Despite the climate of uncertainty generated both in the run up to and post the UK’s decision to leave the EU, 2016 witnessed a resurgence in letting activity, with annual take-up totalling 1,103,062 sq ft. At this level, take-up fell just short of the post-recession peak set in 2014 (1,261,032 sq ft) and far surpassed the market’s five year average (up 33%). This strong performance was driven by a spate of larger deals, particularly for Grade A space, leaving the city with a pressing shortage of good quality supply.

2016 recorded the largest deal seen in 9 years. As part of the current GPU consolidation programme, HMRC pre-let 3 Glass Wharf (107,000 sq ft) securing a 25 year lease at a rental level of £28 psf.

Boosted by HMRC’s pre-let, the public sector accounted for the highest share of take-up (21.4%), with key lettings also agreed to University of Bristol (35,117 sq ft) and Highways England (30,430 sq ft). However, the city continues to demonstrate its appeal to a diverse occupier base with steady demand also recorded from the Media Tech sector (c.15%) and the Extraction, Utilities & Transport sector’s share rising by over 90% on 2015 following key deals to Ovo Energy and EDF. Going forward, the approval of Hinkley Point C has the potential to encourage further demand from this sector.

In recent years, the market has recorded a contraction in supply, with city centre supply at Q4 2016 at the lowest point since 2002. The city’s limited speculative development cycle post-recession, alongside the continued conversion of secondary and tertiary stock to alternative uses, have played key roles in this.

Despite strong market fundamentals, headline rents on Grade A stock remained flat over 2016 at £28.50 psf. However, according to MSCI, average rental growth of 4.1% was recorded (driven by growth in the secondary part of the market), following on from a 7.1% uplift in 2015. This places Bristol ahead of the other ‘Big 6’ regional cities.

With an increasingly pressing lack of Grade A stock, and this supply in-balance set to continue in the short-term, good quality refurbished stock could benefit from further rental uplift going forward. At the prime end of the market, provided market fundamentals remain strong, new schemes scheduled to come online over the next few years could be in line to target new record rents.
Investment

Mirroring the strength of the occupier market, the Bristol investment market recorded high levels of investor activity over 2016. Investment volumes reached £412m, the highest level seen since 2006, far surpassing the 5-year average (up 86% on 2011-15).

Investment activity was focused largely in the city centre submarket and dominated by domestic investors. Two of the more notable transactions comprised forward funding agreements, illustrating investor appetite in the regions for Grade A development opportunities in core locations.

In H1 2016, Palmer Capital in a joint venture with CBRE Global Investors agreed a £40 million speculative forward funding deal at the Aurora scheme (95,000 sq ft, completion due Q4 2017).

In addition, and a significant sign of confidence in the market post-EU referendum, the largest transaction of the year occurred in Q4 2016. Legal & General Property agreed to forward fund the development of 3 Glass Wharf to the tune of £76m, reflecting a headline yield of 4%. The office element of the scheme, pre-let to HMRC for a 25 year term, will produce rental income of £2.94m pa.

With regards to existing Grade A stock, the high-quality Bridgewater House scheme was sold earlier in the year to a private overseas investor, shortly after EDF’s substantial letting (81,202 sq ft) took the building to full occupancy.

Symptomatic of the current lack of investment opportunities for existing prime trophy-style assets, with owners choosing to hold back on sales given the uncertain climate, a high number of the remaining investment transactions across the year concerned relatively low sums, involving a mix of smaller, well-let Grade A schemes, high quality secondary offices and small refurbishment opportunities.

As is typical, investment volumes were much lower in the out of town submarket – accounting for c.20% of total investment activity. Investor interest was in the main focused at Aztec West, one of the market’s established out of town business parks. Interestingly, the largest deal agreed here concerned Surrey County Council Pension Fund’s acquisition of 2000 Aztec West for £19.9m, reflecting a yield of 6.19%. Although not a substantial sale, this transaction reflects the recent rise recorded in local authorities investing both in property in general, but also property outside of their locale.

Yields on prime stock remained static over the course of 2016, standing at 5.25%, however it remains to be seen whether H1 2017 will show any outward yield movement.
Agent’s Outlook

Richard Ford, Head of Bristol Office Agency, provides his opinions on what he expects to see in 2017

Bristol exceeded expectations over 2016, weathering the post-EU referendum slowdown to post strong take-up levels and healthy investor activity.

The city’s appeal to a diverse occupier base was highlighted once again. And it is this diversity, rather than reliance on any one key sector as a demand driver, which should help the city continue to thrive in a post-Brexit climate.

The Media Tech sector continued to drive demand, reinforcing the city’s increasingly prominent reputation as a tech base outside London.

Additionally, the UK Government’s approval of the new nuclear power station Hinkley Point C in September 2016 has placed Bristol firmly on the global map as a growing energy hub, with the development receiving substantial international investment from China and French firm EDF. EDF’s involvement in the scheme led to the firm committing to a substantial letting at Bridgewater House, advised by BNP PRE, and this will act as a draw to other energy and engineering firms.

The issue for the market at present is a lack of Grade A development. With Cubex’ Aurora the only speculative Grade A scheme scheduled to complete over 2017, and with current supply particularly constrained, we are expecting a shift to pre-let activity. In the meantime, the market’s existing stock is being revitalised by a number of high quality refurbishments, encouraging further rental growth for refurbished stock.

Aspire - 200,000 sq ft office development

Glassfields – 350,000 sq ft+ mixed-use office, hotel & leisure site. First phase will comprise 36,500 sq ft office

2 College Square, acquired by CBRE Global Investors from M&G Real Estate for £22.8m (4.97% NIY)

2 Temple Back East, acquired by Ardstone UK from DEKA Immobilien for £34.1m (5.83% NIY)

Castlemead, Bristol’s tallest office acquired by Oval Real Estate for £22.3m as a refurbishment opportunity
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As we move through the year we expect to see the top ten purchasers into the UK, being from overseas. Aberdeen Asset Management and Derwent have disposed of 54 assets in The Capital post June 23rd, Standard Life, TH Real Estate, Columbia Threadneedle, active and spent £3.2bn in Q4 in Central London alone.

Perhaps one of the most interesting developments has been the case in every year post 2008 crash). That ‘bounce’ never came once the UK voted to ‘Leave’, and rental growth slowing, however many observers investors attention.

Standard Office
Supermarket
Office Park
Residential

Industrial
Office
Retail
Other

Distribution Warehouse
Logistics, regional offices and alternatives (PRS,

Take-up by sector in 2016

BREXIT
FIG 1. RENTAL GROWTH HAD STARTED TO SLOW PRIOR TO
FIG 2. OVERSEAS INVESTORS DOMINATE PURCHASES IN LONDON
POST-BREXIT (JULY 2016-END JAN 17)
FIG 3. ALTERNATIVES & INDUSTRIALS WEATHER THE POST-
FIG 4. BRISTOL OFFICES INVESTMENT VOLUMES

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