
Cardiff

UK Cities 2024 Insights

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Occupier

Take-up

Deal count rises in 2023.

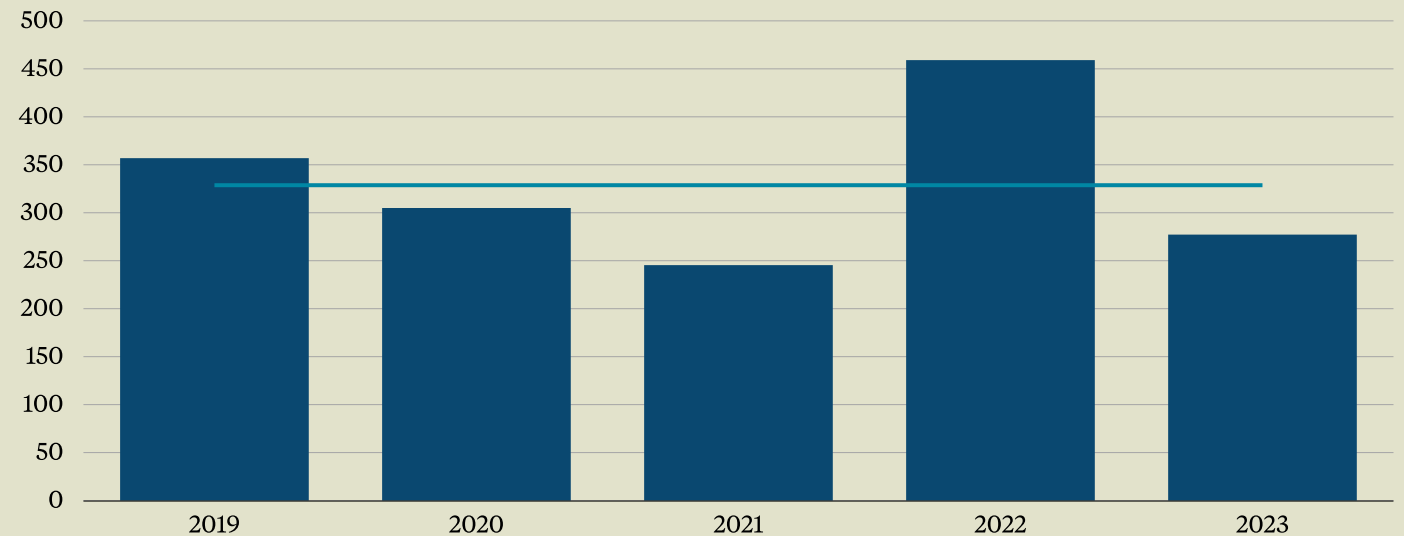
Key Takeaways

- Occupier activity dipped in 2023 when compared to the previous year, finalising at 277,222 sq ft, 16% below the 5-year annual average.
- Notably, deal count was positive with 89 occupier transactions completing. This is in line with the 5-year annual average.
- Average deal size was just over 3,000 sq ft, with only four deals completing above 10,000 sq ft in 2023.

Cardiff Annual Take-up

sq ft, 000s

■ Take-up — 5-Yr Annual Average



Source: Knight Frank Research, Macrobond

Take-up by Sector

Occupier demand diversifies.

Key Takeaways

- The TMT sector was the most active occupier group in 2023, accounting for a fifth of total take-up.
- The largest leasing transaction in 2023 was the 19,243 sq ft letting to Technology firm Veezu at Hodge House. The business has relocated its head office from Newport to Hodge House, which recently underwent a £17m refurbishment to transform the 110,000 sq ft office building.
- The distribution of take-up across a range of sectors is a strength of the Cardiff market, with a broad and diverse occupier pool with 8 sectors accounting for 93% of total take-up.

