Bristol Office Survey

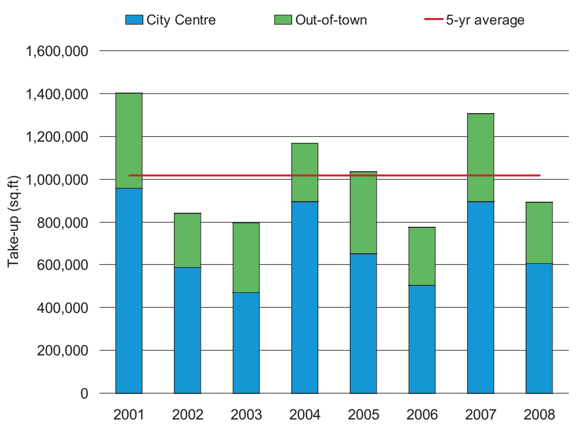
January 2009

End of year review & outlook

Tenants set to benefit in 2009 as more attractive terms become available

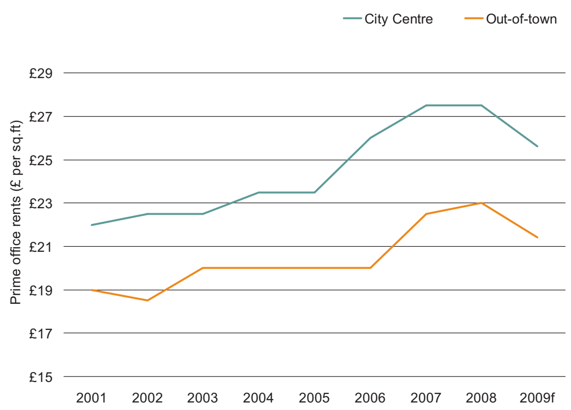
- Declining business confidence, on the back of worsening economic conditions, stifled occupational demand throughout the final quarter of 2008.
- Total take-up over 2008 was 895,000 sq ft, in line with our forecasts. While down on 2007 it outperformed the previous 2002/3 downturn.
- Prime rents held at 2007 levels, although incentives have increased. There have been some rent cuts for refurbished secondary space.
- Prime rents expected to experience some downward pressure in 2009, although not to the same extent as that forecasted for secondary space. Constrained development pipeline should help minimise rental falls for prime property.
- 2009 is set to become a tenants' market. Increasing rent free periods and falling rents means that there are attractive deals out there for occupiers.

2008 take-up was in line with expectations...



Source: OAS; Savills

Downward pressure on prime rents expected...



Source: OAS; IPD; Savills

In September last year our view for the end of 2008 was that occupational demand would remain relatively robust. Since then economic conditions have worsened and as of Q3 2008 the UK saw a negative quarterly fall in GDP of -0.6% pointing to the start of a recession. Despite worsening sentiment take-up in Q4 remained relatively robust bringing total take-up for the year to just under 900,000 sq ft, in line with our previous forecasts.

Clearly the economic downturn did take its toll with take-up down 32% on 2007, however 2007 was a near record year and the 2008 total was only 12% below the long term average. Take up over the year was still ahead of the previous post 9/11 downturn in 2002/03.

The city centre continued to dominate demand accounting for the bulk of take-up in 2008 (68%). It saw the two largest deals in 2008, both from the public sector. The Environment Agency signed a 70,000 sq ft pre-let at Cabot House and the Bristol Primary Care Trust took 55,000 sq ft at South Plaza. Despite these two significant deals there has been a noticeable shift away from larger signings as business confidence and

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prospects for growth decline. In the city centre deals for over 15,000 sq ft accounted for 4.3% of all deals in 2008, down on the five year average of 5.7% and the 6.7% reported in 2007.

While market conditions gradually worsened throughout 2008 prime rents in the city centre have held at circa £27.50 per sq ft and at circa £23 out-of-town. What did change were the incentives on offer with the length of rent frees extended in order to entice occupiers. For example, on a lease term of 10 years term certain, rent frees of 18 months plus can be obtained on Grade A accommodation. In contrast we have seen evidence that landlords will reduce quoting rents on refurbished secondary space in order to achieve lettings.

Schemes were already being mothballed back in the early parts of 2008, awaiting pre-lets or for the market to come back before building speculatively. As a result only 276,000 sq ft of new space is expected to come to the market in 2009.

It would appear that 2009 is set to become a tenants' market. Rent free periods are likely to increase with rental cuts also expected. Rents on refurbished secondary space have already started to come down with prime rents expected to follow. Based on IPD models for the South West, prime rents in Bristol are forecast to see a fall of circa 7% in 2009, although the relatively constrained amount of new development coming to the market should help minimise potential falls. For occupiers falling rents combined with increasing incentives means that there will be deals to be had for those looking for new space.

The question is how many occupiers will take up these deals?

Occupational demand will no doubt remain subdued in 2009 with annual take up expected to be down on that seen in 2008. Our research indicates that there is a healthy level of latent demand still in the market. Savills are already tracking tenants with expiries and break options to ensure an accurate assessment of demand, while also looking to those who may be new to the market. Targeting those occupiers with potential new requirements is set to become all the more important. Whilst many occupiers may elect to remain in their existing space or delay relocation until economic conditions improve, there will be those that will see 2009 as an opportunity to secure new premises on terms which may not be available in 12 months time. The hope is that this will provide a cushion for 2009 take-up figures.

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