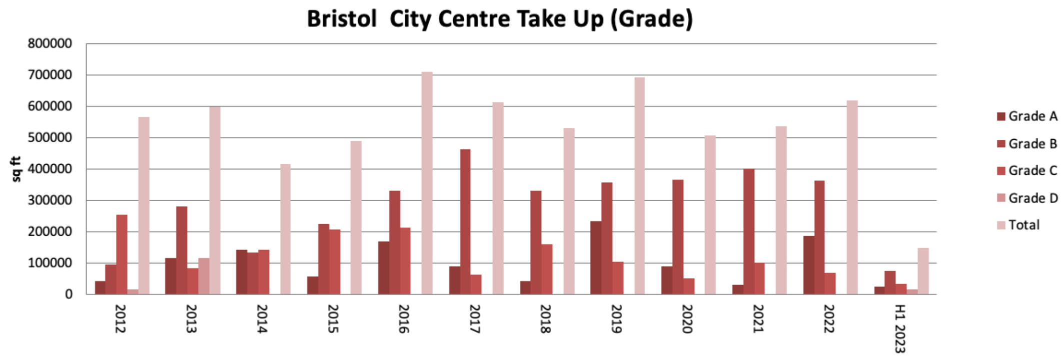
# MORTONS MARKET MONITOR - H1 2023

**A subdued start to 2023, but cautious confidence still prevails in Bristol office market**

Bristol city centre office take up figures for H1 were well down on the five- and ten- year averages, reflecting economic concerns nationally and internationally as many occupiers paused briefly to take stock of where their businesses are, where they think interest rates will end up, and what any borrowing will cost them going forward.

Q1 saw 82,694 sq ft transacted, and Q2 was slightly down on that at 66,050 sq ft.




That said, a further 300,000 sq ft worth of deals are poised for completion in H2, led by occupiers in the professional services sector coming to the end of their existing leases, and this would bring 2023 more into line with long term averages.

Business sentiment across all sectors could probably best be described as "cautiously confident": yes, growth projections may have been trimmed back, but the majority of companies envisage retaining the same level of staffing – a recognition that if they slammed the brakes on every time there was a challenge within the economy, they would never make any headway.

The standout city centre deals of the first half, and the only ones of 10,000 sq ft plus, were

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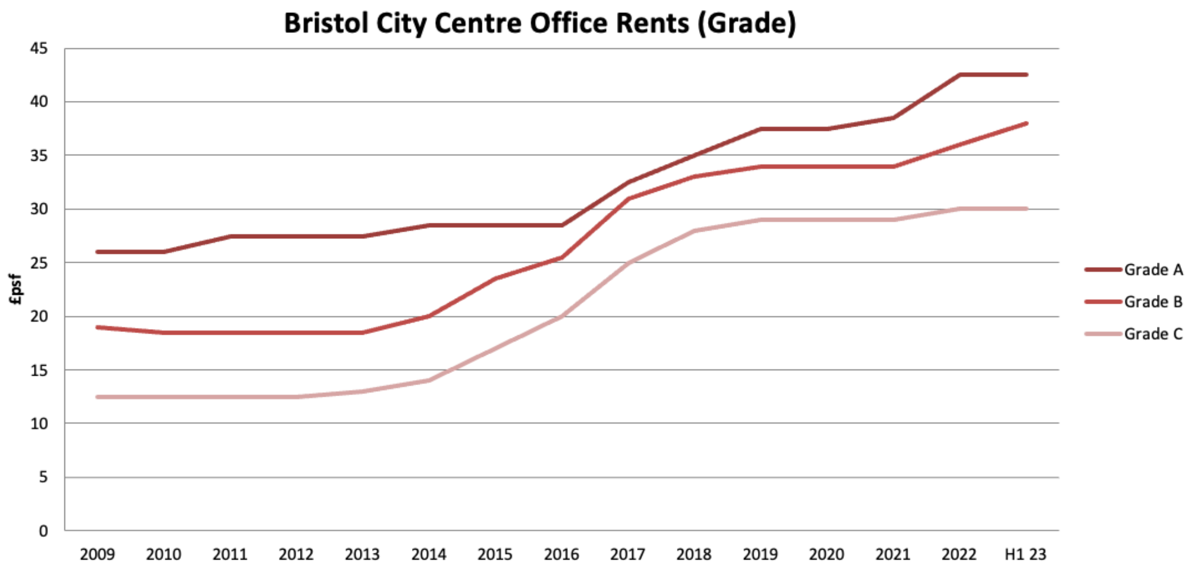
| Nelson Trust taking 12,169 sq ft at Protheroes House | Michelmores acquiring 11,371 sq ft at 10 Victoria Street | HSBC agreeing terms on 11,054 sq ft at EQ. |