Take-up by Sector 2023

%



Source: Knight Frank Research

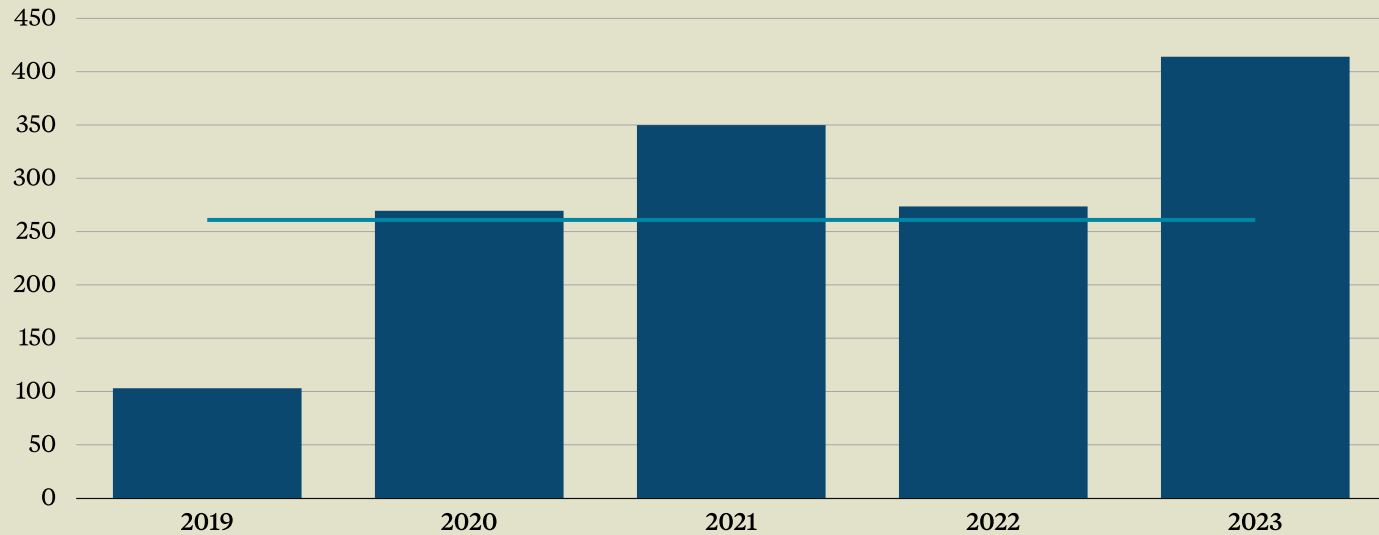
Availability

Availability rises.

Cardiff Grade A Supply

sq ft, 000s

■ Grade A Availability — 5-Yr Average



Source: Knight Frank Research, Macrobond

Key Takeaways

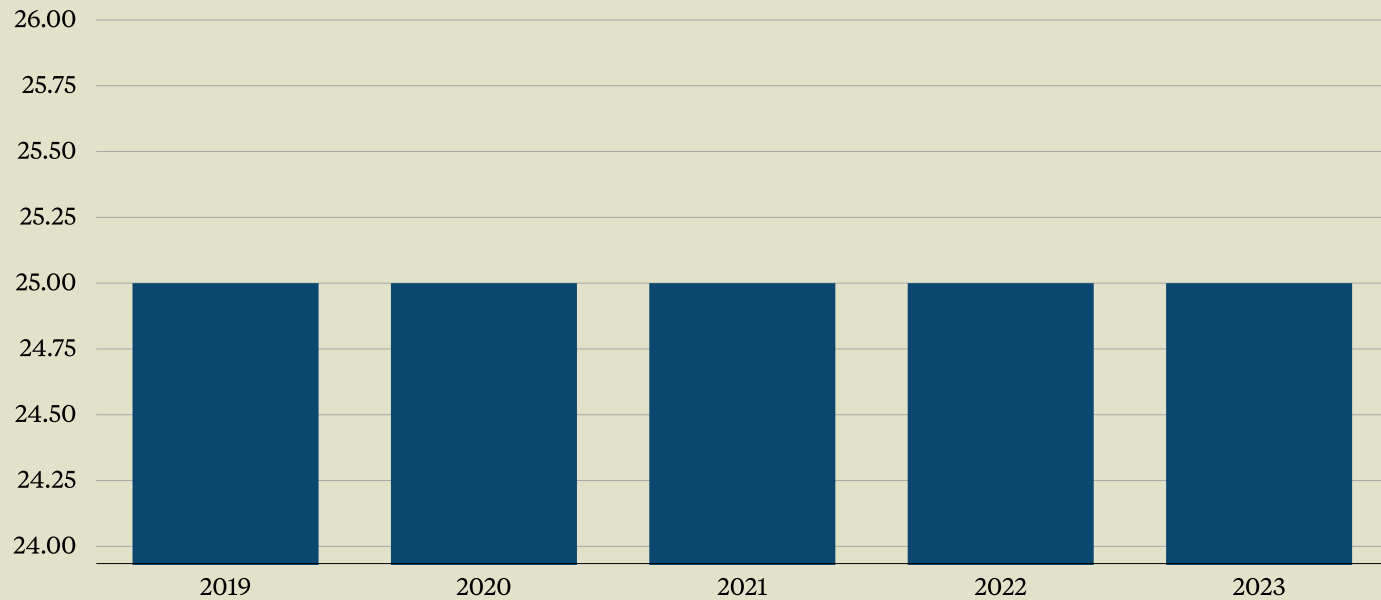
- Grade A availability had reached 414,033 sq ft by year-end, the highest number on record for Cardiff. This represents a 51% increase over 12 months and is 59% above the 5-year average.
- The increase is in part due to refurbishment completions along with grey space coming to the market on behalf of existing occupiers with longer lease commitments.
- Ahead, the development pipeline comprises 107,010 sq ft, all of which is speculative. This scheme at 1 John Street, Callaghan Square, is due to complete in 2025.

