



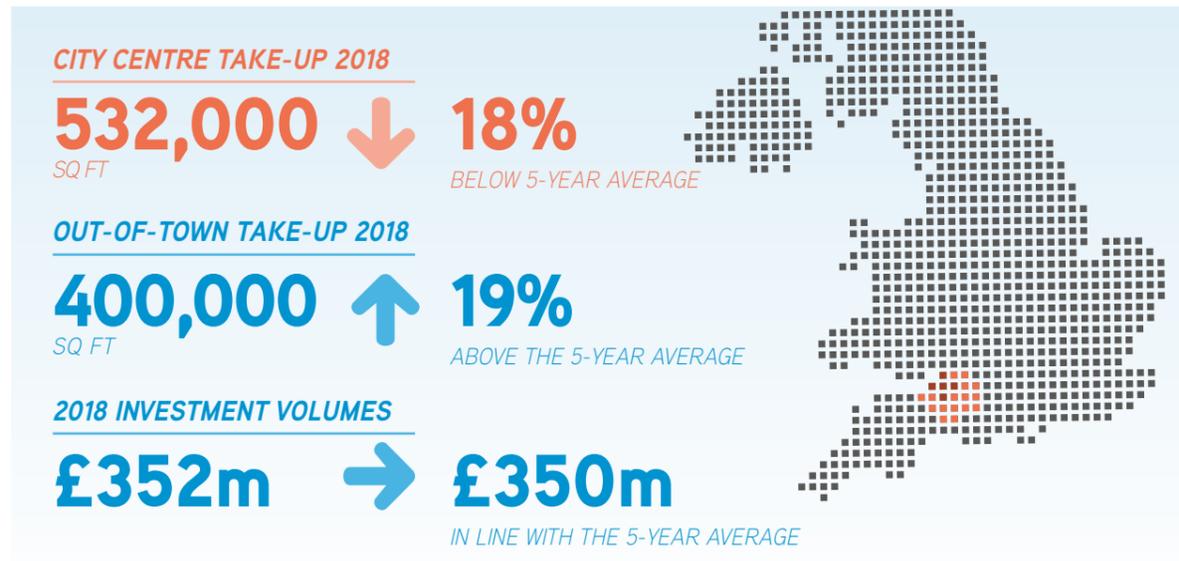
UNITED KINGDOM

BRISTOL

OFFICES

QUARTER 4 | 2018





MARKET HIGHLIGHTS

Supply Overview

2018 saw the trend toward diminishing supply continue in both the city centre and out-of-town office markets. Although this year saw the completion of two new Grade A city centre buildings (Aurora and 3 Glass Wharf), there was significant pre-letting activity at both buildings before their completion dates leaving little new Grade A space available to let on the market.

- The overall city centre vacancy rate now stands at 5.7%, whilst Grade A vacancy is 2.4%.
- We have seen record prime rents achieved in the city centre in 2018 due to the lack of supply and continued demand for Grade A space. We expect this trend to continue in 2019, with city centre rents expected to reach £36 per sq ft by the year-end.

City Centre Availability

- Overall city centre availability stands at 687,207 sq ft. This is 12% lower than the previous quarter, and over 50% below the 10-year average of 1.5 million sq ft.
- Two Grade A buildings completed this year delivering a combined 203,000 sq ft. 3 Glass Wharf was pre-let in its entirety to HMRC as part of its plans to relocate staff to regional hubs. Cubex's Aurora, was 85% pre-let before its completion with only 15,500 sq ft currently available. Only 92,000 sq ft is under construction at the Distillery-Glassfields development and will complete at the end of 2020.
- Grade A availability is at 60,831 sq ft. The majority of Grade A space available is in Templeback (c. 36,000 sq ft), along with 15,500 sq ft at Aurora.

Out-of-Town Availability

- Total out-of-town availability is at 410,000 sq ft, which is 17% lower than 2017 levels.
- There is no change in the amount of Grade A space with c.20,000 sq ft available. Grade A vacancy now stands at 5.1%, with overall vacancy at 6.5%.
- There is c. 85,000 sq ft due to complete at 100 Bristol Business Park in June 2019; however, this is pre-let in its entirety to Babcock.
- As a result of no newly built Grade A available space coming to the market, the out-of-town market should continue to see strong rental growth in 2019.

