

Spotlight Cardiff Offices

February 2016



A computer generated image of Central Square, Cardiff - One Central Square (extreme left) is due for completion in March. BBC Wales will take occupation of their new HQ (centre) in 2018. The proposed Interchange (right) will link into Central Station and provide 400,000 sq ft of mixed use space.

■ 2015 was an extremely strong year for the Cardiff office market, with the best take-up figures since 2001.

■ Take-up was bolstered by significant pre-lets, including the 150,000 sq ft letting at Central Square to the BBC, taking the total for the year to over 600,000 sq ft.

■ In 2016, all new Grade A stock could potentially be fully let by the middle of the year.

■ Cardiff's office investment market had a bumper year in 2015, with over £300 million transacted. This is 412% up on the previous year and the best year ever recorded.

■ The Cardiff office investment market has already transacted over £50 million this year, with the half year expected to reach £100 million.

■ Cardiff's office based employment is expected to grow by 5% over the next five years.

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“Over the next 12 months, investor sentiment for Cardiff will continue, driven by improvements in the occupational market and the rental growth story”

Ross Griffin, Director, Investment, Cardiff

→ Occupational Market

■ 2015 was a fantastic year in terms of take-up for the Cardiff office market, with the best take-up figures since 2001. This has been bolstered by significant pre-lets, including the 150,000 sq ft letting at Central Square to the BBC, taking the total for the year to 615,000 sq ft.

■ This is an increase of 14% on 2014 and 41% up on the 10 year average. Much of the activity in 2015 was centred around the city market, which saw 63% more take-up than the previous year.

■ Although, the larger trophy deal is actively welcomed in the city, SMEs, particularly those in the most innovative sectors, are important drivers of demand. Between 2011 and 2014, 29 per cent of SMEs expanded the size of their workforce; this is an increase from 26 per cent between 2008 and 2011. In Cardiff 80% of deals in 2015, were under 5,000 sq ft, indicating the important role the smaller end of the office market plays in the city.

■ We expect take up in 2016 to be lower than 2015 at around 475,000 sq ft. This is more down to lack of supply than lack of demand.

■ The level of new active requirements remains strong with a number of large office requirements circulating the marketplace. These include: Ministry of Justice, who are looking for 45,000 sq ft, MotoNovo Finance, which is looking for a new HQ of between

50,000 to 70,000 sq ft and Cardiff University School of Journalism who requires 20,000 sq ft.

■ The Government is also looking to reduce costs and the HMRC have already begun to rationalise their portfolios across the UK. This will save costs in the long-run but will result in some significant requirements throughout the UK. HMRC has already confirmed plans to create a new regional centre in Cardiff. This is likely to see it moving out of its existing Ty Glas tax offices in the Llanishen suburb, to new larger offices in the centre of Cardiff. It could require between 250,000 to 300,000 sq ft of new office space.

■ The confidence shown in speculative office development underway in Cardiff is already paying dividends with a number of significant pre-lets completing over the last 18 months, which include 51,000 sq ft at 2 Capital Quarter to Public Health Wales, together with 16,000 sq ft to Julian Hodge Bank and 28,000 sq ft to Blake Morgan Solicitors both at One Central Square.

■ With all new Grade A space in Cardiff in 2016 potentially soaked up, including One Central Square and 2 Capital Quarter, the city may have no immediately available new office space for around 18 months. Therefore, going forward, the case for speculative development, is strong and vital to ensure that Cardiff capitalises on a strengthening economy and the attraction and retention of office-based occupiers.

■ With a number of major office refurbishments taking place including 51,000 sq ft at St Patrick's House, close to Cardiff's Central Station; 40,000 sq ft at 2 Kingsway, and 17,000 sq ft in Haywood House North, Dumfries Place, could these 'fill the gap' between now and 2017, before the next wave of new builds come out of the ground?

