

Spotlight Cardiff Offices

Autumn 2016



With a shortage of grade A supply, good quality refurbishments, including St Patrick's House, above, will cater for demand for larger office space during the first half of 2017.

■ Take up in the Cardiff market has performed strongly, reaching 478,173 sq ft at the end of the third quarter, 34% above the long term average of 355,962 sq ft for this point in the year.

■ Availability within the Cardiff city centre market has fallen by 13% from 1.5m sq ft to only 1.3m sq ft at the end of the third quarter.

■ With rents increasing to £25 per sq ft in the city centre, opportunities exist for rental growth in the Grade B market, particularly where good quality refurbishments have taken place.

■ Despite a quiet third quarter, office investment in Cardiff reached £83m at end Q3 2016, 28% above the long term average for this stage in the year.

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 “Cardiff will remain the key focus for investors in South Wales post Brexit and we expect interest to remain strong for international buyers outside of the EU.”

.....
 Ross Griffin, Director, Investment, Cardiff

→ Local economy

■ Cardiff, the major economic driver for Wales, is set to see rail electrification complete in 2018, and train journeys to London Paddington will fall to just 113 minutes.

■ This, coupled with the new City Deal document, outlining a programme of investment amounting to £1.2 billion is anticipated to unlock significant economic growth across the Cardiff Capital Region and will help stimulate both occupational and investor demand.

■ The city is set to see positive employment growth (2%) over the next five years. Encouragingly, this is up from the initial post-Brexit forecast and will drive a steady level of demand for office space. This has already been witnessed with companies such as Julian Hodge Bank expanding their workspace from 10,000 to 16,000 sq ft.

■ However, if we drill down to sector level, the Administrative (6.8%) and Tech (6.1%) sectors are forecast to be the real drivers going forward, providing the fastest office based growth over the next five years, as tech based companies look to join the BBC in moving to Cardiff.

Occupational Market

■ Take up in the Cardiff market has performed strongly, reaching 478,173 sq ft at the end of the third quarter, 34% above the long term average of 355,962 sq ft for this point in the year. This also

marked the strongest third quarter on record in the Cardiff market, with no signs of a post Brexit slowdown, as many feared.

■ With a number of new developments taking place, it is no surprise that 66% of take up activity took place in the city centre market, which saw 314,439 sq ft of take up. This is a marked increase on the long term average of 53% as the improved city centre product is drawing city fringe occupiers back inwards.

■ Interestingly, the public sector was the most active business sector, accounting for 31% of the take up as at end Q3 2016. This has been driven by the 54,600 sq ft letting of Brunel House to HMRC and the 29,000 sq ft letting of Friary House to Cardiff University.

■ The key deal as at end Q3 2016 was Motonovo Finance taking 71,000 sq ft at One Central Square, pictured page 3, moving from Cardiff Business Park, Llanishen in order to relocate to a central location to benefit from better public transport and availability of staff.

■ RBS also launched their Entrepreneurial Spark campaign in One Central Square to support a new wave of start ups, offering free workspace for 6 months, free wifi and free professional advice. The Central Square scheme is in the process of a £1bn investment to regenerate the city and attract new business to the enterprise zone.

■ With a number of large requirements in the market, including 270,000 sq ft from HMRC, Savills expect end year take-up to reach in excess of 600,000 sq ft and exceed the 10 year annual average of 450,000 sq ft by 33%.

■ Availability within the Cardiff city centre market has fallen by 13% from 1.5m sq ft to only 1.3m sq ft at the end of the third quarter. What's more, the level of Grade A availability now only stands at 133,000 sq ft, with the largest available buildings being 2 Kingsway, St Patrick's House and 2 Callaghan Square. This is only enough to cater for around one year of Grade A demand at current rates.

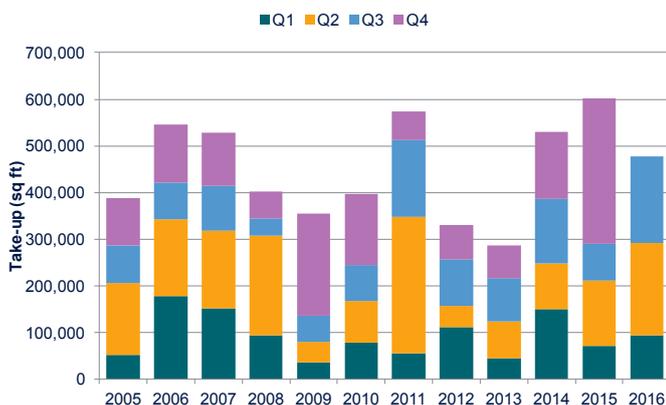
■ There is currently a shortage of large floorplate stock in the city centre market. Instead, occupiers are turning their attention to high quality refurbishments, such as St Patrick's House, pictured, which provides 51,000 sq ft of space. This is also leading to an increase in pre-lets.

■ Further secondary stock is still attracting interest from student accommodation developers and we expect 2 or 3 schemes on buildings with B1 consent to be submitted for planning in the next 6 months.

■ Rightacres' development, One Canal Parade is the only Grade A scheme expected to complete during early 2017 and will provide 60,000 sq ft.

