

Spotlight Cardiff Offices

February 2014



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■ The lack of larger deals was reflected in the figures. Take-up at the end of 2013 was 295,178 sq ft, down 20% on the same time in 2012.

■ However, take-up improved as we moved through the year, indicating a renewed confidence in the city as we reached the final quarter of 2013.

■ One of the biggest issues facing Cardiff is still the lack of Grade A space needed to attract inward investment and enable indigenous occupiers to upgrade.

■ Prime rents are expected to grow by 5% over the next 18 – 24 months, with good quality refurbishments also likely to see a significant up-lift over this time.

■ According to Oxford Economics GDP growth forecasts for Wales is a return to positive territory in 2014, growing by 1.8%, although this will still lag the UK's projection of 2.9%.

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“We are likely to see further sharpening of yields for well let secondary office investments in prime locations over the next 12 months, with a lack of supply and a strong weight of institutional money” Ross Griffin
 Associate Director, Investment, Cardiff

→ Occupational Market

■ Activity in Cardiff over the last 12 months has been characterised by a high frequency of smaller deals, with only one deal over 20,000 sq ft in 2013. The average deal size was 2,866 sq ft, compared to the five year average of 4,304 sq ft.

■ The lack of larger deals was reflected in the figures. Take-up at the end of 2013 was 295,178 sq ft, down 20% on the same time in 2012. However, take-up improved as we moved through the year, indicating a renewed confidence in the city as we reached the final quarter of 2013. Although the figures were down in 2013, take-up within the city centre held strong and dominated the market, accounting for 57%.

■ Looking forward, Savills forecasts that take-up in the first quarter of 2014 is expected to be around 140,000 sq ft, over 100,000 sq ft (210%) up on the same time last year.

■ 2014 will see the return of the larger deal. IBO have taken 48,500 sq ft at Cardiff Gate. Other potential deals include companies such as; Geldards (30,000 sq ft), Morgan Cole (30,000 sq ft), Legal & General (L&G) 90,000 sq ft and Cunningham Lindsey (25,000 sq ft). Take-up could potentially reach around 600,000 sq ft by year end.

■ The headline deal in 2014 is likely to be the BBC, who have confirmed a shortlist of three sites for its 150,000 sq ft headquarters building, with a decision expected by June 2014.

■ One of the biggest issues facing Cardiff is still the lack of Grade A space. With grade A space currently only making up 8% of supply, how is the City reacting to falling supply levels?

■ The Welsh Government's 1 Capital Quarter, just outside the prime CBD, will add 80,000 sq ft of space to the market when this completes this quarter. With less than one year of Grade A in the supply figures, it is likely to be down to the pre-let market to satisfy larger requirements going forward.

■ In a proactive response to this shortage, Rightacres will shortly be submitting an application for a new 130,000 sq ft, prestigious office building, named 1 Capital Square. This is already rumoured to be attracting interest from Morgan Cole Solicitors and L&G.

■ This will form part of the Capital Square development, an 850,000 sq ft new office, retail and leisure development around Cardiff Central railway station, which will be delivered by Rightacres in partnership with Cardiff Council.

■ Furthermore, JR Smart developers will shortly be commencing works on 2 Capital Quarter, which will provide a further 84,000 sq ft.

■ Although there is a lack of Grade A supply there is a number of lease events coming up in the next two to three years which will bring c.300,000 sq ft of secondary buildings into the supply figures. Admiral Insurance will

shortly be vacating up to 130,000 sq ft later this year when they move to their new HQ, One David Street. The city will need to find creative ways to deal with the second-hand space flooding the market.

■ Although the trend for conversion to student housing may well continue in the short term, we also envisage seeing a steady rise in refurbishment activity in the Cardiff market as we go through 2014. This may be a quicker way to deliver Grade A supply into greater market demand, as well as a way of bringing down the second-hand space in the market.

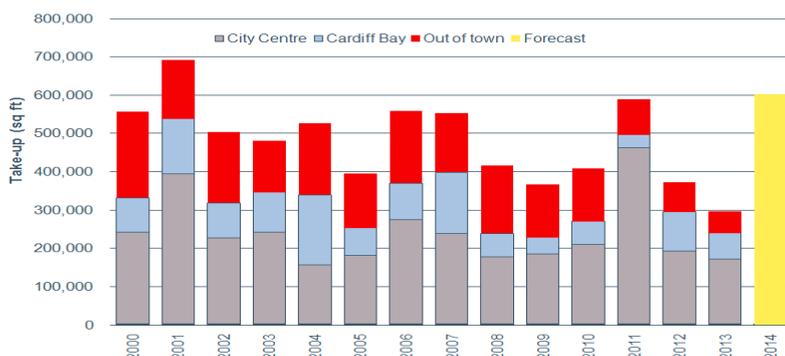
■ Arguably though, not all refurbishments are viable. There needs to be a step up in rent in many of these buildings for the refurbishment to be worthwhile. Quality refurbishments are not always possible, with a number of these buildings having compromised floorplates and limited floor to ceiling heights. However, landlords are now in a position to capitalise on their investment if the refurbishment is done correctly.