■ We expect companies seeking to occupy high quality offices in the city during 2016 to consider these refurbished options, with Cardiff potentially seeing rents as high as £22 per sq ft achieved in these building. We expect Grade A rents to increase by 15% in 2016, reaching £25 per sq ft for the first time ever.

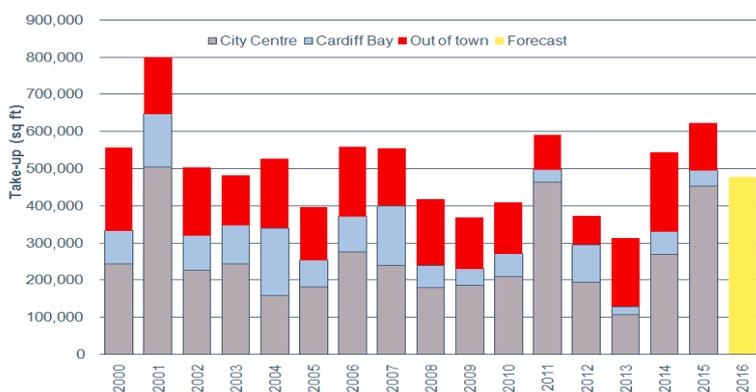
■ This anticipated increase is a result of competition for the new Grade A offices being completed in the city centre, something Cardiff has historically been short of. This rise is long overdue as Cardiff still lags behind most major cities in the UK, with Bristol now at £28.50 per sq ft and expected to top £30 per sq ft in 2016.

Investment Market

■ Cardiff's office investment market has had the best year ever recorded, with over £300 million transacted in 2015. This is 412% up on the previous year and 158% up on the five year average.

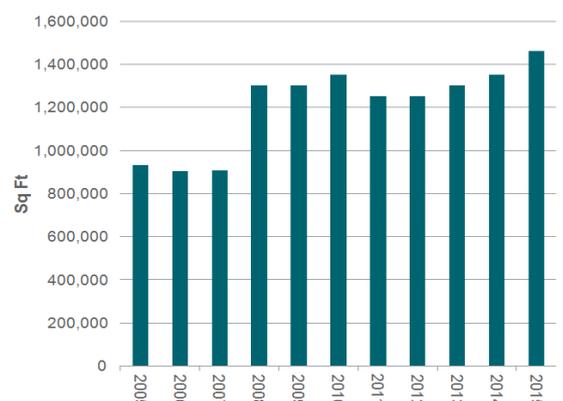
■ Key deals in 2015 include, the forward funding of Rightacres' development for the new BBC headquarters at Central Square

GRAPH 1 Positive sentiment has been reflected in the take-up



Graph source: Savills Research

GRAPH 2 Supply increased by 4% in 2015



Graph source: Savills Research

from L&G and the acquisition of One David Street let to Admiral by Amundi Immobilier, as part of Union Investment Real Estates Aqua Portfolio sale, which both achieved a yield of circa 4.75%.

■ We believe this appetite for Cardiff will continue, driven by improvements in the occupational market for both the prime and secondary office markets and the anticipated rental growth over the next 12 months. To date, the Cardiff office market has already transacted £50 million, with the half year expected to reach £100 million.

■ Cardiff continues to be an attractive option for investors. Although the institutional investors are still active in the city we have started to see a number of new opportunity funds and overseas money increasingly looking to invest in the City and we expect this to continue as we go through 2016.

■ Over the next few years active asset management will be key to maintaining rental growth and creating further capital growth, although we also hope to see further new development within Cardiff to help attract new occupiers to the city. A good example of this is the refurbishment of St Patrick's House opposite Central station, on Callaghan Square, currently under going an extensive refurbishment and expected to benefit from the improvements to Central station and the new BBC HQ directly opposite.

Outlook

■ With Cardiff's office based employment growing by 5% over the

next five years, implying a net increase of 3,000 office-based workers, this will drive a steady level of demand for office space.

