

Cardiff Offices





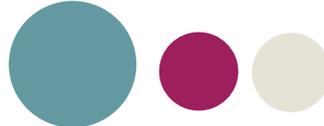
293,000 sq ft

of take-up in wider Cardiff during the first three quarters of 2019.



35%

of take-up was Grade A.



Top sectors

TMT (27%), Insurance & Financial Services (14%) & Public Services, Education & Health (12%).



£25

Top achieved rent - offering an affordable alternative to other regional cities.

Cover: John Street, Callaghan Square. 109,000 sq ft is available, with completion due in the summer of 2021.

Battle of the challenger Banks

During Q3, challenger banks Starling and Monzo both acquired office space in Cardiff city centre. Starling Bank took 14,000 sq ft of Grade B space at Brunel House, their first letting in Cardiff and Monzo Bank signed for 6,000 sq ft of additional Grade A space at 2 Kingsway.

Challenger banks have changed the face of digital banking in recent years, without physical branches they use the accessibility of online banking, as well as generate intelligent reports on spending habits to secure customers. Both Monzo and Starling have been around for less than six years and have risen rapidly during that time. Monzo currently has over 2 million customers and Starling is expecting to reach 1 million customers this year.

Starling Bank will soon open their first office in Cardiff, which will be its third UK location after London and Southampton, with plans to expand further into Europe. The online only Bank which launched in 2014 is currently recruiting for a number of roles in the city including researchers, product designers and data scientists. In October 2019 Starling Bank raised £30 million of venture capital in a deal lead by Merian Chrysalis investment. The funding will support increased investment into the bank enabling it to accelerate its Europe expansion.

Monzo Bank currently employ in excess of 150 people in the city, but this expansion will see that number rise to 312 over the next few years. Monzo's expansion was helped along by a nearly £1 million backing in finance from the Welsh government. Monzo considered a number of alternative locations within the UK as well as overseas before settling on Cardiff.

Cardiff is expected to see total GVA growth from the insurance and financial services of 4.2% over the next five years rising to 14.3% over the next 10. Demonstrating the benefits from the growing financial service sector in Cardiff.



Central Square. Work is underway on the new Interchange building which will include 120,000 sq ft of offices.

Occupational overview

Cardiff has seen a steady stream of deals during the first three quarters of 2019.

During the first three quarters of the year, take-up in Cardiff's wider market reached 293,158 sq ft, 2% down from the same time last year although significantly below the five-year Q1-Q3 average. The majority of deals occurred within the city centre, totaling at 197,101 sq ft (67%), 34% up from the same time last year. As we approach the end of the year, Savills expects take-up in Cardiff's wider market will reach around 400,000 sq ft for 2019.

Tech, Media and Telecoms (TMT) have dominated take-up accounting for 27% of deals thus far. This was largely due to Sky who leased 40,000 sq ft of new Grade A space at 4 Capital Quarter, along with 12 sub-10,000 sq ft deals, which included tenants Incopro, Sapiens and Loop up. Other active sectors have included Insurance and Financial Services and Public Services, Education and Health which accounted for 14% and 12% of take-up, respectively.

Currently, Cardiff suffers from a lack of Grade A space which is likely to have suppressed take-up

throughout the year. Supply in wider Cardiff currently totals 1,032,000 sq ft, although just over 100,000 sq ft of that is considered to meet Grade A standards.

However, occupiers looking for space within Cardiff can look to the development and refurbishment pipeline for pre-let opportunities. Cardiff isn't due to see any new deliveries during 2020, which is opportunistic for the buildings currently being refurbished. There are, however, two significant developments completing in 2021 and 2022.

JR Smarts' John Street development, which is currently under construction and due to complete in 2021, has a total area of 109,000 sq ft, all of which is available for pre-let. The Interchange, which is due to complete in early 2022 has a total area of 120,000 sq ft all of which is available for pre-letting, although there is rumoured to be interest from Legal and General in this. There is also a further development proposed, The Ledger Building on Central Quay has a proposed total area of

250,000 sq ft, but we understand Rightacres will not commence works on this until 50% is pre-let.

Refurbishment opportunities exist at Hodge House and Fusion Point. Legal and General are spending £10 million transforming Hodge House where 67,000 sq ft of contemporary office space will be available by the end of 2019. Fidelity are refurbishing the 63,000 sq ft Fusion Point building which will be ready for occupation by mid-2020.

Cardiff is currently the most affordable office market within Savills key regional office markets, a factor which is likely to increase in importance as regional rents see significant growth. Grade A rents in Cardiff currently sit at £25 per sq ft, offering a 29% discount to south west rival Bristol and a 32% discount to Manchester. Savills expects Cardiff will see rental growth as deals begin to complete at new developments, forecasting rents of £27 per sq ft in 2020, rising to around £28 per sq ft in 2021.

0.6

Years of Grade A supply

230,000

sq ft of pipeline on-site available to be let during construction

9%

Grade A Vacancy rate

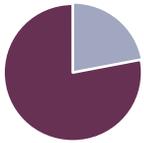
INVESTMENT OVERVIEW

So far this year, Cardiff has seen total commercial investment volumes of £365 million. The majority of this was for alternative investments due to a £235 million student housing deal.

