The Bristol office market underwent a year of consolidation during 2015 where the lack of product, particularly Grade A office buildings significantly impacted on the final take-up numbers for the year.

Take-up in 2015 in Bristol totalled 783,199 sq ft, well short of the 1,26m sq ft transacted just 12 months earlier and down 7% on the 5-year average (2011-15). This contraction can be put down to a shortage of good quality supply, particularly for larger floor plates, rather than demand or economic fundamentals in the city.

Law firm, TLT Solicitors, secured the largest city-centre letting of 2015, when they signed up for an extra 27,135 sq ft at No.1 Redcliff Street, where they already occupied 60,000 sq ft.

In the last month EDF also signed its lease on 78,000 sq ft at Bridgewater House, Finzels Reach, taking the building to full occupancy and kick-starting the speculative development of the adjacent Aurora scheme (95,000 sq ft).

Out-of-town the largest deal was seen at Vertex Park, Emersons Green, where ALD Automotive signed a pre-let for 36,188 sq ft. The building is due for completion in November of this year.

The Bristol market has seen a sharp contraction in its office supply over the last few years, as Permitted Development has seen much of the city’s secondary and tertiary stock undergo a change of use towards higher value uses, such as residential and student housing.

The knock-on effect has seen an increase in rents, particularly for secondary space. On average Bristol offices saw rental value growth, according to MSCI, of 7.1% for 2015. This was the best rental growth performance of any of the ‘Big Six’ regional cities.

These rental increases have also impacted upon take-up numbers as occupiers have been put off by the new rental tone and have postponed potential office moves in favour of staying put.

Moving forward, there is still demand, particularly from public sector departments, and BNP Paribas forecast that head count within office-based employment in Bristol will grow by 12% to 2020.
Investment

Whilst the Bristol office occupier market may have seen a subdued 2015, the investment market certainly took off. Investors ploughed £385m into Bristol offices, up 131% on the £167m transacted in 2014 and well ahead of the 5-year average from 2011–15 (up 74%).

The city saw 15 deals completed for over £10m in 2015, with only Manchester in the regional office market, seeing more £10m plus assets transact. This demonstrates not only the attractiveness of Bristol to investors but also highlights that investors are not afraid to deploy relatively large sums into the city.

Furthermore, the biggest deal saw Orchard Street IM purchase 10 Templeback, from Benson Elliot for £58.5m (5.34% NIY). The building produces an annual rent roll of £3.3m. Whilst there were another four deals completed over £20m.

Perhaps the most headline grabbing of all the transactions was Aviva’s purchase of 66 Queen Square, the speculatively developed Skanska building, from which the majority was pre-let to KPMG. Aviva paid £32.78m at 4.94% (NIY), a record for this cycle and the first time we have seen sub 5% yields in Bristol since 2007.

For those that were able to deploy their money into Bristol’s office market they have been well rewarded. According to MSCI, Bristol offices on average saw Total Returns reach 16.8%, the strongest performance of all the ‘Big Six’ regional cities.

This strong performance was driven largely by capital growth of 10%, of which rental growth was the main contributor, picking up the baton from yield compression which was the main driver of performance in 2014.

We are forecasting Bristol to perform strongly once again this year, although the stellar returns that have been reached over the last couple of years are unlikely to be breached again this year. We believe Bristol will see 6% Total Returns for 2016, with the income component making up for a slowdown in capital growth.

Agent’s Outlook

Richard Ford, Head of Bristol Office Agency, provides his opinions on what he expects to see in 2016

“Bristol is the UK’s top tech city outside London”, read the headline from a new report, ‘Powering a Digital Economy’.

Bristol has fast become the first stop outside of London, not only for property investors, as witnessed in last year’s investment activity, but also for a number of new SME enterprises and particularly Media Tech.

Media Tech accounted for c.25% of take-up last year in Bristol’s office market, but this does not do justice to just how many underlying businesses there are, as more often than not, they’re are taking smaller space when compared to professional and financial services firms.

Tech and digital are the key drivers but it’s not just small start up businesses that are basing themselves in Bristol, with the BBC, IMBD (owned by Amazon), Hewlett Packard, Just Eat and Huawei all choosing to locate in the city.

It’s exciting to be part of the growing tech sector in Bristol. It boasts established support networks such as Bristol & Bath Science Park, and leading business incubator SETsquared, based at Bristol’s Engine Shed, as well as access to skilled workers, with four universities in the region. It makes Bristol an ideal place to start and grow a Media Tech business.

The challenge for the property industry and particularly developers, is to deliver Grade A offices into a supply starved market to satisfy demand in the next 36 months.

These developments will not only satisfy the growing Media Tech demand in Bristol, but also the larger professional services and public sector requirements.
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**Central London Office & Retail Market - Q4 2015**

**UK Logistics Investment Report 2015 - in association with MSCI**

**UK Housing Market Prospects - Winter 2015**

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