■ This will translate into a steady recovery in take-up over the period 2016-2019. This has already started to be reflected with Admiral and L&G continuing to expand in the city.

■ However, with only 25,000 sq ft of Grade A space expected to be remaining as we get to the end of the first quarter, the big question for Cardiff is - will lack of Grade A stock in 2016, inhibit take-up or will refurbishments sweep up? We expect refurbishments will 'fill the gap' as the city waits for the next round of Grade A stock to complete.

■ The TMT sector is expected to see an increase of 6% over the next five years, with the BBC expected to accelerate the growth of this sector. The new headquarters for BBC Wales is expected to generate an economic boost of more than £1bn for Cardiff over the next decade, which is equivalent to 1,900 jobs. The impact will be felt across sectors including construction, tourism and the creative sectors. With staff retention being a major factor for companies when relocating, the workplace will be a tool to attract and retain talent.

■ The BBC obviously listened to its staff, who preferred a city location – as was the case with motor insurance giant Admiral in deciding to locate its new headquarters in the centre of Cardiff.

Expert view

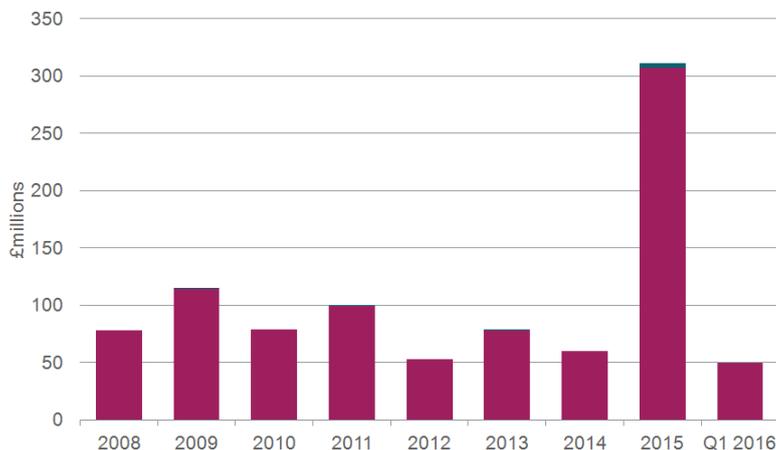
Gary Carver, Director of office agency in Cardiff, comments on the market

The Central Square development is a major catalyst for Cardiff city centre and it has gained a great deal of momentum in 2015. Timing is everything and Rightacres appear to have got it just right. One Central Square will be completed in March and the building is close to being 97% pre-let. Rightacres are now on site commencing the development of the BBC Wales' new HQ and Two Central Square, which is expected to total around 100,000 sq ft, both of which are expected to complete in late 2017. There is already strong interest in half of number Two.

Works are also likely to commence on the demolition of Marland House and the adjacent car park in Central Square later this year to accommodate Cardiff's new Interchange building, which could also accommodate around 275,000 sq ft of offices, restaurants, residential dwellings and possibly a hotel. The Interchange building is planned to link into Cardiff Central railway station, providing the city with a state of the art public transport hub. By 2020 visitors to Cardiff will certainly get a better first impression of city than they had previously.

2015 was an exciting year for the office market in Cardiff. Will we see the levels of take up by occupiers in 2015 matched in 2016? Only if some significant pre-lets are agreed which isn't out of the question. A new record rent of £25 per sq ft is likely to be agreed this year, rents have stagnated far too long. As Cardiff continues to grow and develop it will be interesting to see what develops during 2016, and if the city can attract any new companies, which is key to sustaining growth.

GRAPH 3 Office investment levels increased by 412% in 2015



Graph source: Savills Research/Property Data



St Patrick's House, Cardiff City Centre

Headline stats, definitions and contacts

	Take-up:	Top rents (£ per sq ft)	Prime yield
Full year 2014	540,000	£22	5.25%
Full year 2015	615,000	£22	4.75%
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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