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Savills World Research
UK Commercial

Spotlight
Bristol Offices

Spring 2018

AXA's Assembly, Bristol, pictured above, has received planning permission and will provide up to 300,000 sq ft of Grade A office space when delivered.

- Bristol enjoyed another solid year of occupational deals in the city centre, with 611,000 sq ft of office space taken, 6% above the long term annual average.
- Grade A supply in the city centre now stands at only 119,000 sq ft, enough for only around nine months of Grade A take up at average levels.
- Top rents in the city centre jumped a massive 14% to £32.50 per sq ft during 2017.
- Bristol's office based investment reached £425 million in 2017, 82% above the long term average and the strongest year since 2006.
- With a shortage of vendors, there is potential for Bristol's prime yield to move in a further 25 basis points over the first half of 2018.

"One of the challenges for the Bristol office market during 2018 will be the shortage of options for occupiers." Chris Meredith, Director, Office Agency, Bristol

The Bristol office market begins 2018 with strong momentum from end 2017, with steady occupational demand and a structural shortage of Grade A office space.

Economy

The UK economy grew by 0.5% during Q4 2017, the strongest quarterly figure for a year. This pick up in growth was echoed in the South West economy, with output increasing by an estimated 1.9% during 2017.

Steady economic growth will generate office based employment growth of 6.5% for the Bristol market over the next five years, outpacing the UK average of 5%, according to Oxford Economics' latest forecasts. The radar chart below (Graph 1) indicates the Professional, Science and Tech sector is forecast to see 12% growth over the next five years, outperforming the UK average of 8.5% for this sector. This implies an additional 4,000 jobs to the Bristol market.

Occupational

Bristol enjoyed another solid year of occupational deals in the city centre, with 611,000 sq ft of office space taken, 6% above the long term annual average (Graph 2).

57% of take up was signed for during the second half of 2017. This was driven by Dyson's 29,000 sq ft and University of Bristol's 27,000 sq ft lettings at 1 Cathedral Square.

However, one of the key lettings was Simmons & Simmons signing for 27,000 sq ft at Aurora, Finzels Reach. The 95,000 sq ft speculative development is now 40% pre-let with competition for space intensifying among tenants for the remaining floors.

Bristol's TMT (Technology, Media and Telecoms) sector continues to flourish, with 134,000 sq ft of space taken last year, 22% of the city centre total. Interestingly, 28 of the 30 deals were on lot sizes below 10,000 sq ft, indicating the depth of demand within the sector. Of the regional cities, only Manchester saw more TMT take up than Bristol last year.

It should also be noted that take up in Bristol's out of town market reached 425,000 sq ft, 34% above the 10 year average. This was largely driven by Babcock signing for 86,000 sq ft at 100 Bristol Business Park during the final quarter.

Enquiries remain robust in the Bristol market, and we expect take up to reach c.600,000 sq ft during 2018, 10% above the 10 year annual average.

A record £756 million of venture capital investment took place in the South West office market during 2017, over double the previous annual record in 2015. Venture capital investment provides an indication of latent office demand in the sub 5,000 sq ft market, which we expect will gather momentum through this year.

Current top rent:
£32.50 per sq ft

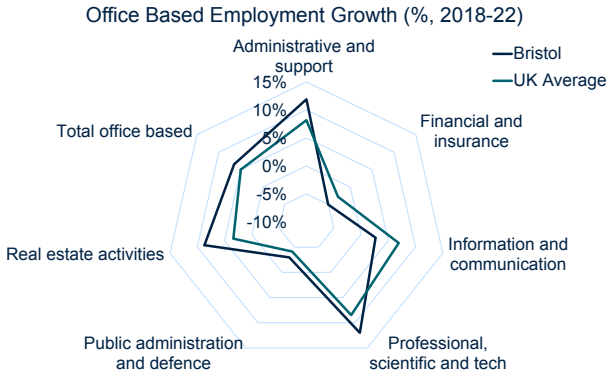
Grade A supply in the city centre now stands at only 119,000 sq ft, enough for only around nine months of Grade A take up at average levels. One of the challenges for the Bristol market during 2018 will be the shortage of options for occupiers, who may be forced to re-gear.

