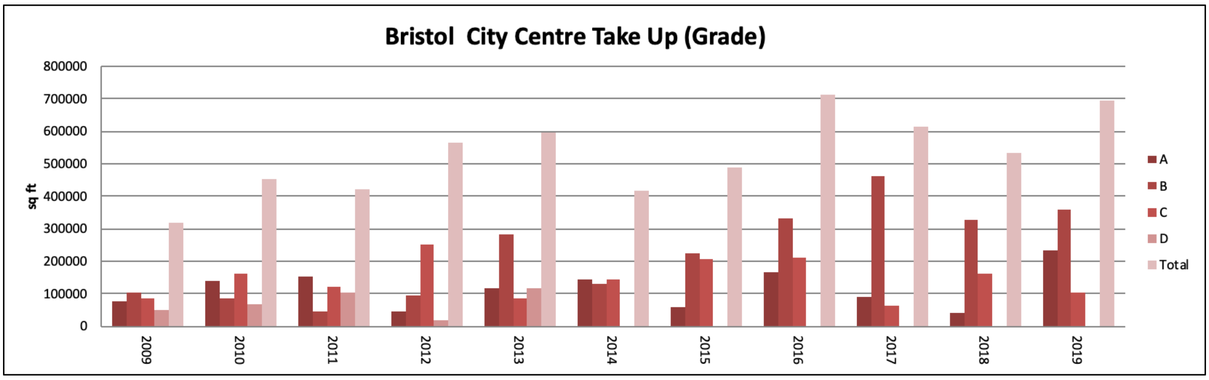
MORTONS MARKET MONITOR – 2019

Records tumble in busy 2019 for Bristol

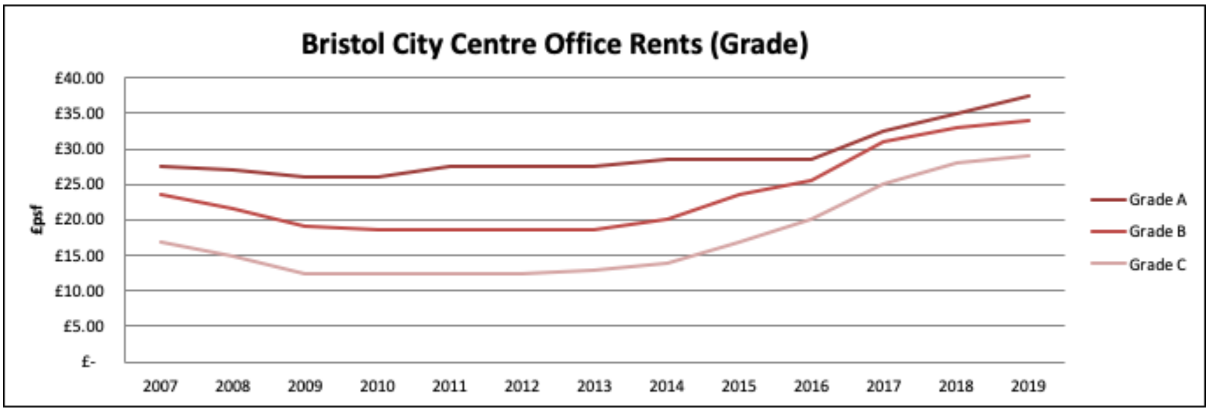
The largest letting since 1990, and the highest rent ever achieved - along with the biggest ever speculative office building to start - were three of the highlights for 2019.



Office take-up in the city centre was 693,909 sq ft, and 244,695 sq ft out of town. These figures compare with last year's totals of 532,085 sq ft and 400,501 sq ft respectively and the 10-year averages are 549,397 sq ft and 333,610 sq ft.

Also worth highlighting is the fact that the city centre continues to do well in comparison with North Bristol. This is having implications for rents – more on which later.

Rents still climbing



At £37.50 psf, the rent agreed by Shaw & Co for a 3,820 sq ft suite at the newly refurbished 22 – 24 Queen Square (Owner: EPIC) was £2.50 psf above last year's highwater mark - a new benchmark for the city and ample indication that tenants are now quite happy to pay as much for quality refurbished space as they are for Grade A.

Rents on deals throughout the city centre reflected continued upward pressure as a direct result of a lack of quality stock and continuing demand: existing availability of Grade A is down to just 15,621 sq ft at Cubex's Aurora.

