



UNITED KINGDOM

BRISTOL

OFFICES

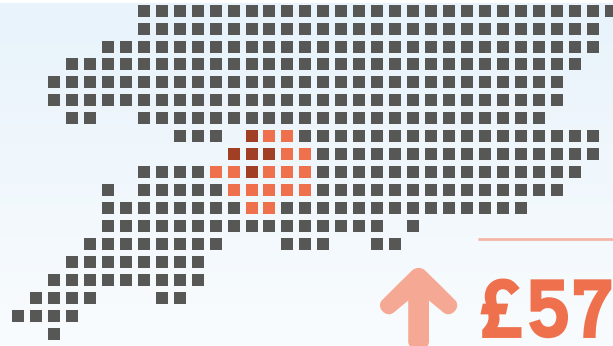
QUARTER 2 | 2018



GRADE A VACANCY

↓ **1.5%**
CITY CENTRE

↓ **3.1%**
OUT-OF-TOWN



INVESTMENT

↑ **£57.85m**

MARKET HIGHLIGHTS

Supply Overview

The Bristol office market continues to see availability levels fall, as the lack of supply in the Grade A sector sees vacancy levels at 1.5% and 3.1% in the city centre and out-of-town markets respectively.

City Centre Availability

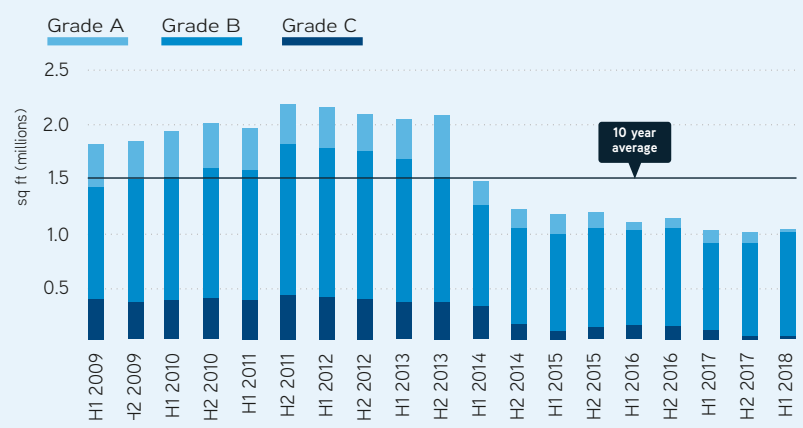
- › All grade availability stands at 719,335 sq ft in the first half, which is 4% higher than H1 2017; but, is 50% below the 10-year average of 1.49 million sq ft.
- › Grade A availability has decreased by 57% since this time last year and now stands at c. 33,700 sq ft. 3 Temple Quay and Templeback are the only existing Grade A buildings with more than 10,000 sq ft of available space to let, leaving Grade A vacancy at 1.5%. Overall City Centre vacancy stands at 6.1%.
- › Newly refurbished space at Programme (32,850 sq ft) and Temple Point (49,824 sq ft) contributed to the increase in availability this half.
- › We expect further rental growth in 2018, due to continued demand for city centre locations.

Out-Of-Town Availability

- › Overall availability in the out-of-town market has fallen 24% between H1 2017 and H1 2018. Total vacant space now stands at 568,568 sq ft.
- › There was no change in Grade A availability, and vacancy remains at 3.1%. Overall vacancy now stands at 9.1%.
- › Unoccupied space, sub 10,000 sq ft in size, accounts for more than 65% of total availability in the out-of-town market.
- › A new Grade A rent was set in the out-of-town market and quoting rents are marginally on the rise.

