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**Savills World Research**
UK Commercial

# Spotlight
# **Bristol Offices**

January 2017

Aurora, Finzels Reach is the only speculative office development currently under construction and will provide 95,000 sq ft of Grade A space.

■ 2016 saw a series of bumper deals, with annual take up in the Bristol city centre market reaching 782,938 sq ft, exceeding the level recorded during 2015 and 29% above the five year average of 604,860 sq ft.

■ The relaxation of Permitted Development Rights (PDR) has removed a considerable proportion of secondary office stock from the market. At end 2016, office availability stands at 744,000 sq ft in the city centre, 17% below the level recorded at end 2015.

■ The only new build scheme currently under construction is Aurora, Finzels Reach at 95,000 sq ft, which is due to complete during Q1 2018 and could be the first scheme to break the £30 per sq ft mark this year.

■ Bristol has seen yet another good year of office investment during 2016, reaching £324m, 57% above the long term annual average of £207m.

■ Property companies were the most active purchasers during 2016 and invested £130m, more than in any other year and 40% of the total.

"We are now seeing occupiers with requirements as low as 20,000 sq ft being forced to consider prelets for the first time in the Bristol market."

Chris Meredith, Director, Office Agency, Bristol

## Local economy

With over six months having passed since the UK's decision to leave the EU, the initial impact of the referendum on the UK economy has been lower than initially feared.

Driven by resilient private consumption, UK GDP growth reached 0.6% during the final quarter of 2016, with the forecast for GDP growth in 2017 revised upwards to 1.3%.

Bristol's economy has also continued to remain strong, which has seen 13.4% growth over the past five years, above the UK average of 10.9%.

Much of this has been driven from the Professional, Scientific and Tech sector, which has seen growth of 34.5% over the past five years, above the UK average of 23%.

Employer sentiment has shown signs of improvement too. Deloitte's Q4 2016 CFO survey indicates that 11% of CFOs expect hiring to increase over the next 12 months, above the 1% recorded immediately post EU referendum.

With stable economic foundations, Bristol's office based employment is set to grow a further 0.8% per annum (pa) over the next five years, representing c. 4,500 net additional office based jobs. This remains above the UK average of 0.7% pa and among the strongest of the regional cities (Map 1).

Despite a six month delay to the electrification of the Great Western route, it is still expected to complete during 2018.

The £200 million MetroBus network is still on track to complete later this year, which will improve access to the north of Bristol.

## Occupational

2016 saw a series of bumper deals, with annual take up in the Bristol city centre market reaching 782,938 sq ft, exceeding the level recorded during 2015 and 29% above the five year average of 604,860 sq ft.

The final quarter of 2016 saw take up reach 267,239 sq ft, the strongest quarter for the city centre since Q4 2014.

HMRC took a pre-let of 107,000 sq ft of Grade A space at 3 Glass Wharf, which is being forward funded by Legal and General. The government has continued its centralisation policy into larger regional hubs and is expected to move in during 2019.

The public sector ended the year as the most active business sector due to the trophy letting of 3 Glass Wharf, with total take up for the sector reaching 181,200 sq ft.

The tech sector had another strong year, with a large number of smaller deals driving take up within the city centre to 117,156 sq ft.

The city centre market was particularly dominant during 2016, accounting for 72% of the wider take up, the highest proportion since 2004. However, we see this more as a reflection of the large deals in the city centre than any structural shift away from the out of town market.

However, following the announcement of Hinkley Point, a number of out of town deals also took place, particularly from the engineering sector.

The relaxation of Permitted Development Rights (PDR) has removed a considerable proportion of secondary office stock from the city centre market. At end 2016, office availability stands at 744,000 sq ft in the city centre, 17% below the level recorded at end 2015.

Of this, there remains only 212,000 sq ft of Grade A supply, enough to cater for only one year's worth of demand.