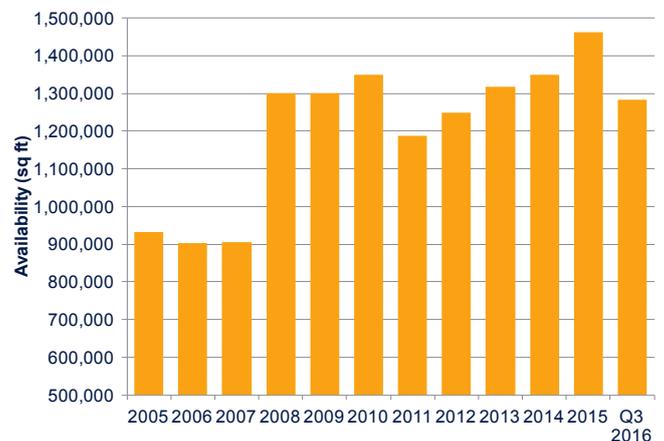
■ Towards the end of next year, we will see further development ready for occupancy, with the arrival of 3 Capital

GRAPH 1
Take-up



Graph source: Savills Research

GRAPH 2
Availability



Graph source: Savills Research

Quarter (75,000 sq ft).

■ With rents increasing to £25 per sq ft in the city centre, opportunities exist for rental growth in the Grade B market, particularly where good quality refurbishments have taken place.

■ With a step change in the type of building coming onto the market, Savills expect top rents in the city centre to reach £26 per sq ft by end 2017.

Investment Market

■ Despite a quiet third quarter, office investment in Cardiff reached £83m at end Q3 2016, 28% above the long term average for this stage in the year.

■ Overseas investors accounted for £39m of this, 47% of the total office investment. As the UK institutions remain quieter, overseas investors have remained active in Cardiff. With a weak pound playing to their advantage, we can expect this to continue into the final quarter of 2016.

■ Despite concerns of a Brexit induced slowdown in the Cardiff market, Savills feel that the lower investment volumes during the third quarter have been down to the large volume of prime stock that has already been traded in the first half of 2016.

■ There is a clear mismatch on pricing, as buyers are looking for price-corrections post referendum while sellers are happy to collect a stable income return.

■ The key investment deal was the purchase of 3 and 4 Callaghan Square at £32m by Deutsche Asset and Wealth Management, reflecting a yield of 6.1%.

■ UK institutional funds are now looking to take advantage of asset management opportunities going forward, which is likely to bring more stock to the market. We are at the stage in the cycle where total returns going forward are likely to be fuelled by income return and rising rental growth, rather than capital growth. Institutional investors are looking for well let assets to strong covenants on long leases.

■ Other significant recent investment sales which show that international investor appetite remains strong for Cardiff, include the sale of the BT office and data centre in Cardiff Bay to a Singapore investor and 1 Capital Quarter to what is believed to be a Middle Eastern investor.

■ Industrial investment in Cardiff also remains strong with Pears Property, selling the 120,000 sq ft Phase 2, 'The Levels', Capital Business Park, reflecting a net initial yield of 7.34%.

■ The scheme has been successfully asset managed to create the best multi-let industrial park in Cardiff. ■

Expert view

Gary Carver, Director of office agency in Cardiff, comments on the market

We are starting to witness an increasing amount of demand from the creative and tech sectors in Cardiff and we expect to see an increasing number of companies seeking to cluster in close proximity to Central Square once BBC Wales' new HQ completes in 2018.

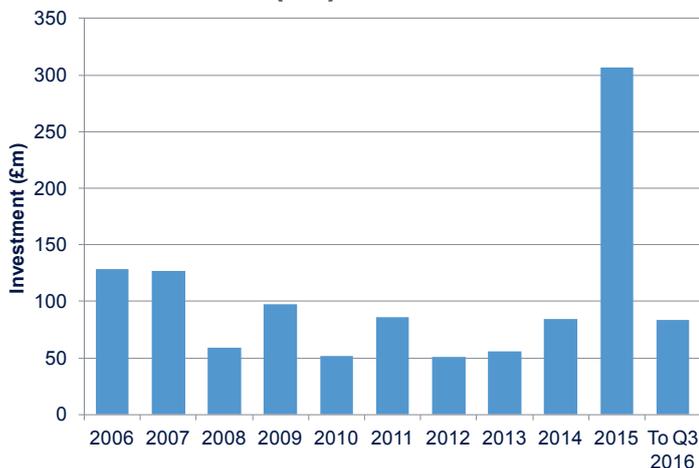
A number of companies in these sectors tend to seek more flexible leases in buildings with features such as exposed services, exposed brickwork, etc. These building will also normally provide community spaces for tenants, shared meeting facilities, etc, all designed to help the creative and tech sectors share ideas.

Landlords in Cardiff are starting to react to this increasing demand from the tech and creative sector, offering companies in these sectors with offices which reflect their requirement for less conventional office space and providing them with the opportunity to take more flexible lease terms. One such opportunity is the Creative Quarter which provides companies with contemporary office space with access to shared facilities. This has proved extremely popular.

Another building which provides occupiers in this sector with less conventional, 'defurbished' office space is 101 St Mary Street. The owners of this building have successfully created the type of office space provided in such locations as Shoreditch, London, where a number of the tech and creative sectors are clustering.

GRAPH 3

Office Investment (£m)



Graph source: Savills Research/Property Data



Central Square, Cardiff City Centre

Headline stats, definitions and contacts

	Take-up (sq ft):	Top rents (£ per sq ft)	Prime yield
Full year 2015	602,282	£23	5.5%
Q3 2016	478,173	£25	6.25%
End of 2016 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

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