## Rents

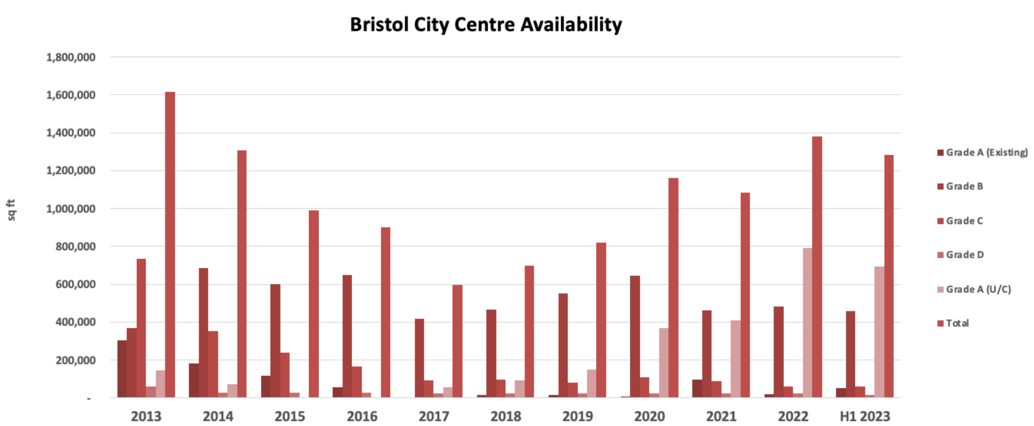
Bristol continues to lead the way across the city regions in terms of prime headline rent: this is now hovering around the £42.50 psf mark (most recently with XTX taking 4,435 sq ft at the Cargo Works). To put this into context, occupational costs invariably remain a small part of employers' business costs; moreover, flexible, quality accommodation that ticks all the ESG boxes is now seen by HR as an essential recruitment and retention tool at a time when there remains stiff competition for talent in many sectors.




Rents for quality refurbished space are only a few pounds per square foot below Grade A, again reinforcing the message that Bristol is not oversupplied.

## Forward supply

There is currently just 53,546 sq ft of Grade A immediately available for occupation in the city, leading to some commentary around tightness in supply. However, a further 694,649 sq ft is set for Practical Completion during the last half of the year, which represents a fairly healthy balance between supply and anticipated demand, and will be enough to encourage churn in the market.



The buildings coming through in H2 include:

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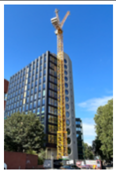
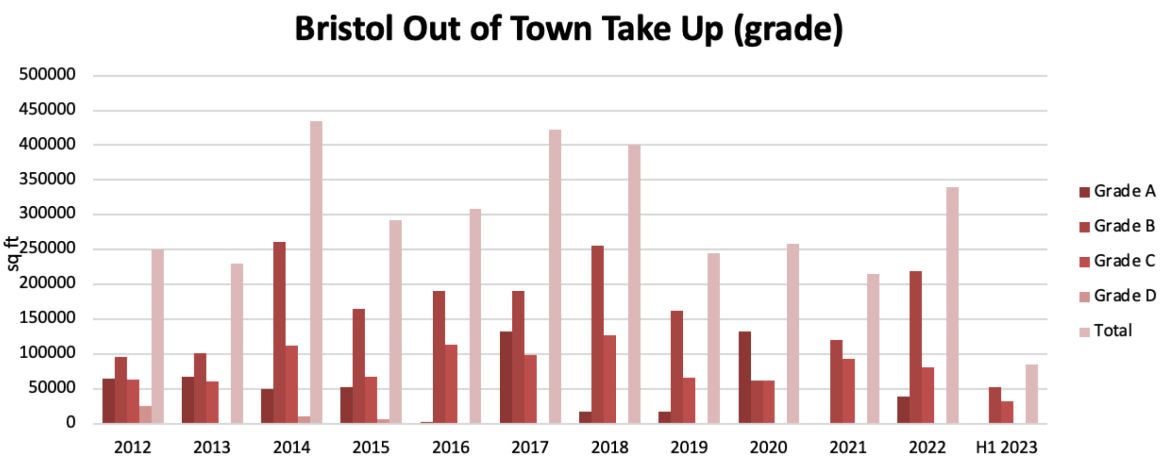
|  |  |  |  |  |  |
| 100 Victoria Street | North Quay House | Welcome Building | EQ | Assembly B | Assembly C |

