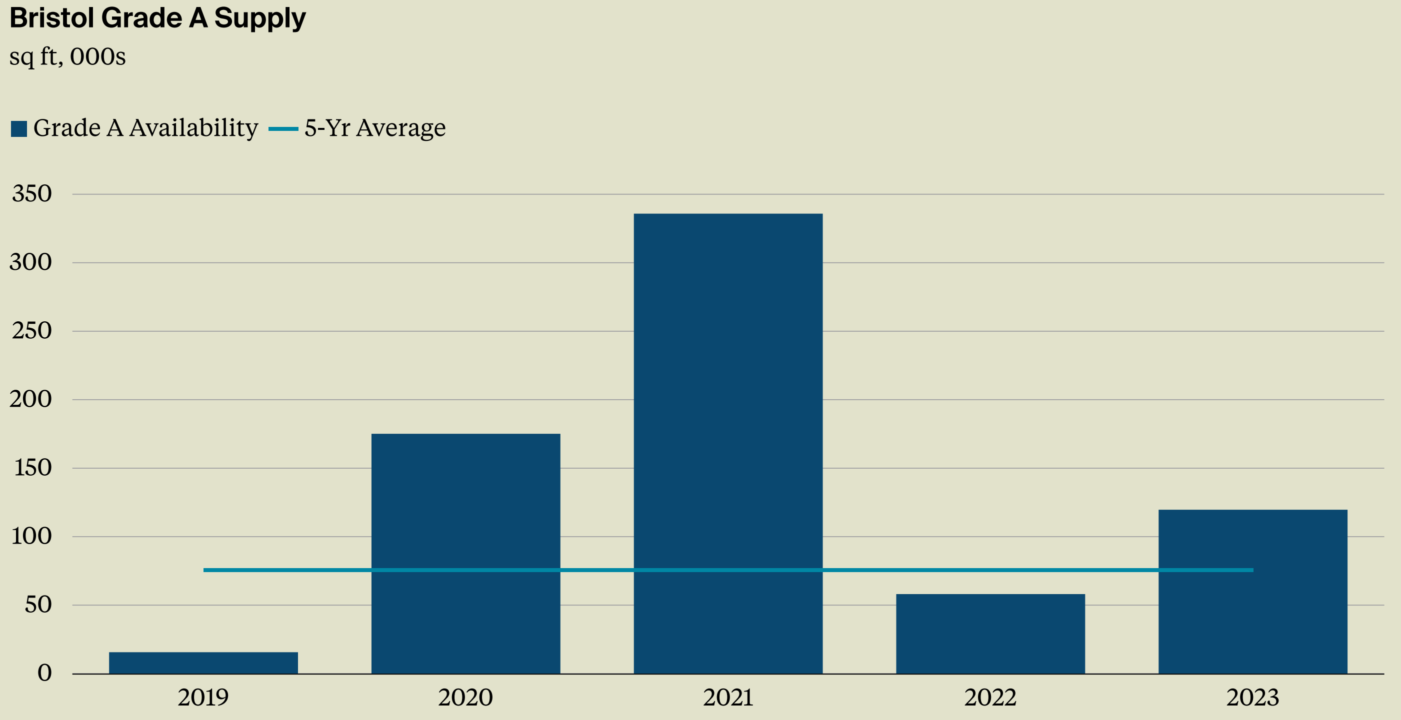
%



Source: Knight Frank Research

Availability

Grade A availability stays low.



Source: Knight Frank Research, Macrobond

Key Takeaways

- Grade A availability of office space increased two-fold on the previous year to 119,663 sq ft at 2023 year-end, 30% above the 10-year average for the city.