With growing competition from indigenous and incoming businesses, there is now a very real opportunity for developers, as traditional rental division lines between Grade A and Grade B+ become completely blurred.

The city has already push rents in line with rival regional cities, and this should act as encouragement for landlords to upgrade existing stock and act as a spur in attracting further investment into the city.

In the second-hand market, activity was good, helping to maintain rents – which are now registering an historic high having seen three record rents set during 2019.

Letting highlights

Work on Assembly Building A, the city's biggest ever speculative development, is still in progress, where BT took a 200,742 sq ft pre-let on it this year – reward for the confident decision by AXA Land Managers / Bell Hammer to press ahead with such a large project.

As was HMRC's move into 3, Glass Wharf (Owner: NFU) which occurred following the 107,000 sq ft deal agreed in 2016. While this trend is good news for Bristol, it is having a detrimental impact on smaller regional towns and cities as occupiers vacate space and shed jobs.

While that dominated the headlines, several deals by increasingly acquisitive co-working operations soaked up available space in key buildings around the city centre: Clockwise took 30,611 sq ft at the Generator Building in Finzels Reach;

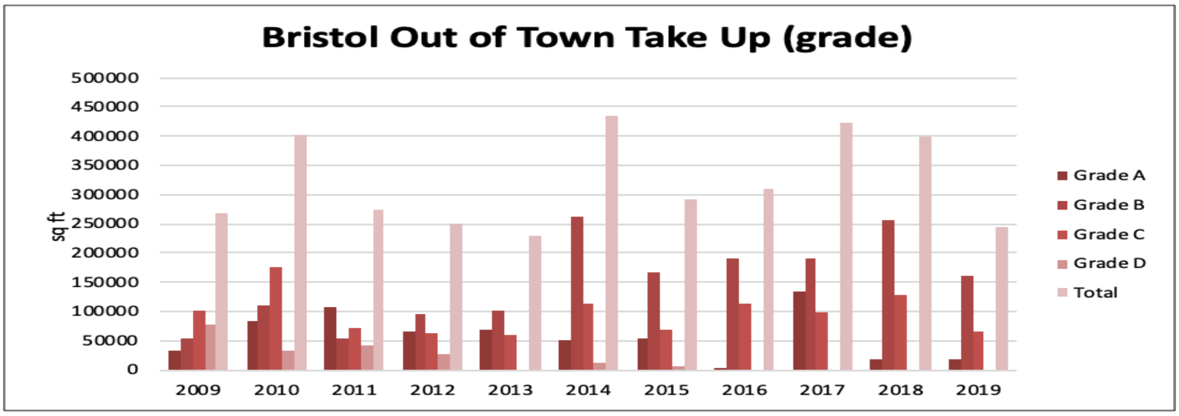
Spaces signed for 26,500 sq ft at Programme (Owner: Resolution) in All Saints Street,

Landmark grew its operation by 9,781 sq ft at One Temple Quay and Runway East opened its second Bristol base at 101 Victoria Street. Head line desk rates average £300 per desk per month, with occupancy around 90% at any one time. Other operators are actively looking to take space in the market.

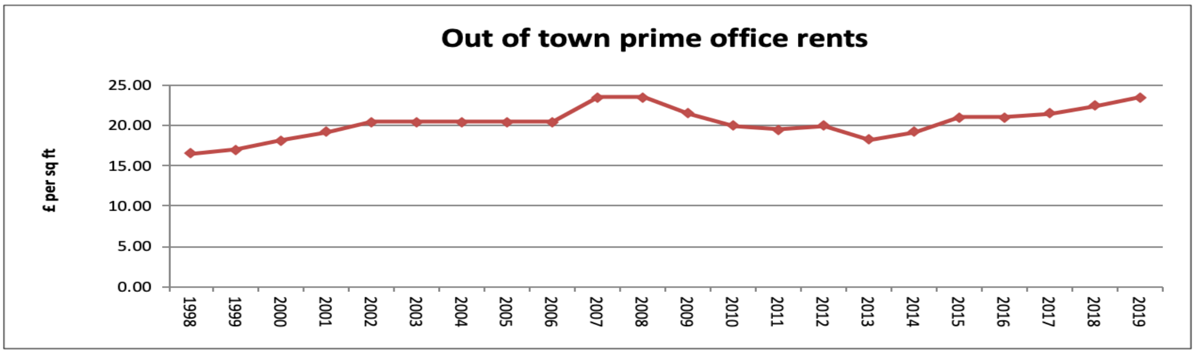
Another noteworthy deal in 2019 was Channel 4 taking space at Cubex's Fermentation Buildings at Finzels Reach to house its commissioning departments – one of a number of acquisitions to sit along side Graphcore, Oncorps, Ultraleap, Xmos and Immersive Labs which are fast becoming the Unicorns of Bristol, demonstrating how the creative and tech sectors are leading the charge over other regional cities. These businesses received the help and support from the world renowned Set Squared incubation centre at the Engine Shed and guidance from Invest in Bristol and Bath.