Top rents in the city centre jumped a massive 14% to £32.50 per sq ft during 2017. Given £32.50 per sq ft was achieved on comprehensively refurbished product, this provides even more scope for rental growth on new build schemes. We expect top rents to grow further in 2018 and 2019, representing unprecedented growth over a three year period.

With Aurora scheduled to complete at end Q2 2018 and now factored into our Grade A availability schedule, there is now no further speculative development in Bristol city centre. Refurbished schemes including Unum House and the second phase of Programme will deliver a combined 80,000 sq ft of space.

GRAPH 1

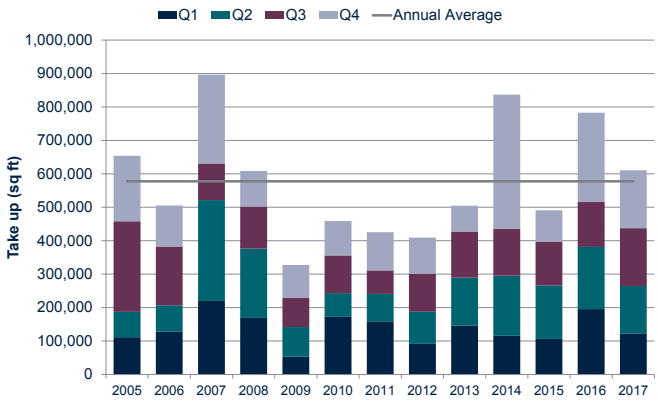
Bristol's tech sector will continue to strengthen



Graph source: Oxford Economics

GRAPH 2

Take up reached 611,000 sq ft during 2017



Graph source: Savills Research

Given this structural shortage of space, we expect developers to commit to speculative schemes in the city centre by the end of Q1 2018. AXA's Assembly, Bristol (cover image) could be one of the next schemes to commence development. With consent for up to 300,000 sq ft of office space, the buildings could be delivered by 2020, by which time, the Grade A market will become even more stretched.

Engine Shed 2 is likely to provide additional incubator space to startups, following the success of Engine Shed. Glassfields would also provide c.90,000 sq ft of space across three buildings on 5,000-6,000 sq ft floorplates and provide for the medium sized operators in Bristol, who are particularly short of options.

Investment

Bristol's office based investment in 2017 reached £425 million, 82% above the long term average and the strongest year since 2006 (Graph 3). The second half of 2017 was the most active on record, with £369 million of stock traded.

2017 marked the return of UK institutional investors in Bristol, who accounted for 37% of the total transactions, investing £158 million. One such notable deal was M&G Real Estate's acquisition of 66 Queen Square at a 5.25% yield.

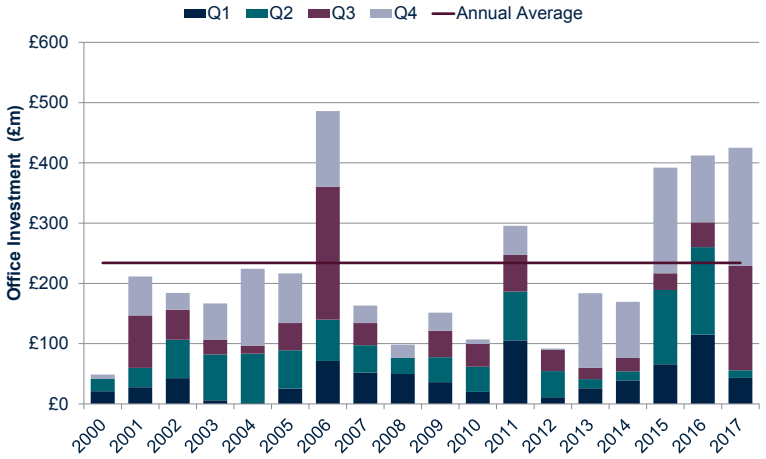
Bristol Prime Office Yield: 5%

The largest office deal in Bristol last year was the acquisition of 10 Canons Way by a South Korean investor for £96 million, representing a 4.95% yield. Overseas investors acquired £116 million of offices in Bristol last year, representing 27% of the total. In an income driven environment, overseas investors are becoming more familiar with the UK regional markets and the attractive yields on offer.