FIGURE 1: BRISTOL CITY CENTRE
 Availability by Grade

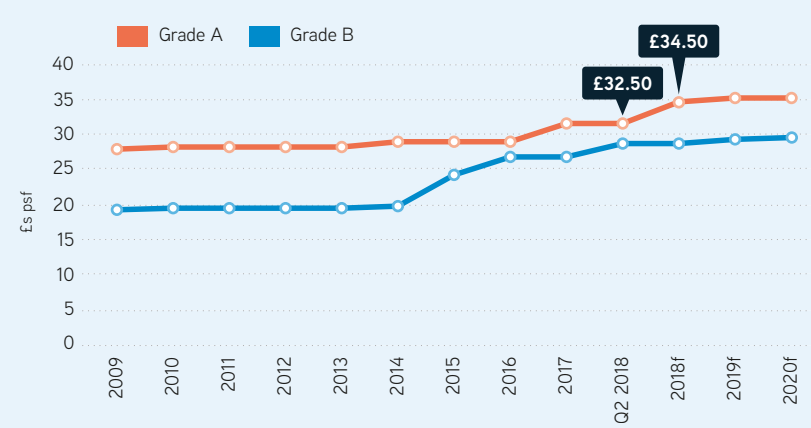
Availability by Grade



Source: Colliers International

FIGURE 2: BRISTOL CITY CENTRE
 Rental Forecasts

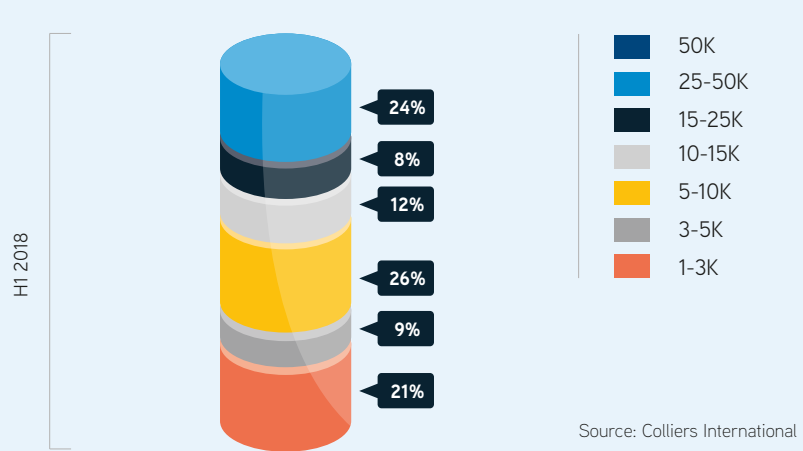
Rental Forecasts



Source: Colliers International

FIGURE 3: BRISTOL CITY CENTRE
 TAKE-UP

by Size Band



Source: Colliers International

Take-up Overview

The second quarter of 2018 has witnessed a 41% increase in take-up overall, compared with the same period last year. The majority of this improvement has been driven by the out-of-town market, which despite having a poor start to the year, saw two large transactions produce take-up of over 100,000 sq ft.

City Centre Take-up

- › Q2 take-up was 16% higher than Q1 at 143,900 sq ft.
- › Half year take-up stands at 268,000 sq ft, 11% below the 5-year average for this period, but on a par with the same period last year.
- › The largest deal in Q2 was from new entrant to the market, Runway East. This co-working company has taken just over 30,000 sq ft at 1 Victoria St.
- › With very little Grade A space available, it is unsurprising that rents have remained at £32.50 psf; however, this looks set to change in the third quarter.
- › The number of transactions has more than doubled quarter on quarter and 77% of deals (by number) are below 5,000 sq ft and 66% below 3,000 sq ft.
- › Incentives remain at circa 1.5 months per year of the term certain.

Out-Of-Town Take-up

- › Out-of-town take-up in Q2 leapt to 139,000 sq ft, up 136% in the same period last year.
- › At 171,000 sq ft, H1 take-up is 15% up on the same period of 2017 and 8% up on the 5-year average.
- › The largest transaction this quarter was the purchase of HP3 & HP4 (77,700 sq ft), Stoke Gifford by UWE. This was followed by ALD taking a lease of 27,250 sq ft at Building 1, Harlequin Office Park.
- › The number of transactions is up 27% quarter on quarter, with 71% of deals (by number) below 5,000 sq ft.
- › The highest quoting rent is £24.00 psf at the newly refurbished 600 Aztec West.
- › A new prime rent has been set at 140 Aztec West where £22.50 psf has been achieved on a letting of 6,000 sq ft. Incentives remain at c. 1.5 months per year of term certain.