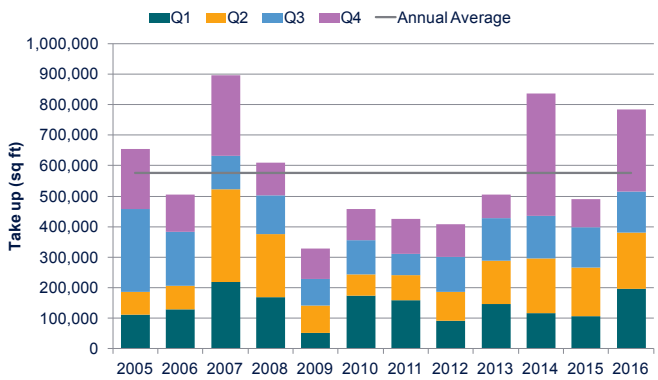
The only new build scheme currently under construction is Aurora, Finzels Reach at 95,000 sq ft, which is due to complete during Q1 2018 and could be the first scheme to break the £30 per sq ft mark this year.

Now that the much anticipated Finzels

Top office rent
£28.50/sq ft

GRAPH 1

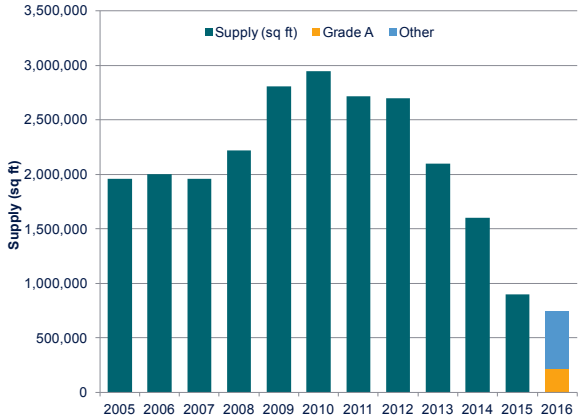
### City Centre Take Up




Graph source: Savills Research

GRAPH 2

### Availability




Graph source: Savills Research

Bridge (pictured, cover) is complete, this has greatly improved access to Cabot Circus shopping centre, north of the river.

With such a limited development pipeline, we are now seeing occupiers with requirements as low as 20,000 sq ft being forced to consider prelets for the first time in the Bristol market. One such scheme is AXA/ Bellhammer's Assembly scheme, which will provide up to 300,000 sq ft of Grade A space.

In the meantime, though, we expect the 300,000 sq ft of refurbishments which have either completed or are approaching completion to fill the gap during 2017, including the first phase of Programme, which will provide 50,000 sq ft of creative space.

After finishing the year on £28.50 per sq ft, Savills expect Bristol's top rents to see a step jump to £32.50 during 2017. This is not only because of the current lack of available Grade A space, but also because the differential between top refurbished space and new build stands at only £0.50 per sq ft. Savills expect top rents to reach £35 per sq ft by 2019.

## Investment

Bristol has seen yet another strong year of office investment during 2016, reaching £324m, 57% above the long term annual average of £207m.

With only £48m transacted, the second half of the year was always going to be quieter, not only because of the initial impact of Brexit on investor confidence, but also because a lot of stock had already been traded during the previous 18 months.

Property companies were the most active purchasers during 2016 and invested £130m, 40% of the total and more than in any other year.

The key deals during 2016 include the sale of Bridgewater House, whilst Legal & General Property forward funded 3 Glass Wharf during the final quarter.

## Outlook

Looking forward, Savills expect around 750,000 sq ft of take up in the city centre during 2017. More could be achieved, but there is a fear that a shortage of Grade A supply could hamper this.

The energy sector is set to see another strong year during 2017, with Ovo Energy and EDF Energy searching for space. Enquiries remain strong.

After a relatively quiet 2016, we expect the UK Institutions to resume investment activity during 2017.

With regional offices less exposed to the financial services sector than Central London, we see this as an opportunity for cities such as Bristol to outperform. The rental differential between Bristol and the City of London currently stands at £61.50 per sq ft.

At a time when returns will be income led, Bristol offices remain attractive with prime yields currently standing at 5.5%, 125 basis points above the City of London. Investors will continue to look for assets with strong covenants on long leases.

