SUMMARY

- Take-up levels reached 515,300 sq ft in H1 2014. This is 23% ahead of the same period last year and 34% ahead of the five year average (2009-13) H1 take-up figure.
- Total availability in Bristol stands at 2.2m sq ft, Grade A supply accounts for just 373,000 sq ft of this.
- The oversupply of Grade B and C office space has been alleviated somewhat by the rise in office conversions to other uses due to the Permitted Development Rights scheme (PDR).

- This has resulted in a ‘tightening’ of supply in the middle tier market, which has had a positive effect on rents and rent free periods.
- PwC are currently under offer at 2 Glass Wharf at £28.00 per sq ft. Once complete this will be the highest achieved rent in seven years.
- Investment volumes in H1 totalled £56m, 18% below H1 2013 but broadly in line with the five year (2009-13) average H1 investment turnover figure.

- Bristol’s prime equivalent yield has hardened by 50 bps over the last six months and stands at 6%. The supply and demand imbalance will place further pressure on yields in H2.

“Restricted Grade A supply will place pressure on top rents over the remainder of the year” Christopher Meredith, Director, office agency, Bristol
Occupational market

- The first half of 2014 marked the return of positive market sentiment in the Bristol office market. Take-up levels have reached 515,300 sq ft to the end of June 2014. This is 23% ahead of H1 2013 take-up and 34% above the five year (2009-13) average H1 take-up figure.

- The number of transactions reached 110 in H1 2014, up significantly on the 79 recorded over the same period last year and 46% ahead of the five year average number of H1 transactions. This is a clear sign that confidence has returned.

- Which sectors are fuelling demand for offices in Bristol? The Technology, Media & Telecoms (TMT) sector continues to dominate, accounting for 24% of H1 2014 take-up. It is worth noting that the Technology sector makes up the majority of this (20%).

- We expect a continuation of the good levels of demand in H2. OVO Energy are under offer on 50,000 sq ft at 1 Rivergate and PwC are under offer on around 25,000 sq ft at 2 Glass Wharf. This together with large requirements from EDF (circa 60,000 sq ft) and KPMG (circa 45,000 sq ft) we expect take-up levels to reach circa 800,000 sq ft.

- Much has been made of parking restrictions and congestion in the City Centre forcing occupiers to look at out-of-town locations. We have certainly witnessed a pick-up in OOT take-up levels, however the idea that it will outstrip City Centre take-up levels is unfounded. We have identified just 2-3 Clifton occupiers who are looking to move out of Clifton due to the parking restrictions.

- Total availability in Bristol has remained steady throughout H1 and stands at 2.2m sq ft. The addition of 98,000 sq ft at 2 Glass Wharf into our supply figures has meant Grade A supply has risen to 373,000 sq ft. The Salmon Harvester scheme which is due for completion in Q4 2014 and Skanska’s 66 Queen Street, due for completion Q2 2015 are the only two schemes being speculatively built in Bristol.

- Our last report addressed the potential over-supply of Grade B/C office space in Bristol. This has been alleviated somewhat by the rise in office conversions to other uses, primarily residential and student accommodation, due to the Permitted Development Rights scheme (PDR). Lewins Place, The Pithay, St Lawrence House and Froomsgate House are just some notable former second hand office buildings that have been converted. These total approximately 450,000 sq ft, although we estimate total office space lost to be close to double this.

- Whilst the rationale for owners to convert to residential has diminished in some cities, it remains high in Bristol. We estimate the potential uplift in capital values can be approximately £220 per sq ft as Graph 3 demonstrates. This together with the relaxation of planning laws relating to the conversion of offices to other uses has proved an attractive option to some landlords.

Take-up

![Take-up Chart](source: Savills; OAS)

Potential uplift in capital values (per sq ft) for office to residential conversions

![Uplift Chart](source: Savills)
This has resulted in a ‘tightening’ of supply in the middle tier market which has had a positive effect on rents and rent free periods. RealFor forecasts estimate average rents will rise by 1.6% this year and by 3.2% in 2015.

Rents
The top rent achieved in H1 was £27.50 per sq ft at Bridgewater House to BDO. Low levels of Grade A product will place upward pressure on top rents. Indeed, we have seen the first signs of this with PwC going under offer at 2 Glass Wharf at a headline rent of £28.00 per sq ft. Once complete this transaction will mark the end of a seven year stagnation in Bristol’s top rents.

Rent free periods stand at 2-3 months of every year of lease with further compression expected in H2.

Investment market
Investment volumes in H1 2014 totalled £56m, 18% below H1 2013 but broadly in line with the five year average (2009-13) level of investment turnover seen in the first six months of the year (excluding 2011).

The largest transaction to complete in H1 2014 was the sale of The Paragon, Victoria Street, to Lothbury Property Trust for £29.5m, reflecting a yield of 5.93%.

Low levels of supply can be attributed to the muted level of transactions seen so far this year as opposed to a reduction in investor demand.

Indeed, a number of investments have exchanged for above the asking price due to high demand. Vintry House, Wine Street sold at 24% above the asking price in July. Furthermore, Newminster House, Baldwin Street is under offer at above the asking price.

According to IPD South West office capital values returned to positive growth in H1 2014. As at June 2014 annual growth stood at 7% per annum.

UK Institutions have been under pressure to buy over the last 12 months due to the increased inflow of funds, after being relatively quiet throughout the downturn. Purchases from Lothbury, Kames Capital and BP Pension Fund have meant that UK investors have dominated the Bristol office market so far this year, accounting for 91% of total transactions.

We expect the dominance of UK investors to continue with a preference towards secondary assets, forcing investors up the risk curve. Priced out of London and the South East, the regions offer ‘value add’ opportunities through refurbishment and asset management.

Supported by an increase in institutional demand our Bristol prime equivalent yield has hardened by 50 bps over the last six months to 6%. This yield compression is in line with the movement seen in our All Regional office yield which stood at 5.25% in June 2014, down from 5.75% in December 2013. The supply and demand imbalance will place further downward pressure on yields in H2.

Outlook
Bristol’s work based employment forecast remains strong with Oxford Economics forecasting average annual growth of 2.3% per annum over the next five years (2014-18). The strongest performing sector will be the Professional, Scientific & Technology sector averaging growth of 3.1% per annum over the same period.

Bristol has already established itself as a Technology centre with several companies opening ‘Technology hubs’ in the City. Just Eat and Somo, are just two companies looking to capitalise on Bristol’s talent pool and digital centre status by setting up a Bristol office.

Graph source: Propertydata; Savills

Graph source: Savills; 2014 and year forecast
Headline stats, definitions and contacts

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<th>Headline statistics</th>
<th>Take-up: Total</th>
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<th>Top rents (£ per sq ft)</th>
<th>Prime yield</th>
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<tr>
<td>Full year 2013</td>
<td>734,366 sq ft</td>
<td>2.2m sq ft</td>
<td>£27.50</td>
<td>6.50%</td>
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<tr>
<td>End H1 2014</td>
<td>515,300 sq ft</td>
<td>2.1m sq ft</td>
<td>£27.50</td>
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**Definitions**

**Property criteria**
Transactions and supply recorded for office suites in excess of 1,000 sq ft, let on a lease of at least 12 months certain.

**Top rent**
Highest rent achieved in one or more transactions in the given period.

**Grade A**
All new development (including speculative schemes reaching practical completion within six months, plus major refurbishments).

**Grade B**
Space previously occupied, completed or refurbished in the last 10 years.

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