FIGURE 1: CITY CENTRE
Availability by Grade



FIGURE 2: CITY CENTRE
Rental Forecasts

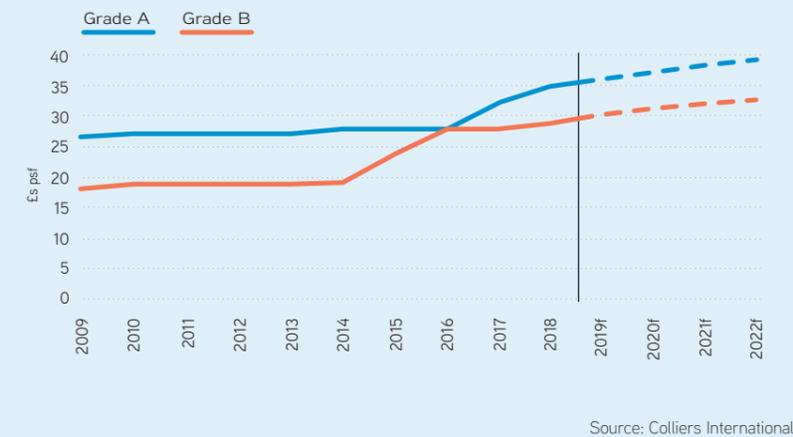
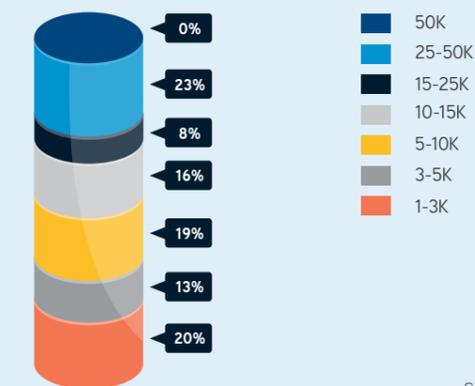


FIGURE 3: CITY CENTRE
TAKE-UP
2018 by Size Band



Take-up Overview

Overall take-up (in and out-of-town) in Bristol reached 927,600 sq ft in 2018, which is only 5% below the five-year average. When you consider that the last five years had seen three record years where over one million sq ft was taken up; the Bristol office market has remained very strong, despite economic uncertainty. Prime city centre rents grew by 7% during the last 12 months underlining this strength.

City Centre Take-up

- Take-up in the city totalled 532,000 sq ft, approximately 18% below the five-year average. The lack of good quality supply has impacted upon this level.
- With no deals over 20,000 sq ft in the final quarter, a subdued level of 97,000 sq ft was taken up.
- The largest city centre deal in the final quarter was MM Teleperformance taking a lease of just under 15,000 sq ft at Spectrum, closely followed by Epic Systems taking 13,500 sq ft at Hartwell House.
- Grade A rents remain at £35 per sq ft, which was achieved in Aurora in Q3.



2nd floor,
1 Redcliff Street

Hewlett Packard have taken a lease of 10,433 sq ft



800 Aztec West

HM Government have taken a lease of 32,000 sq ft

- Incentives remain at 1.5-2 months per year of the term certain.
- This quarter's take-up was diverse with no sector dominating.