■ From a rental perspective, with 1 Capital Square entering the market, this is likely to impact on rents. Prime rents are expected to grow by 5% over the next 18 – 24 months, with good quality refurbishments also likely to see a significant up-lift over this time.

Investment Market

■ A number of investors started to look more closely at the regions in

GRAPH 1 Prime core take-up picked up pace in the second half of 2013



Graph source: Savills Research

GRAPH 2 Supply has increased slightly



Graph source: Savills Research

2013 as available space reduced, with limited speculative space being developed. This has fuelled investor interest and subsequent pricing which we expect to continue into 2014.

■ There is improved demand for investing in Cardiff, but stock has been limited, with investors struggling to find strong enough reasons to exit their investments. However, with an evident improvement in the investment market in the second half of 2013 there was a significant increase in stock on the market, especially in the office sector.

■ This improved sentiment started to convert to sales in 2013, with investment volumes improving. In South Wales there were c.£77 m of office transactions in 2013. 47% up on 2012 (c.£53 m).

■ It is considered that prime yields are in the region of 6.5%, with secondary yields now achieving between 8.5%-9%.

■ Towards the end of 2013, we started to see more of a pick-up in investor demand for secondary assets where the yield has over corrected on the back of the last few years of heightened risk-aversion.

■ Hodge House is a prime example of a well let office building in a secondary location, in the city centre, with Grade A specification. The 143,000 sq ft building was purchased by L&G from Aberdeen Asset Management, it was acquired for £18.87 million

representing an NIY of 9%. A similar building would have achieved 10%+ only 12 months earlier. Fusion Point 2 was sold in early 2014, the building has c.5 years unexpired on the lease and achieved a net initial yield of c.8.5%.

Outlook

■ According to Oxford Economics, GDP growth forecasts for Wales is a return to positive territory in 2014, growing by 1.8%, although this will still lag the UK's projections of 2.9%. Over the 10 years to 2023, Wales is expected to grow on average by 2.5% a year.

■ Wales has a strong and diverse creative sector, which has been identified as one of the important economic sectors with high growth potential within the city. This is likely to act as a catalyst to create a strong sector cluster in Porth Teigr.

■ The BBC's plan to move its Welsh headquarters to a new purpose-built centre in Cardiff, also highlights the potential for the creative sector in Wales. ITV also took space at 3 Assembly Square in August 2013.

■ Looking forward, the Council is potentially acquiring more land and is looking closely at two strategic sites in the centre of Cardiff. Although not disclosing what it would do with the site, they would be perfect for the city's aim for having a new convention centre and arena, which would help increase the overall attractiveness of the city.

Expert view

Gary Carver, Director of office agency in Cardiff, looks at the market in 2014

2013 was a disappointing year from a take up perspective albeit there were still just over 100 transactions in 2013. What the city lacked in 2013 were one or two larger deals over 40,000 sq ft.

We are, however, entering into an exciting period of new development in Cardiff over the next 2-3 years, with the BBC's decision likely to be the headline act of 2014.

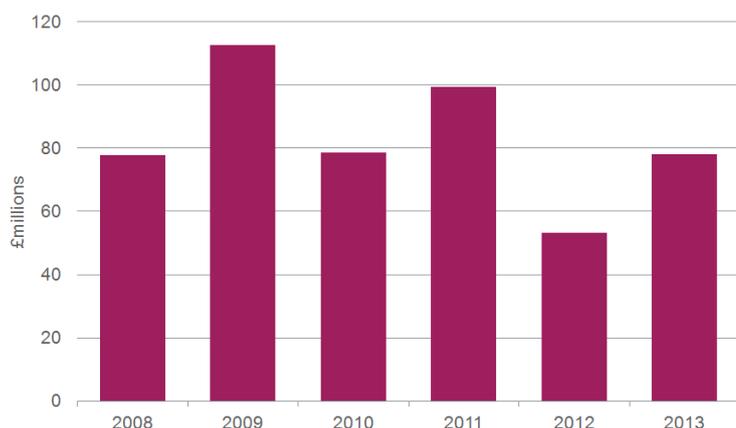
Whilst the BBC will not be relocating until 2018, once they announce their decision later this year and plans of the new building are released this should help create a feel good factor and hopefully act as a catalyst for further development, particularly if they chose one of the sites in the vicinity of Central Station.

Furthermore, the development of 1 Capital Square and 2 Capital Quarter will act as a much needed boost for the city. 2014 is likely to be the year of the pre-let with potential for over 250,000 sq ft of pre-lets.

There is also scope to extend the city outwards, as the emerging location around One Capital Quarter may well start to be seen as an extension of the prime core as the area becomes more established.

The lack of available Grade A space will also provide good opportunities for good quality refurbishments in the next 12 months. Market sentiment is certainly better than it has been for a few years and whilst it is still early days, we are confident that 2014 will see a positive upturn in activity.

GRAPH 3
Office investment levels in 2013 were 47% up on 2012



Graph source: Savills Research/Property Data



2 Capital Quarter will provide a further 84,000 sq ft of office space.

Headline stats, definitions and contacts

	Take-up:	Top rents (£ per sq ft)	Prime yield
Full year 2012	370,332 sq ft	£22	6.5%
Full year 2013	295,178 sq ft	£22	6.5%
End of 2014 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 refurbishment more than 10 years ago

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