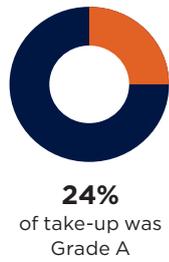


Bristol Offices





Speculative development has made a comeback in Bristol

Bristol's office market supply has been rapidly decreasing since 2010 and currently sits at just 450,000 sq ft of which less than 100,000 sq ft is Grade A. As such, Bristol doesn't currently have enough available office supply to meet the demand for one year of take-up. Speculative development is therefore a welcome addition to the market and very much required to meet Bristol's current demand.

Bristol currently has two speculative developments under construction both due to complete in 2020. AXA/Bell Hammer's Assembly Bristol is now under construction and will provide 200,000 sq ft of Grade A space together with public realm and riverside walkway, it is due for completion in October 2020. The Distillery building being developed by Royal London is due to complete in April 2020 and will provide an additional 90,000 sq ft in three separate buildings to Bristol's supply.

Bristol currently has a number of schemes in the pipeline totalling up to 850,000 sq ft. Some of these schemes could be delivered as soon as 2021 but others may slip into 2022 and beyond. Bristol is therefore on track to have a steady delivery of Grade A space becoming available, however supply will remain extremely tight until at least summer next year.



The Aurora Building, Finzels Reach which has been available for occupation since June 2018. Savills are acting on behalf of the landlord.

Occupational overview

Bristol city centre's limited supply suppressed any ability for take-up growth during 2018.

Bristol's office market is one constricted by tight and limited supply. This lack of supply saw 2018 city centre take-up fall broadly in line with the long term average but 13% below 2017. In total, Bristol city centre saw 532,000 sq ft of office space taken during 2018 across 105 deals, of which 129,000 sq ft could be considered Grade A. However, in Bristol's out-of-town market take-up was 26% above the 10-year annual average, ending 2018 with a total office take-up of 401,000 sq ft.

The most active sector in the city centre during 2018 was TMT which accounted for 29% of total take-up. Followed by business and consumer services which took 19% and insurance and financial services who took 14% of city centre take-up.

The most notable key deals in the city centre were seen at Palmer Capital/Cubex's speculatively built Aurora building at Finzels Reach, with occupiers such as Parmenion Capital (31,233 sq ft), Experis (5,002 sq ft) and Amdaris (3,194 sq ft) all signing up to space in advance of practical completion at the building.

The serviced office sector was also particularly active in Bristol city centre, during 2018 there was a 328% increase in take-up to this sector. Runway East were a key deal signing for 30,000 sq ft at 1 Victoria Street. The success of the serviced office sector in Bristol has been facilitated by serviced office occupier's preference for large deals, allowing them to acquire large chunks of Bristol's office supply.

Over the past five years the average deal size to a serviced office provider has been 11,000 sq ft, while over the same period the average deal size to all other sectors was just 5,000 sq ft.

In Bristol's out-of-town market take-up was dominated by the public services education and health industries which accounted for 35% of total take-up. Other active sectors included engineering who took 14% of take-up and retail and leisure who took 9% of take-up.

Bristol city centre currently has a vacancy rate of just 3.6%, and it is clear that take-up will continue to be impacted by lacking supply until new developments become available.

📍 Bristol city centre saw 532,000 sq ft of office space taken across 105 deals during 2018 📍

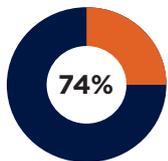
INVESTMENT OVERVIEW

During 2018 Bristol's wider market saw total commercial investment volumes of £398 million; 74% was office investment totalling at £293 million. UK institutions were the most active investors, accounting for £100 million of Bristol's office investment volumes.

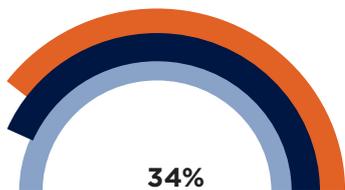
Over half of Bristol's office investment deals occurred within the city centre, totalling at £159 million.