Office investment has been relatively slow which is unsurprising following two years of exceptionally high volumes. During Q1-Q3, Cardiff saw total office investment volumes of £62 million, 26% below the 10-year Q1-Q3 average and significantly down from the same period last year. Although a further £26 million has completed during October pushing YTD volumes up to £88 million.

Key deals this year have included the sale of Crickhowell House for £47 million to Equitix and the purchase of Three Capital Quarter by Mayfair Capital for circa £26 million. Along with Six Park Street, which was sold by Mayfair Capital to ADAPT Properties for £10 million reflecting an impressive 5.6% yield.

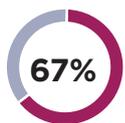
Prime yields in Cardiff remain at 5.5% having remained stable throughout 2019.



Office investment has accounted for **24%** of Cardiff's commercial investment volumes.

53%

of office investment has been from **financial institutions**, the most active investor type so far this year.

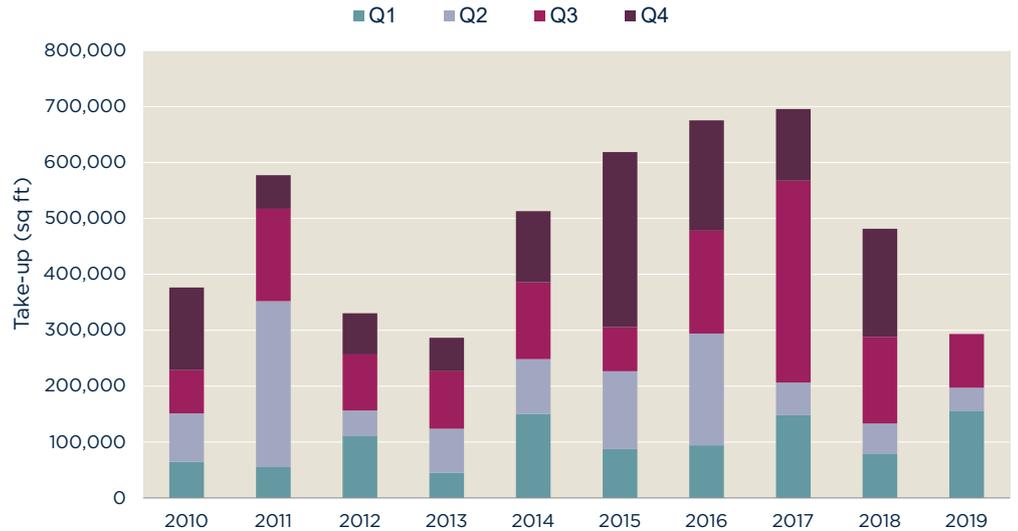


So far this year 67% of office investment into Wales has occurred within Cardiff.

5.5%

Current prime office yield in Cardiff having remained stable throughout the year.

Cardiff wider market take-up by quarter.



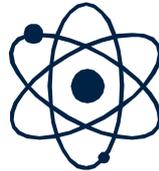
Source Savills Research

Between now and 2024 Cardiff is forecast to see...



6.8%

Total office based employment growth.



10.5%

Employment growth within the professional scientific and tech sectors.



8.8%

Total office based GVA growth.



18.5%

GVA growth from the information and communication sector.

Source: Oxford Economics

What Cardiff Workers Want?

Savills UK What Workers Want survey investigates the wants and needs from the workplace across 14 UK cities; in Cardiff the view from the workplace and its proximity to retail and leisure facilities were of significant importance.

The war for talent has secured wellbeing, staff attraction and retention at the forefront of occupier's minds. Savills latest What Workers Want survey aimed to discover exactly what today's office workers want and need from their workspace.

Cardiff is a vibrant and historic city, its ancient castle and scenic views make it a tourist hotspot within the UK which sees approximately 18 million visitors per year. This was reflected in the results with Cardiff office workers claiming to be more satisfied than rest of the UK with the views from their workspace, while also rating this a factor of significant importance.

Office workers in Cardiff were also more satisfied than the rest of the UK with their proximity to green spaces along with retail and leisure space. This is unsurprising as Cardiff has more green spaces per person than any other UK core city. Cardiff also benefits from the biggest concentration of Victorian, Edwardian and modern-day indoor shopping arcades in Britain leading to it being described as the 'city of arcades'.

Cardiff workers were however found to be less satisfied than the rest of the UK with the internal and external design of their office building, suggesting there are opportunities for developers and landlords operating within Cardiff.

At present Cardiff struggles with a lack of available Grade A space with no new deliveries until 2021. There is, therefore, demand for refurbishments which can reach completion faster than new developments. Throughout 2019 alone Cardiff's refurbishment market has benefited from rental growth of 3.2% and as new refurbishments come to market this growth will continue.

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Research

Pearl Gillum

Commercial Research
0207 535 2984
pearl.gillum@savills.com

Cardff office

Gary Carver

Director
Office Agency
029 2036 8963
gcarver@savills.com

Ross Griffin

Director
UK Investment
029 2036 8961
rgriffin@savills.com

Sam Middlemiss

Office Agency
029 2036 8962
smiddlemiss@savills.com