Development

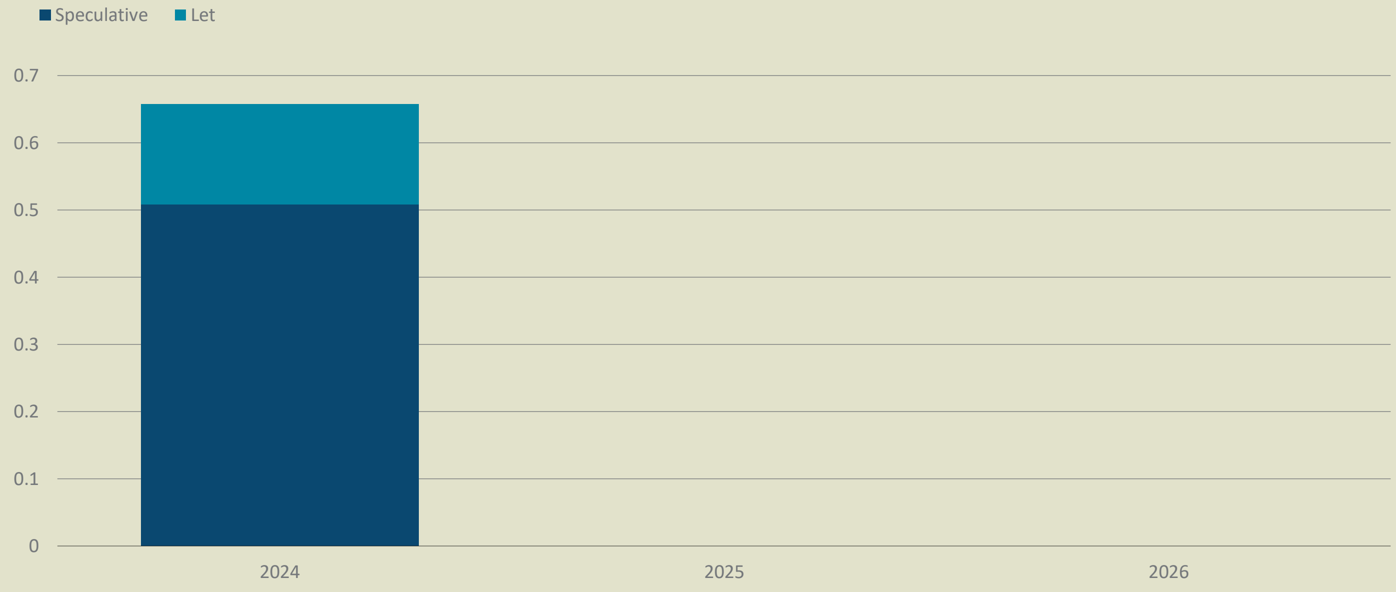
Development pipeline tight.

Key Takeaways

- There is currently 657,500 sq ft of office stock under construction in Bristol, 508,419 sq ft of which is speculative.
- All of this is set to be delivered in 2024, easing supply pressures in the near term.
- Although there are a handful of schemes in for planning, there currently aren't any developments under construction that will complete in 2025 onwards.

Development Pipeline (U/C)