CITY CENTRE

1 VICTORIA STREET

30,000 sq ft let to Runway East



OUT-OF-TOWN

BUILDING 1, HARLEQUIN OFFICE PARK

27,259 sq ft let to ALD



CONCLUSION

The second quarter has seen a much needed improvement in the out-of-town market following a very poor Q1. A new prime rent has been set and the half year take-up is 15% up on the same period last year.

The city centre remains very robust with a large turnover of transactions and rents continuing to be pushed upwards. We are likely to see another record rent in Q3.

FIGURE 4: BRISTOL CITY CENTRE TAKE-UP
(H1 2013-H1 2018)
in sq ft

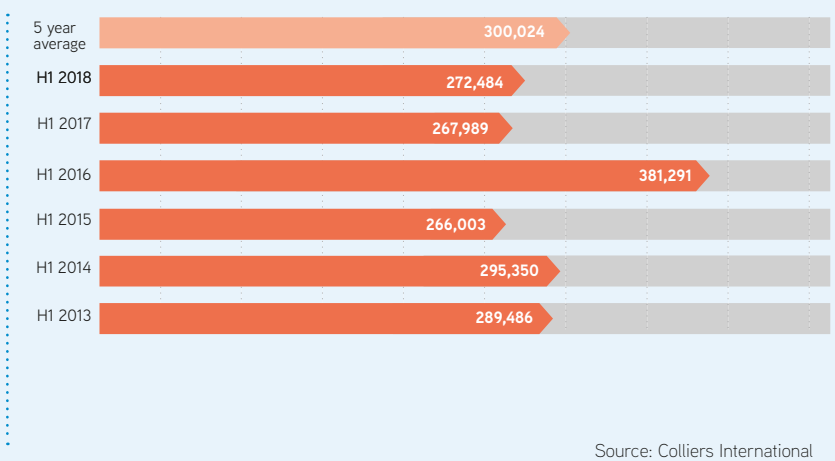


FIGURE 5: BRISTOL OUT-OF-TOWN TAKE-UP
by Size Band

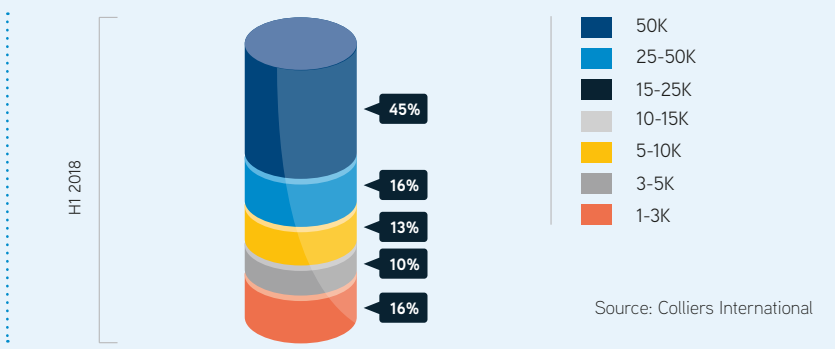
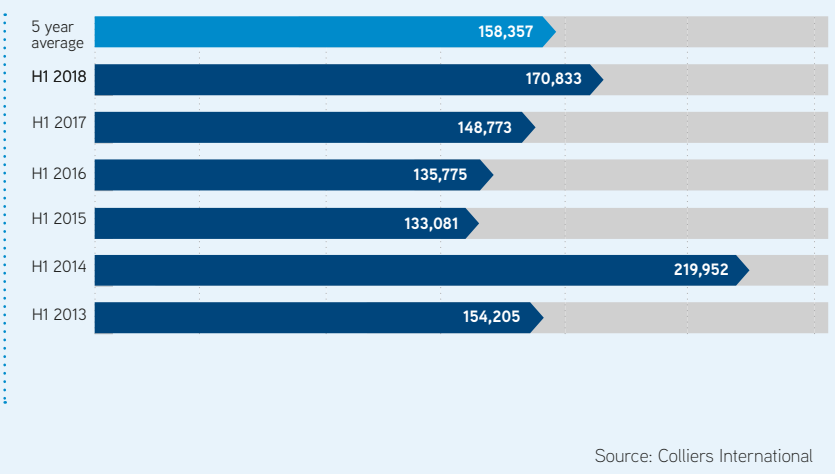


FIGURE 6: BRISTOL OUT-OF-TOWN TAKE-UP
(H1 2013-H1 2018)
in sq ft



INVESTMENT OVERVIEW

Total investment volumes in the Bristol market in Q2 2018 equated to £57.85 million from five transactions, five times the volume generated during Q2 2017 (£11.4 million).