One key city centre investment deal included Royal London purchasing The Aurora building on Finzels Reach during Q3 for £62 million reflecting a 4.75% yield. The new development completed in August 2018 and provided a total of 95,531 sq ft of Grade A office space to Bristol city centre. The development let quickly and was 85% pre-let on completion.

Key Grade B deals included the sale of the Crescent Centre for £15 million to Commercial Real Estates Group, and Floreat's purchase of Castlemead for £32.75 million reflecting a 7% yield.



74% of Bristol's total commercial investments transactions were for office space.



34% of office investment volumes came from UK Institutions - making them the most active investor type during 2018.

54%

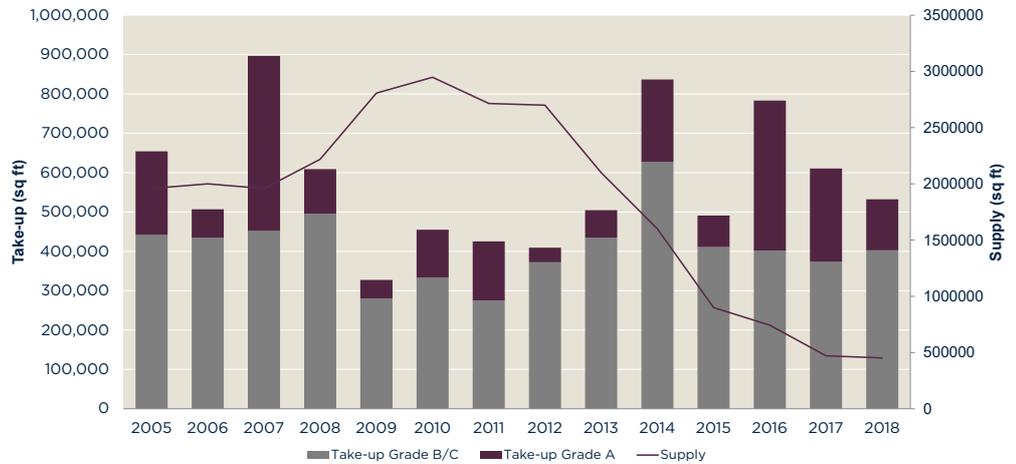
of Bristol's office investment deals occurred within the city centre.

4.75%

Is the current prime office yield in Bristol having decreased 25 basis points during 2018.

Bristol City Centre Take-up and Supply (sq ft)

Bristol City centre's office supply has been rapidly decreasing since 2012. In recent years supply has become so low that it has suppressed any ability for take-up growth.



Source Savills Research

“Rental growth of both Grade A and refurbished space is expected. We forecast top Grade A rents to exceed the current £35 benchmark in 2019”

7.5%

Office based employment growth
Forecast in the next 5 years

8,686

Net additional office based jobs
Forecast in the next 5 years

12.5%

GVA Growth
Forecast in the next 5 years
Source Oxford Economics

Outlook

What to expect from Bristol in 2019

1 Traditionally office take-up in Bristol has been lease event led and not reliant on big ticket inward investment. We expect this to continue during 2019 with a majority of demand coming from existing occupiers within Bristol.

2 We expect the serviced office sector to continue taking space throughout 2019 - with desk prices increasing due to rental growth.

3 Permitted development has structurally altered Bristol's supply and continues to have an impact. Supply of both Grade A and Grade B space will therefore continue to decrease during 2019

- with the earliest speculative developments not completing until quarter four 2020.

4 With current supply levels being so low in order for 2019 take-up to surpass 2018 levels we would need to see pre-let transactions at the speculative developments currently under construction in the city centre.

5 Rental growth of Grade A and refurbished space is expected. We forecast top Grade A rents to exceed the current £35 per sq ft benchmark in 2019.

6 3 Glass Wharf is due to reach practical completion this quarter, although the

development is fully pre-let to HMRC the new development will add 107,000 sq ft of Grade A office space to Bristol's office stock.

7 The lack of office stock in Bristol will increase competition for prime markets among institutional investors. Competition among investors will also continue for value add opportunities as they also become more difficult to source.

“In order for 2019 take-up to surpass 2018 levels we would need to see pre-let transactions at the speculative developments currently under construction in the city centre.”



Savills Commercial

We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team

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