RESEARCH

Knight Frank

BRISTOL OFFICES

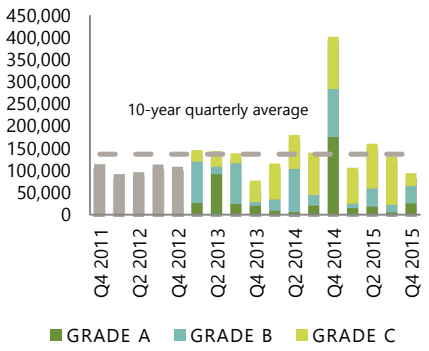
MARKET UPDATE **H2 2015**

Occupier market

- Demand was relatively subdued in Q4 2015, with total office take-up of 93,604 sq ft in Bristol city centre. This brings annual take-up to 490,769 q ft for the whole of 2015. Whilst 2015 take-up falls slightly below both the 5 and 10 year averages, the take-up of existing stock (as opposed to pre-let space) was remarkably good, in fact it was the third highest total on record over the last 10 years.
- Two notable transactions in Q4 were the acquisition of 16,796 sq ft at 2 Glass Wharf by Arcadis and TLT's expansion within No1 Redcliff Street. TLT acquired a further 27,135 sq ft in the final quarter, taking their occupation in the building to over 85,000 sq ft.
- Occupier demand has been primarily driven by Professional Services and the Technology, Media and Telecommunications (TMT) sector, which together accounted for almost two-thirds of occupier activity in H2 2015.
- No new construction started in H2 2015, nor is any expected in Q1 2016. However, AEW commenced the refurbishment of Freshford House on Redcliff Way (31,210 sq ft) in Q4, whilst Hermes commenced the refurbishment of 31, Great George Street, (54,626 sq ft). Threadneedle have just commenced the speculative refurbishment of Capital House, Bond Street, but this will be reflected in the figures for Q1 2016.
- Availability has continued to fall due to steady, if unspectacular take-up, together with the removal of office stock from the market for alternative uses - predominantly residential or student accommodation.
- Due to strong demand for smaller accommodation, combined with the removal of stock that previously met this demand, there has been a strong rise in rents for smaller Grade B accommodation in 2015. This contrasts with prime rents remaining steady at £28.50 psf.
- Given the compression in the range of rents in the last 12 months, we expect headline rents for Grade A accommodation to increase from their current level of £28.50 to £29.50 per sq ft in 2016 – restoring the rational difference between prime and secondary rents.

FIGURE 1

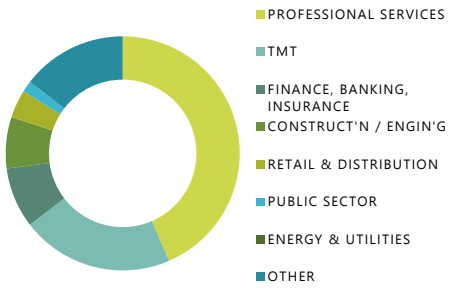
City centre take up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2

H2 2015 take-up by sector



Source: Knight Frank LLP

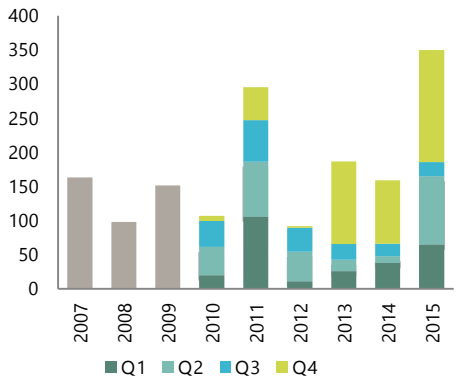
Agent's view

The absence of development until Q2 2016 at the earliest provides an opportunity for owners of existing stock to bring forward refurbished space, with the likelihood of strong rental performance, given the shortage of Grade A stock over the next 18 - 24 months.

The difference between quoting rents for prime space and high quality refurbished stock is as little as £1.00 psf. Logically, this differential should grow.

Bridgewater House, Finzels Reach – 81,200 sq ft of Grade A accommodation let to EDF Energy.

FIGURE 3
Bristol offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- The Bristol office market saw a sharp increase in investment transactions in Q4, which helped drive the annual investment volume to £350m in 2015. This is almost double the volume of transactions in 2014, and 61% above the five year average.
- There is currently c£200m of stock either on the market or under offer. Two buildings on the market account for £125m of this figure; Portwall Place (£69m) and Bridgwater House (£56m).
- H2 was boosted by the off market sale of St Catherine's Court to Kames Capital in December 2015 for £13.5m, reflecting a net initial yield of 5.70%. The property, built in 2009, comprises 31,301 sq ft of Grade A accommodation and is multi-let to four tenants with c12,000 sq ft vacant (sold with rental guarantees).
- Another notable transaction in H2 was the sale of The Pithay in November 2015 for £18m. The property comprises 180,000 sq ft of secondary office accommodation that recently gained consent for residential conversion under PDR. We understand the new owners are planning to retain the building as offices to capitalise on the recovering occupational market.
- Activity in the out of town office investment market has been restricted by the lack of buying opportunities and there have been very few significant transactions. One to note is the sale of 440 Bristol Business Park which was sold in July 2015 for £6.82m, reflecting 5.75% NIY (11.25 years unexpired). Two further out of town investments currently under offer are Aztec Centre (quoting £11.25m / 7.00%) and Parkgate 2000, Aztec West (quoting £20.70m / 6.00%)

Knight Frank sold 440 Bristol Business Park on behalf of Mayfair Capital in July 2015 for £6.82m.

TABLE 1
Selected investment transactions in H2 2015

Date	Address	Purchaser / Vendor	Price	NIY (%)
Dec 15	Keypoint, Almondsbury	Overseas Private/ CBRE Global Investors	£16.75m	5.70%
Dec 15	St Catherine's Court	Kames Capital / Ashfield Land	£13.50m	5.70%
Nov 15	The Pithay, All Saints St	Resolution Property / Undisclosed	£17.5m	NA
Nov 15	90 Victoria St	Ardstone / Loxton	£6.85m	1.82% (74% vacant)
Sept 15	Triodos, West One	Triodos (tenant) / UK & European	£11.00m	6.06%
July 15	440 Bristol Business Park	Private / Mayfair Capital	£6.82m	5.75%

Source: Knight Frank LLP

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