# Expert view

## Chris Meredith, Director of office agency in Bristol, comments on the market

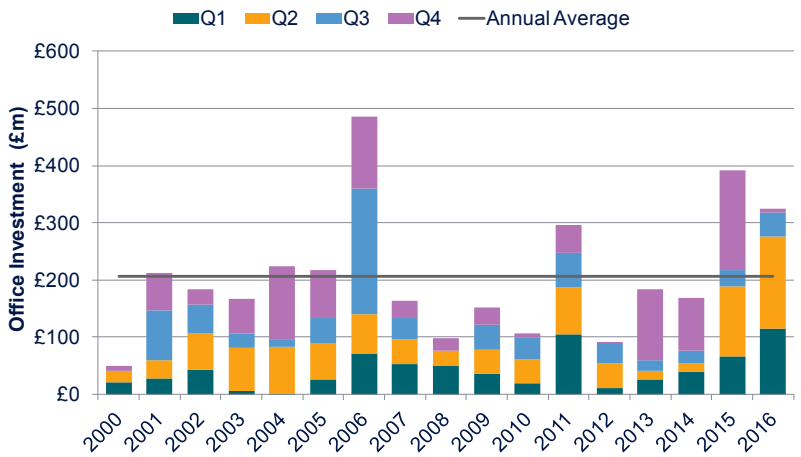
The Bristol office market has benefited from constant interest from occupiers, however Grade A stock is in short supply and the Aurora building is currently the only speculative development in the city.

Looking ahead to 2017 we expect to see tenants shift their attention to pre-lets as the Grade A market continues to be constrained and demand for space remains strong.

The current squeeze on levels of stock has also led developers to concentrate on high quality refurbishments, with around 300,000 sq ft either complete or expected to complete within the next 12 months. This has had a knock on effect on the rental differential between new build and refurbished space in the city centre which has narrowed to only £0.50 per sq ft.

GRAPH 3

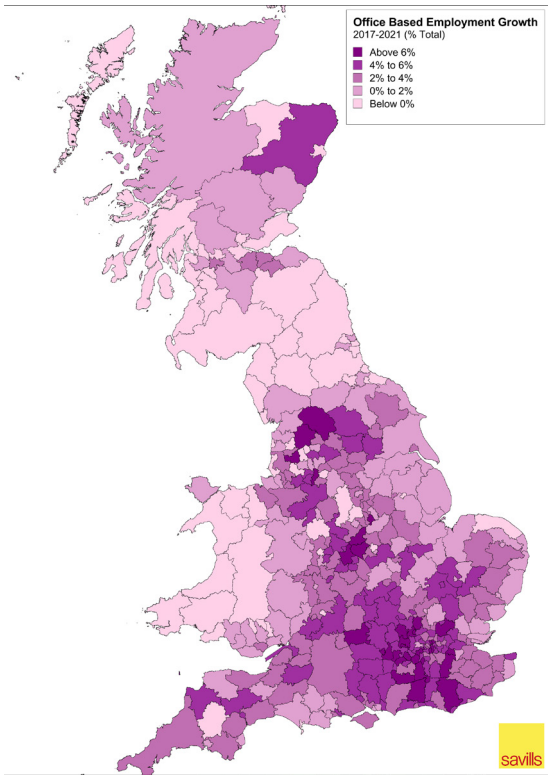
### Office Investment (£m)




Graph source: Savills Research/Property Data

MAP 1

### Office Based Employment Growth



# Headline stats, definitions and contacts

**0.8%pa**
Office Based Employment Growth over the next five years

**ONE**
year's worth of Grade A office supply in city centre

**95k**
office development currently under construction

**7.1%pa**
Predicted growth in Grade A office rents over the next three years

| | Take-up (sq ft): | Top rents (£ per sq ft) | Prime yield |
|---|---|---|---|
| **Full year 2016** | 782,938 | £28.50 | 5.50% |
| **Q4 2016** | 267,239 | £28.50 | 5.50% |
| **2017 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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