Savills view Bristol prime office yields at 5%, 25 basis points above that of Manchester and Birmingham, and 100 basis points above that of the City of London. With a shortage of vendors, there is potential for Bristol's prime yield to move in a further 25 basis points over the first half of 2018. The round trip costs of acquiring new assets will also steer investors to hold income producing assets this year.

GRAPH 3

Office investment reached £425m during 2017



Graph source: Property Data

Why Bristol's serviced office sector will take off in 2018

Mike Barnes, Research Analyst, explores his key themes

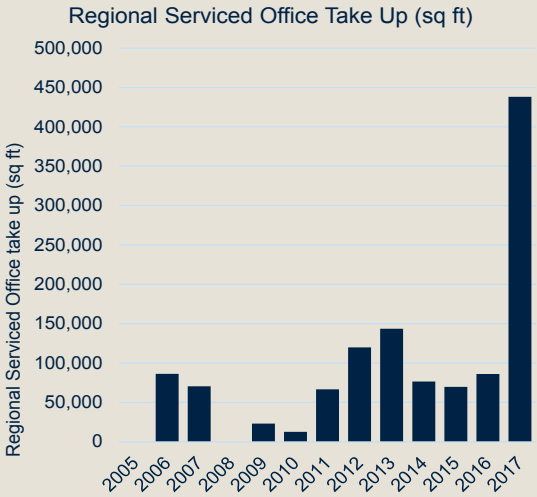
Occupiers are increasingly in search of more flexible lease terms, and the average regional lease length fell 6% during 2017.

This has provided a platform for growth for the serviced office market across the regional city centres, and take up in this sector quintupled to 436,000 sq ft last year (see graph below). Serviced office providers accounted for 10% and 21% of total take up in Manchester and Birmingham respectively.

Bristol, however, saw only one serviced office in the city centre last year. Regus signed for 7,674 sq ft of space at Castlemead, which reflected only 1.3% of the total take up. For a city with such a large tech focus, it is surprising that we have not seen more serviced office deals until now.

This has left smaller occupiers in search of Grade A space disappointed in the Bristol market during 2017. 97% of take up in lot sizes below 3,000 sq ft in Bristol city centre last year was of Grade B/C quality. Serviced offices could be the solution for smaller occupiers who are in search of Grade A space, albeit it comes at a premium for occupiers.

With an unprecedented level of serviced office enquiries currently in the market, Savills estimate take up in this sector in Bristol could reach up to 100,000 sq ft during 2018. This will improve the provision of follow on space for Bristol's fast growing companies.



Headline stats, definitions and contacts

6.5%
Office based employment growth over the next five years

9
months worth of Grade A office supply in city centre

95k
sq ft of office development currently under construction

119k
sq ft of Grade A supply in the market

	Take-up (sq ft):	Top rents (£ per sq ft)	Prime yield
2016	782,977	£28.50	5.25%
2017	611,000	£32.50	5%
2018 outlook	→	↑	→

Definitions & statistical notes

Property criteria	Transactions and supply recorded for units in excess of 1,000 sq ft
Top rent	Highest rent achieved in one or more transactions in the given period
Grade A	All new development, plus major refurbishments
Grade B	Space previously occupied, completed or refurbished in the last 10 years
Grade C	Space previously occupied, completed or refurbished more than 10 years ago

Savills Bristol Office Agency & Investment

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