These included three deals undertaken by Colliers international representing 93% of this quarter's volumes:

- › Sale of 1 Rivergate, Temple Quay on behalf of Aberdeen Standard Investments for £27.6 million.
- › Sale of Bristol House, Victoria Street on behalf of Castleforge Partners for £11.8 million.
- › Purchase of NatWest Court, Broad Street on behalf of Artisan Real Estate Investment for £14.25 million.

The investment volume for H1 2018 equates to £131.8 million from 10 transactions showing an increase of 142% from H1 2017 (£54.45 million).

City Centre Office Investment

In H1 2018, local authorities contributed substantially to Bristol's core office market with purchases exceeding £39 million through the acquisition of Bristol House and 1 Rivergate.

1 Rivergate, Temple Quay is the only prime office sold in H1. The property comprises 69,754 sq ft and is let to Ovo Energy Limited for eight years with breaks after year five. The purchase price of £27.6 million reflects a net initial yield of 5.84%. Bristol House on Victoria Street was sold part way through a thorough refurbishment and on completion will be let to Lyons Davidson on a new ten-year lease.

The gross purchase price of £11.8 million reflects a yield on completion of 5.18%.

Similarly, to H2 2017, the key trends for city centre offices in H1 2018 remain the same:

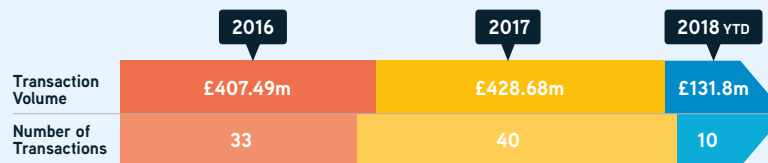
- › There continues to be a significant demand for city centre office investments.
- › There is still a supply & demand imbalance present with a shortage of assets openly marketed for sale.
- › Long leases offering secure income remain in demand.
- › Demand for value-add and core-plus opportunities remains strong, but there are limited opportunities as landlords look to capitalise on rental growth and are therefore reluctant to sell.

Out-of-Town Office Investment

There were no investment transactions out-of-town in Q2 2018; however, a number of deals are in negotiation, which we will report on in next quarter's bulletin.

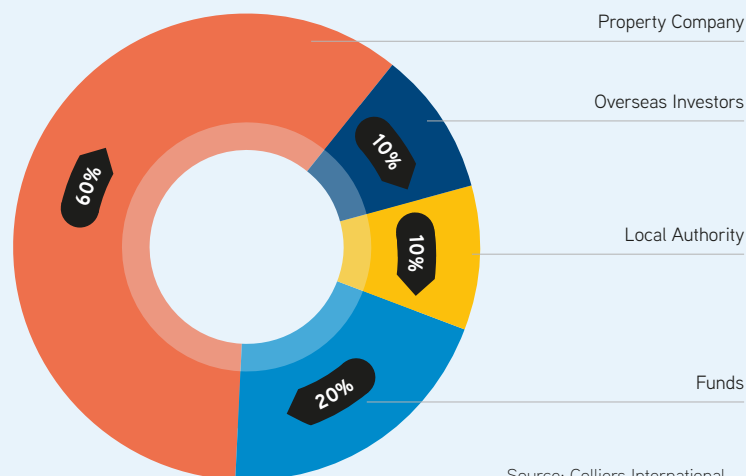
The Hub, 500 Aztec West, which was sold in March for £32.25 million remains the largest transaction in Bristol so far this year representing c.24% of the total volume of all transactions through the Bristol area. This modern out-of-town office comprises 102,483 sq ft and is wholly let to Atkins Limited for a further eight years and two months. This transaction offered a strong yield of 6.25% compared to similar properties.

FIGURE 7: TRANSACTION VOLUMES



Source: Colliers International

FIGURE 8: H1 2018% OF TOTAL INVESTMENT by Investor Type



Source: Colliers International

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FOR MORE INFORMATION

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