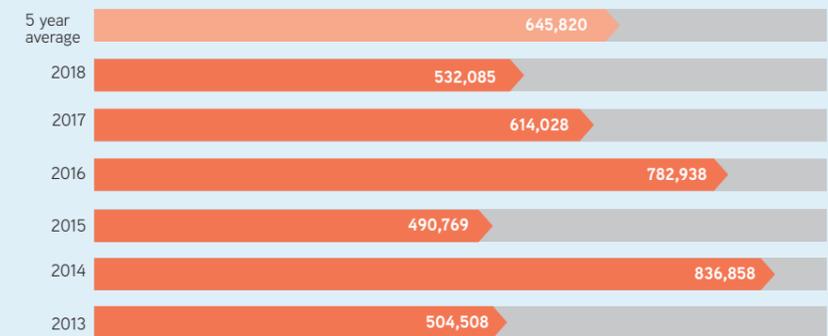
Out-of-Town Take-up

- 2018 take-up totalled 400,500 sq ft, an impressive 19% above the five-year average.
- Q4 reached 113,000 sq ft of take-up. A very similar level to Q3 and massively above Q1, which only achieved 32,000 sq ft.
- The end of the year was boosted by a government department signing up to 32,000 sq ft at the newly refurbished 800 Aztec West.
- The largest deal of the year was witnessed in the out-of-town market with UWE purchasing 77,700 sq ft at HP3+4 Stoke Gifford.
- Grade A rents have risen to £22.50 per sq ft, which was achieved at Aztec West.
- Incentives remain on average around 1.5 months per year of the term certain.

CONCLUSION

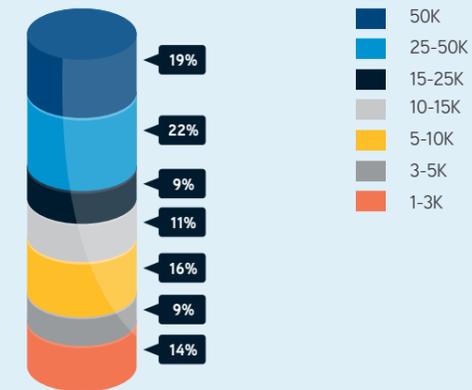
2018 was another solid year for the Bristol Office market with close to one million sq ft of take-up. After a very poor start, the out-of-town market bounced back to surpass the five-year average by almost 20% and see rents marginally rise to £22.50. The continuation of a lack of supply in the city centre had an even greater impact this year, but has assisted in pushing the prime rent to £35 per sq ft. With a lack of new development in 2019, it will be the refurbished buildings that are likely to satisfy much of the demand.

FIGURE 4: CITY CENTRE ANNUAL TAKE-UP 2013 - 2018 (sq ft)



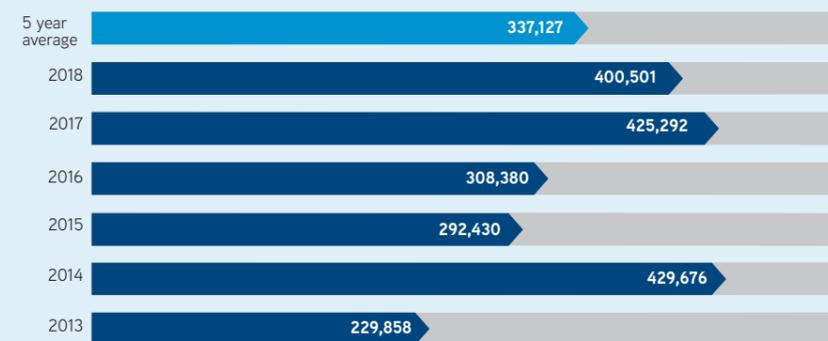
Source: Colliers International

FIGURE 5: OUT-OF-TOWN TAKE-UP 2018 by Size Band



Source: Colliers International

FIGURE 6: OUT-OF-TOWN ANNUAL TAKE-UP 2013 - 2018 (sq ft)



Source: Colliers International

Investment Overview

Total Investment volumes for Bristol in Q4 2018 were just £14.5m for three deals. This compares with 10 deals in the same period last year which totaled £201m and eight deals in Q3 2018, which totaled a record £205m. The Q4 five-yearly average is £120m and the last quarter of 2018 reflected a dramatic downturn in investment activity for this region.

During the entire year investment volumes were £352m compared to £428m in 2017 and £407m in 2016. The 2018 total was almost exactly the same as the five-year average of £350m.