Prime Rent

Rents hold firm in 2023.

Cardiff Prime Rent

£ per sq ft



Source: Knight Frank Research, Macrobond

Key Takeaways

- Prime rent remained stable at £25.00 per sq ft in 2023.
- There are deals currently under offer in existing buildings that will increase the prime rent in H1 2024.
- It is expected that the prime rent will reach £30.00 per sq ft by year-end and move beyond this with the letting of a brand-new building.



Market Sentiment

- Even with the backdrop of Macro uncertainty and local 'issues', the UK office market is active albeit market polarisation is widening.
- Occupiers are seeking the best quality space for staff with maximum amenities. Unrefurbished offices will struggle or be repurposed for alternative uses if outside primary search areas.



Future Demand

- Sectors that are seeing the most activity are currently TMT, Professional Services, and Construction & Engineering and this is expected to continue in 2024.
- Cardiff remains under-supplied in the flex market and we expect to see new operators in the next 12 months.
- As businesses crystallise their approach and future workplace needs, the demand for Cat A+ and fitted solutions is beginning to increase.



Trending

- In recent years, there has been a longer time lag between occupiers issuing requirements and completing deals. This is more typical for larger requirements but uncertainty over occupancy strategies has affected decision-making across the board.
- Development and hence pre-letting activity remains limited, and viability dictates higher rental for new development.



Rents, Incentives etc

- It will be a new building in Cardiff that pushes the prime rent above £30 per sq ft.
- In the meantime, we expect the prime rent to increase in Q1/Q2 with lettings of refurbished space in existing buildings in desired locations.
- The current pipeline of new office space is limited and as the supply of prime space dwindles, incentive packages will tighten.

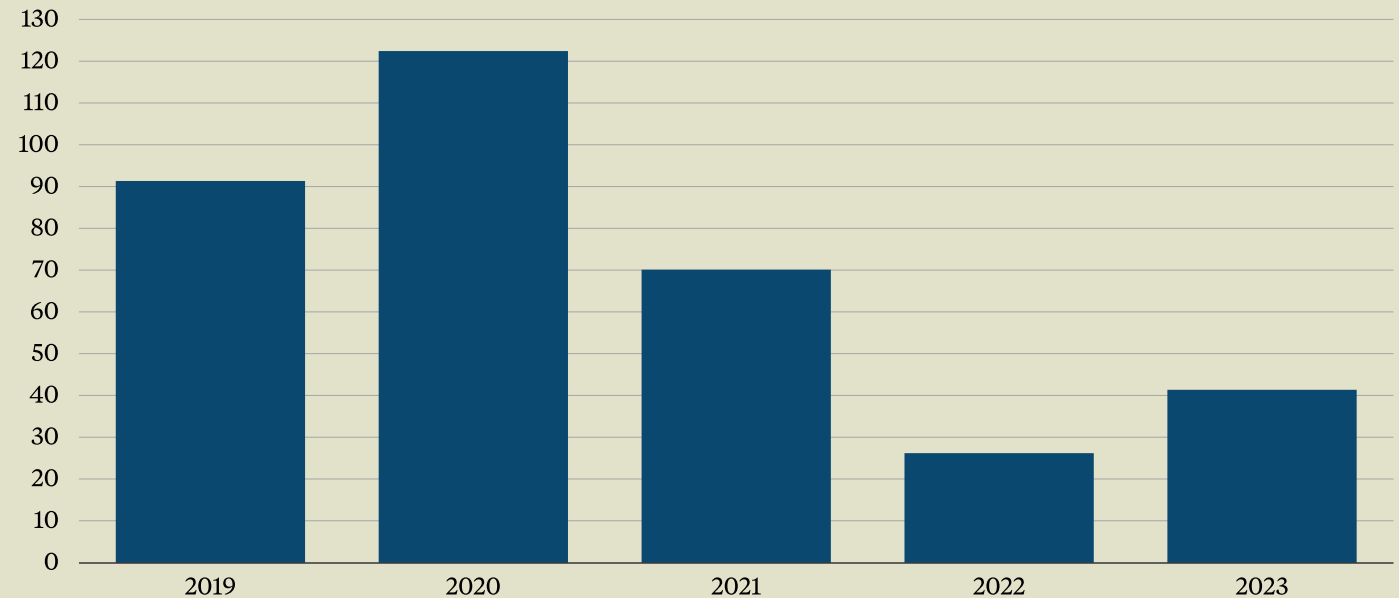
Investment

Office investment rises.