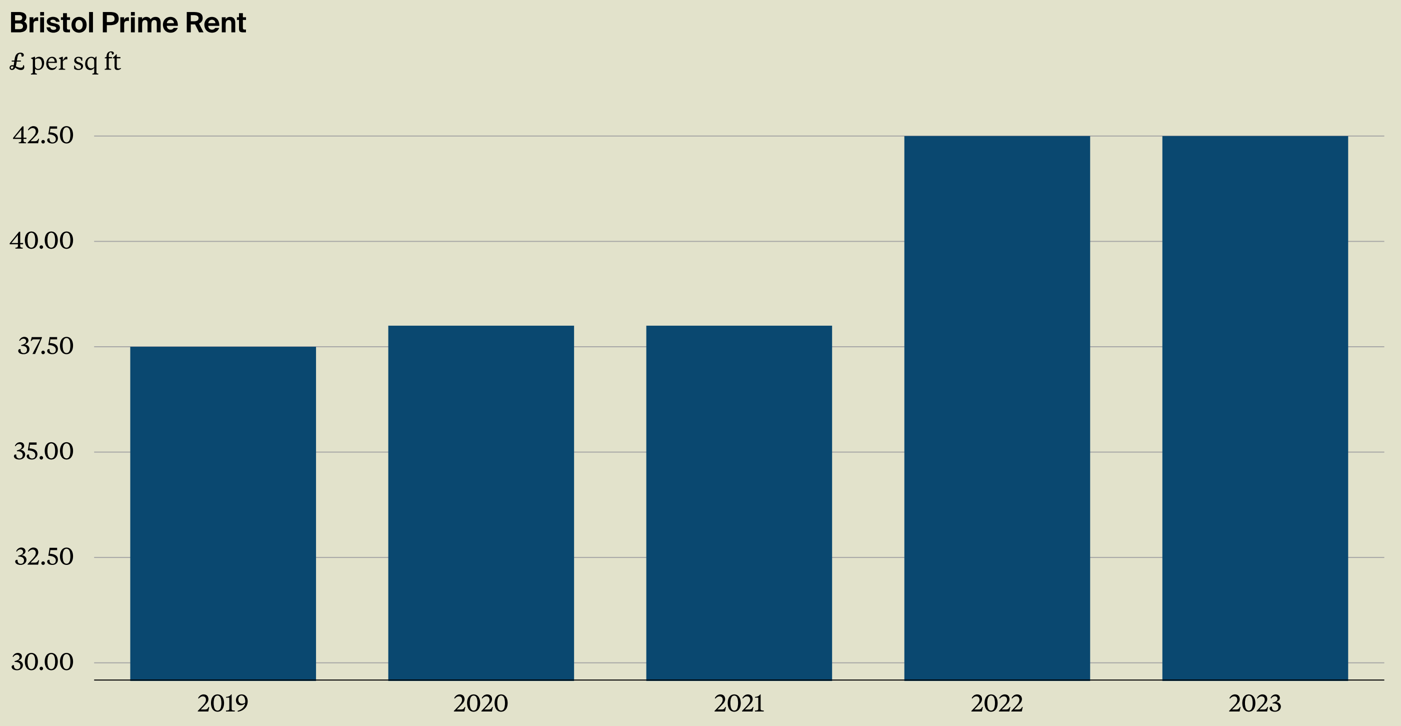
sq ft, millions



Source: Knight Frank Research

Prime Rent

Rents hold firm in 2023.



Source: Knight Frank Research, Macrobond

Key Takeaways

- In 2023, prime headline rents were unchanged at £42.50 per sq ft.
- With the completion of multiple best-in-class buildings expected in 2024, it is anticipated that prime rents will reach £45.00 per sq ft by the end of the year.

Leasing View

Market Sentiment

- Even with the backdrop of Macro uncertainty and local ‘issues’, the UK office market is active albeit market polarisation is widening.
- Longer-term signs of recovery and evolvement in requirements of occupiers are being monitored, but currently demand is being driven by actioning lease events.

Future Demand

- Sectors that are currently seeing the most activity are Professional Services, Education, and TMT and it is envisaged that this will continue in 2024.
- Serviced office providers are also active and accounted for 8% of take-up in 2023. This is the highest representation for 5 years.

Trending

- There is a longer time lag between occupiers being out in the market inspecting options ahead of completing deals.
- Pre-letting activity or leasing during construction is having a greater impact on the market. This will support the viability of some development schemes moving forward.

Rents, Incentives etc

- The pursuit of ‘best in class’ means record rents are being recorded in many of the leading UK markets.
- Incentives have also remained stable with between 9-12 months on a 5-year term certain and 18-24 months on a 10-year term certain.

