SUPPLY OVERVIEW

Total availability has increased across both the city centre and out-of-town markets, due to completions of newly refurbished space. However, overall supply levels are still very low and there is a significant shortage of Grade A space in both markets, with availability standing at just 2% and 3.1% in the city centre and out-of-town markets respectively.

CITY CENTRE AVAILABILITY

- All grade availability stands at 783,644 sq ft in the first quarter, which is 48% below the 10-year average of 1.5 million sq ft.
- Refurbished space at the recently re-launched Programme (112,200 sq ft) has contributed to the increase in Grade B availability this quarter.
- 3 Temple Quay (23,150 sq ft) and Templeback (13,002 sq ft) are the only two existing Grade A buildings with more than 10,000 sq ft of contiguous space to let. Grade A vacancy is below 2%, with all grade city centre vacancy at 6.6%.
- We expect further rental growth in 2018, due to continued demand for city centre locations.

OUT-OF-TOWN AVAILABILITY

- Availability increased by 22% in the out-of-town market and now stands at 588,701 sq ft.
- Space at the newly refurbished 800 Aztec West Business Park (c. 73,000 sq ft) and newly completed space at the Chocolate Factory (c. 40,000 sq ft) added to the level of vacant Grade B space.
- There was no change in Grade A availability, and vacancy remains at 3.1%. Overall vacancy increased to 9.5%.
- More than half of the vacant space currently available is for suites of less than 10,000 sq ft.
- Grade A rents in the out-of-town market are expected to increase this year in a deal at Aztec West that is due to complete in the second quarter.
TAKE-UP OVERVIEW

Following on from another excellent year in 2017, the office market in Bristol has started a little more steadily in the first quarter of 2018 with take-up totalling 155,000 sq ft, which is 28% less than the same period last year. The out-of-town market appears to have had a “blip” in take-up in Q1. Despite a reasonable level of enquiries, the conversion to deals has been poor.

CITY CENTRE TAKE-UP

➤ Take-up for Q1 in the city centre totalled 124,000 sq ft, a marginal 10% down on the 5-year average for the first quarter of the year, and is on a par with this time last year.
➤ There were 17 transactions in the city centre in Q1, the same amount as the first quarter of last year. The differential is that there were four deals over 15,000 sq ft in Q1 2017 compared to two so far this year.
➤ The largest deal this quarter was Immediate Media’s pre-let of the 34,600 sq ft Eagle House on Colston Avenue, followed by Ethical Property Company’s purchase of almost 21,000 sq ft at the Paintworks.
➤ The most prevalent sector, by some margin, in the market in Q1 was Media & Technology, accounting for 59% of space taken in town.
➤ Grade A rents remain at £32.50 per sq ft and Grade B rents still stand at £28.50 per sq ft. Rent free periods continue in the order of 1.5 months per year of the term certain.
➤ The shortage of supply continues to have an impact on take-up levels.

Source: Colliers International
OUT-OF-TOWN TAKE-UP

- Take-up in the out-of-town market totalled c.32,000 sq ft, a disappointing 64% down on this time last year.
- With 91% of the deals this quarter below 5,000 sq ft and no transactions above 10,000 sq ft, it is not surprising the take-up level in Q1 was so low.
- The largest deal of the quarter was the freehold purchase of the 8,683 sq ft 1600 Parkway North by The Society for Endocrinology.
- No particular business sector was dominant as take-up of space out-of-town was from a variety of business types.
- Grade A quoting rents remain between £21.00 and £22.50 per sq ft. The highest achieved rent in recent times is still £20.75 per sq ft at Robert Hitchins’ 2540 Aztec West, although we are aware that this will be surpassed in Q2. Grade B rents remain in the order of £14.00 - £17.50 per sq ft on average.
- Incentives in the out-of-town market reflect circa 1.5 months per year of the term certain.

CONCLUSION

The start to 2018 has witnessed a complete turnaround for the out-of-town office market which, despite a reasonable number of requirements, has seen the conversion to deals drop off. This is hopefully a minor ‘blip’, as we are aware that a new prime rent will be achieved in Q2. The city centre remains robust and has commenced the year on a par with Q1 2017. Rents continue to be pushed upwards due to the lack of supply and we anticipate new records will be set in 2018.

INVESTMENT OVERVIEW

Q1 2018 witnessed five Bristol office transactions totalling £64,500,000, which is double the amount traded in Q1 2017 (£29,000,000). Average capital values per sq ft currently stand at £235 per sq ft, a 34% increase on average capital values of Q1 2017, which were £175 per sq ft.

There were two transactions in excess of £10,000,000, which accounted for £47,200,000 in Q1 2018. These were:
- CEG’s off-market acquisition of The Crescent Centre, Bristol for £15,000,000.
- Sidra Capital’s acquisition of The Hub, 500 Aztec West for £32,200,000.

The Hub, 500 Aztec West accounted for approximately 50% of the total volume of all transactions. 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.
CITY CENTRE OFFICE INVESTMENT

The key trends for city centre offices in the first quarter remain the same as they did in H2 2017:

› There remains a significant demand for city centre office investments.
› There continues to be 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.
› Prime city centre yields are at sub 5.00%

Values in the city centre remain robust due to the shortage of openly marketed opportunities, the reduction of supply via permitted development rights, coupled with the lack of new supply and continued strong rental growth prospects.

There remains a diverse spread of buyers with strong demand still from councils, financial institutions, property companies and overseas investors.

OUT-OF-TOWN OFFICE INVESTMENT

The key trends for Q1 2018 in the out-of-town investment market were:

› There is limited demand for out-of-town office investment on short-term leases and inferior quality stock.
› Demand is strong for long-let offices offering secure income and also prime, well-positioned buildings on the best business parks; Aztec West and Bristol Business Park.
› Value-add opportunities need to be priced competitively to generate competition.
› The best yield achieved recently for a for prime, well-let office is 6.70% on The Hub. However, the forward funding of 100 Bristol Business Park in December 2017 reflected a net initial yield of 5.25% with its indexed linked 15 year lease presenting an “annuity-style” income profile. The property is let off £18.80 per sq ft and will comprise 85,790 sq ft.

Investor demand in the out-of-town market remains limited unless prime and long-let, with the majority of interest from property companies and councils with oversea investors active over £20,000,000.

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