Key Takeaways

- Office investment in Cardiff finalised at £41.4m in 2023. Although this is 41% below the 5-year annual average, investment volumes rose by 58% from the previous year.
- The largest deal to complete in 2023 was the sale of Airbus Office Campus for £26m to AW Properties.
- Property companies accounted for 83% of investment turnover during 2023.

Cardiff Annual Investment
£m



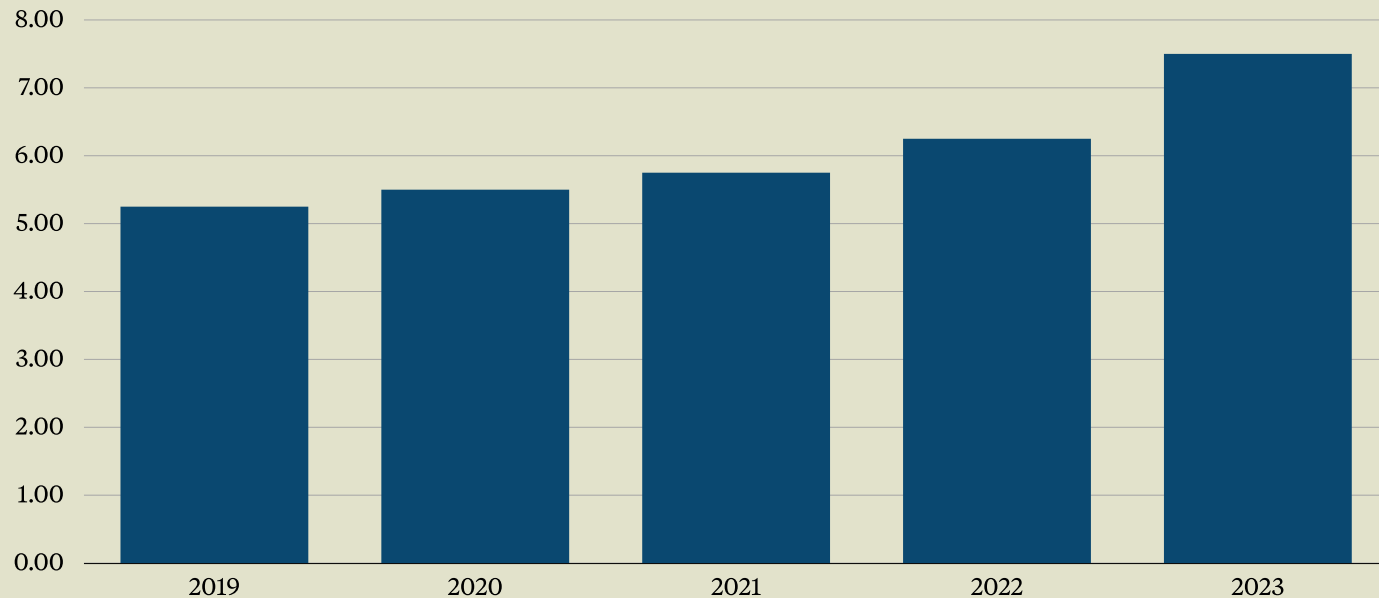
Source: Knight Frank Research, Macrobond

Investment Pricing and Outlook

Yields move out by 125bps.

Cardiff Prime Yields

%



Source: Knight Frank Research, Macrobond

Key Takeaways

- Prime office yields moved out by 125 bps to 7.50% in 2023 although little stock came to market during the year to test this level.
- Notably, yields are 225 basis points above the pre-Covid level of 5.50%. This gap illustrates the current thoughts regarding risk in the market.
- Prime out-of-town yields currently stand at 8.50%, depending on the age and quality of the asset.
- Prime office yields are unlikely to soften further in 2024.

Investment View



Market Sentiment

- Investors are targeting value-add opportunities in the office sector.
- The outlook feels positive given the last interest rate decision and current downward direction of inflation.
- Some pricing discovery is being accepted.
- Yields set to improve slightly in 2024.



Who's Buying, Who's Selling

- Core plus investors are looking at core and value add looking at core plus.
- Traditional property companies are active, with overseas buyer interest growing.
- Limited institutional appetite.



Opportunities

- Cardiff offers great value as a capital city with a prime yield in the 7's.
- The South Wales Metro Project is gaining momentum.
- Cardiff is the UK's fastest-growing Core City according to Oxford Economics.



Pricing

- Prime office yields have moved out by 100bps on average over the past 12 months.
- Capital expenditure is factored into most offers, negatively impacting pricing.
- The rental growth story is positive and most opportunities appear reversionary.

Questions?

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