Investment

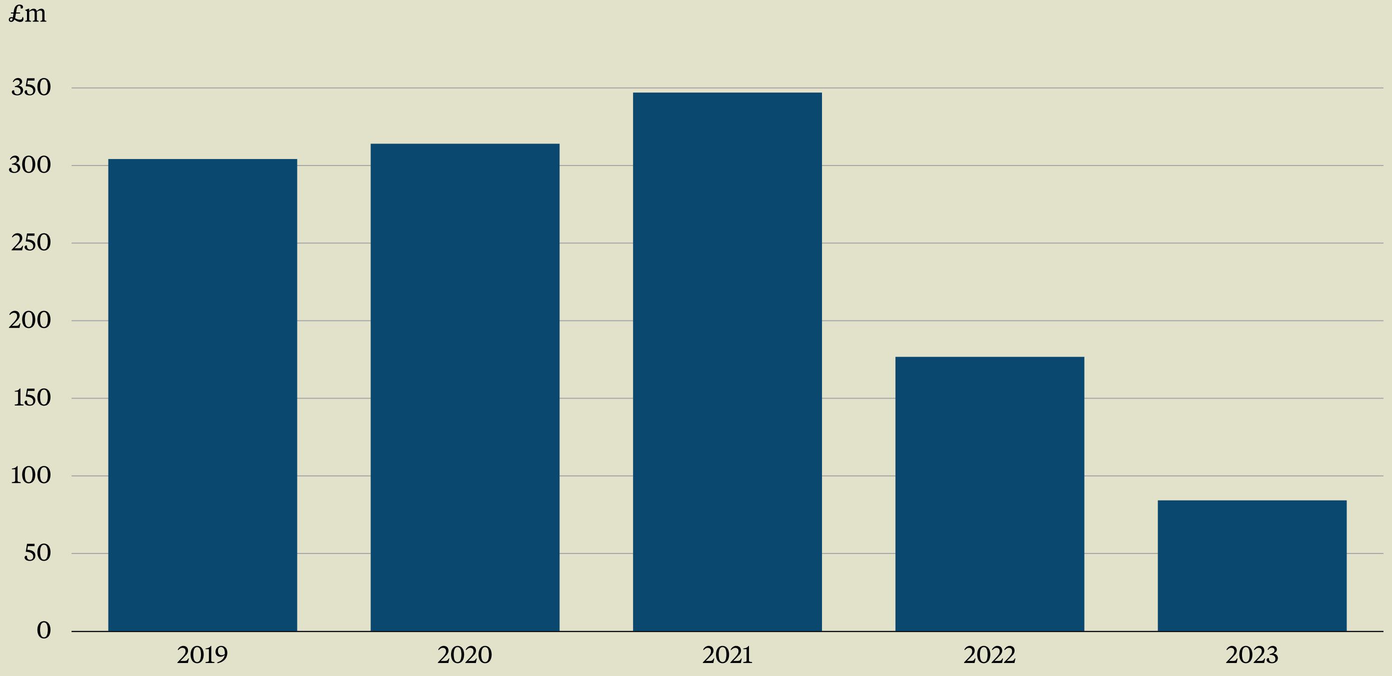
Investment Market

Investor appetite challenged in 2023.

Key Takeaways

- Subdued investment activity in 2023 because of high finance costs, ESG remediation concerns and a disparity between Buyer & Seller pricing aspirations.
- Investment volumes in 2023 were the lowest on record at £84.2m across only seven transactions, 61% below the 5-year annual average.
- This annual total was bolstered by investment in Q4, which reached £57.3m, due in large part to the sale of Temple Quay House for £49.5m.
- Private investors accounted for the majority of investment turnover in 2023, at 59% of total volumes.
- During the course of 2023, three office deals exchanged (Halo, Programme & Canons House) totalling £135m and should complete during H1 2024.