In 2017, there were 19 deals totaling £312m in the city centre compared with only six city centre deals totaling £163M in 2018 reflecting a reduction in volumes of almost 50%. Outside of the city centre, the comparison between the years was less stark with 18 out-of-town deals totaling £120m in 2017 compared to 15 out-of-town deals totaling £189M in 2018; however, this figure is skewed slightly by 121 Winterstoke Road and Aztec 500 at £51.85m and £32.2m respectively. Over the last three years, we have noticed an increase in activity from county councils with one deal in 2016, two in 2017 and three in 2018. The most active investor group in 2018 were the institutions with circa 43% market share followed by property companies with 24%. Overseas investors dropped their market share from 27% in three deals in 2017 to 14% in two deals in 2018.

The key trends for Q4 were:

- › Dramatic reduction in the number of deals coming to the market.
- › Continued political and economic uncertainty causing stagnation in office investment activity in Bristol.
- › Prime yields remain at 4.75%.

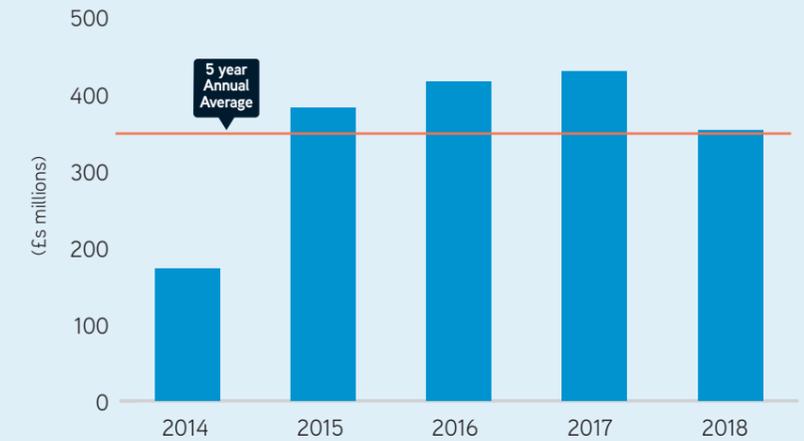
City Centre Office Investment

There were no city centre deals in Q4, although contracts were exchanged on the Generator, a vacant 30,000 sq ft office at Finzells Reach with completion set for spring. There are no openly marketed offices currently available to purchase despite a number of requirements across the range. Two deals were; however, completed outside the traditional prime core. Somerset House, Clifton purchased by CBRE Global Investors for £4.5m and 83 Tower Road North in Warmley, to the east of the city centre, which sold to a private trust for £3.58m.

Out-of-Town Investment

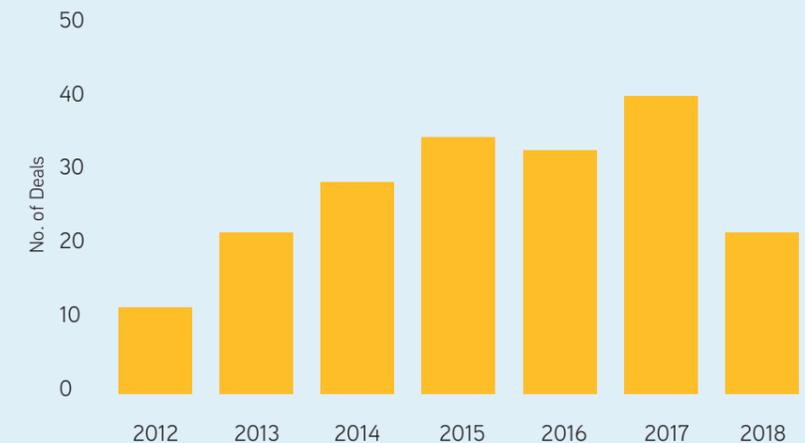
One prime office completed in Q4 at 430 Bristol Business Park, a 21,948 sq ft office let to Leonardo MW Ltd for a further seven years. The property was sold to Mendip District Council for £6.425m showing 5.96%. The quoting price was £5.9m 6.50% NIY.

FIGURE 7: INVESTMENT VOLUMES
2014 - 2018



Source: Colliers International

FIGURE 8: ANNUAL NUMBER OF TRANSACTIONS
2012 - 2018



Source: Colliers International

FOR MORE INFORMATION

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