Out of town

While take up in North Bristol continue to lag behind the 5 year average at 244,695 sq ft, there are some hopeful aspects of the market to provide a fillip to landlords looking to upgrade their properties.



There were two record rents set on Aztec West during 2019 with the best achieved being £23.50 psf to Edvance UK Ltd at 800 Aztec West, representing a significant gap with Bristol city centre market. As a result a number of landlords are pushing ahead with refurbishments confident that rents will continue to edge up.



Take up is steady, if not spectacular; in particular Aztec West performed brightly, with quality refurbishments at 800, 600, and 730 letting well, while St James Place Partnership took 40,760 sq ft at 2610 Aztec West in the year's largest deal away from the city centre.

There is optimism that more refurbishments coming through the system will edge rents up during 2020 as the shortage of city centre supply forces occupiers to look north, and with the nuclear supply chain to Hinkley Point still expanding.

Upcoming developments

As ever, a number of developers are waiting to press the button on the next major start in the city. The fact that several tenants looking to move in the next year or so had been taking an interest in Assembly will focus minds.

The certain news is that the 93,000 sq ft Distillery at Glassfields (Owner: RLAM) will be completed in Q2 2020, and Cubex has commenced work at Halo (116,113 sq ft) completing in Qu2 2022.

The second phase of AXA Land Managers / Bell Hammer's Assembly (85,000 sq ft), Aspire (200,000 sq ft) (Owner: CEG) and 4 Glass Wharf (215,000 sq ft) all have consents – but which will make the first move? As 2019 was coming to a close, the 1.3 acre site for 4 Glass Wharf changed hands: Tristan Capital Partners' real estate opportunity fund, EPISO 5, acquiring it from a JV between Salmon Harvester Properties and NFU Mutual. All state that work will begin mid-2020 with a two-year build time.

Assembly

Aspire

4 Glass Wharf

In addition to the new build prospects, there is also a reasonable amount of refurbishment work proceeding in the city centre as landlords look to meet the demand for character space with amenities, encouraged by rents now rivalling Grade A. V7AM's Pivot + Mark remodelling of Bridge House (42,000 sq ft) is a good example of how these buildings are well equipped to accommodate agile working and higher density of workspaces.

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Looking ahead…

The recent history of office development in Bristol has been one of caution, but continuing demand for grade A space averaging 111,347 sq ft per annum and rising rents might see more than one of the larger schemes coming forward this year, increasing supply to over half a million.

One thing that is certain is the changing nature of new the office market: landlords are becoming far more confident about letting on shorter leases and tenants themselves are keen not to lock themselves into accommodation which they might rapidly outgrow. "Core and flex" is seen as a way forward, especially for those businesses relying on contracts, and developers are looking more imaginatively at future buildings – with co-working space on one or two floors and more conventional office lets on others. In addition, the city has a large unmet need for grow-on space for the many entrepreneurial businesses that are starting up here or spinning out of Bristol and Bath's universities.

Offices are quickly transitioning to something much more akin to an hotel, with younger companies adopting a very different approach to occupational costs - simply factoring them into contract costs and prepared to pay a premium for the right product; it is no coincidence that the highest yielding deals have been smaller lets to newer businesses.

Employees are also seeking more from their working environment: amenities, meeting areas and bike spaces, for instance… somewhat countered by reducing demand for car parking spaces in city centre locations.

The market is moving forwards confidently as we enter 2020, with the political uncertainties that unsettled some sectors over the last few years seemingly largely settled. With record rents triggering a new wave of development, further opportunities for occupiers, landlords and developers alike is the key to 2020…

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