Bristol - Annual Investment

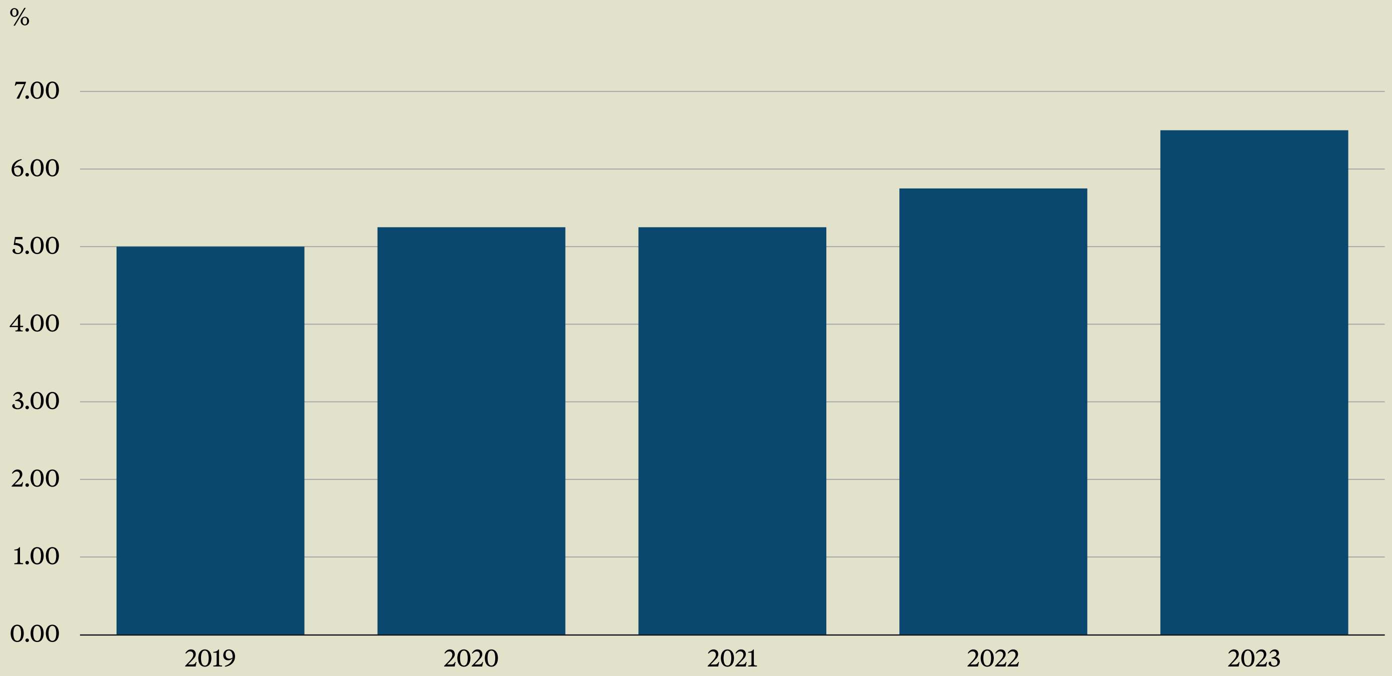


Source: Knight Frank Research, Macrobond

Investment Pricing and Outlook

Yield moves out as transactions slow.

Bristol Prime Yields



Source: Knight Frank Research, Macrobond

Key Takeaways

- Prime office yields finished the year at 6.50%, an outward shift of 75 bps from the previous year (sentiment driven as opposed to transaction based).
- The 10-year average prime yield is 5.40% with a range from 4.75% in 2018 to 6.50% today.
- Prime yields for out-of-town offices stand at 8.00%, depending on age and quality.
- With prime office yields unlikely to soften further, albeit secondary yields are more difficult to predict, it appears they have reached a level at which investors are more comfortable to deploy capital, all of which is hoped to foster market activity in 2024.

Investment View

Market Sentiment

- Many investors remain “off” offices.
- The outlook feels positive given the last interest rate decision and current downward direction of inflation.
- We forecast investment volumes will bounce back and hit or surpass the 5-year average of 245m.
- Low supply levels and strong occupier demand means Bristol offices will remain an attractive asset class.

Who’s Buying, Who’s Selling

- Investors are looking for discounted core and core plus deals.
- Traditional property companies are active, with overseas buyer interest growing.
- Institutional investors have capital allocated but continue to watch the sector.
- Investor flight to prime carbon-neutral buildings with best-in-class ESG credentials.

Opportunities

- Investing in the main regional cities at yields representing a discount to the long-term average.
- Core plus with strong credentials is an opportunity.
- Take advantage of the pause in new development to bring newly refurbished offices to the market.
- Pricing of obsolete assets makes alternative uses viable.

Pricing

- Prime Bristol office yields have moved out by 75bps over the past 12 months.
- We forecast prime city centre yields to compress to c6.00% by year-end 2024, making the yield gap between prime and secondary assets even wider.

Questions?

Steve Oades

Bristol, Office Head

steve.oades@knightfrank.com

+44 7920 807 796

Nick Thurston

Bristol Commercial, Partner

nick.thurston@knightfrank.com

+44 7752 375 002

Andy Smith

Bristol Commercial, Partner

andy.smith@knightfrank.com

+44 7443 983 253

Darren Mansfield

Commercial Research, Partner

darren.mansfield@knightfrank.com

+44 7469 667 194

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