Next off the blocks will be 3 Rivergate, Temple Quay, where Credit Suisse has pushed the button to refurbish and reposition 75,000 sq ft of space, reflecting investor confidence in the market for the right product in the right location. As the city centre continues to reduce car access in order to meet air quality obligations, the more important the railway station will become for occupiers, reinforcing the popularity of locations including Temple Quay and Finzels Reach.

**Out of town**

North Bristol also experienced a slow start to 2023. Deals in Q1 totalled just 34,370 sq ft – with 10,098 sq ft of that accounted for by Ascent Training taking space at 220 Bristol Business Park. Q2 brightened up slightly, with 50,802 sq ft transacted. IVC agreeing terms on 16,931 sq ft at The Chocolate Factory was the biggest deal done. Both quarters were well below the five- and the-year averages.

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The completion of CEG's 1000 Aztec West is being keenly anticipated as the arrival of modern, top-quality space in North Bristol promises to set a new rental benchmark. While the £27.50psf being quoted is well below Bristol city centre prime rents, it is still well ahead of the current North Bristol highwater mark of £23psf.

**Aztec 1000**

**What's with all the Unicorns?**

Greater Bristol is spellbound by Unicorns, 60 of them on the "unicorn trail", part of the city's ongoing "Unicornfest" which is helping raise money for charity and awareness of our superstar businesses of similar status…

The city is already one of Europe's top 20 tech hubs and home to four "unicorn" businesses (namely Graphcore, OVO Energy, Vertical and Pax8) defined as a privately held start-up company valued at over US$1 billion… which is highly appropriate for a city that boasts two unicorns on its coat of arms!

Unicorn businesses offer huge potential for creating high value jobs, and making them feel welcome here has to be a priority. Part of that process is offering workspace that assists their growth plans: their space requirements tend to start small but can expand almost exponentially in a very short space of time.

Pax8, the most recent addition, was a start up in 2020 and (within just 12 months) required additional room for 240 staff has been a case in point. Attracting them to Bristol and into their first base at Runway East involved close liaison work with the ever-excellent IBB. Their next move – into 24,375 sq ft at 2 The Distillery – called for flexibility from the landlords to offer them "Cat A+" space, with the fit-out funded through additional rental terms over five years rather than an upfront payment.

In common with many rapidly growing enterprises, Pax8 would rather use their available capital to recruit more staff and grow their business, rather than fund large upfront payments for their workspace.

This may not be the first CatA+ deal we've seen in the city, but it is by far the highest profile one to date, and presents a template for many tenants on a sharp growth trajectory to occupy space in some of our newest buildings (which invariably require a fit-out prior to occupation), and for landlords to attract high growth tenants.

**Darwinism and the Bristol office market**

Over the next few years, a large number of tenants within the city centre face lease events which will be making them consider their options. Moreover, they will typically be looking at these options at least two years ahead to ensure business continuity.

Added to that, occupier expectations have shifted considerably in the last few years: they want buildings that tick all of the right ESG boxes, will appeal to their staff and can be configured to new ways of working. Hybrid working has become the norm and staff are now typically working in the office three days a week, but this has not led to a 40% reduction in requirements. Because additional space is wanted for collaborative working areas and amenities, the total reduction in space per employee is usually around 25% less than before.

Car parking is also far less important now, although bike storage and facilities as well as EV charging spaces are now a must.

To complicate matters further, this is happening at a time when EPC expectations for buildings are being revised upwards, putting the onus on landlords not only to ensure that their properties meet the new standards, often requiring major upgrades to their HVAC systems, but also to do so in a timeframe that will enable them to re-let them to their existing tenants. Broad Quay House is a good case in point where the landlord, Abrdn, is restructuring existing leases to allow a potential remodelling of the entire building in 2026.

Landlords should be assessing their existing office stock well ahead of lease events to provide certainty to existing tenants and minimise the risk of ending up with costly voids. Refurbishing space is expensive, but with rents for Grade B+ so close to Grade A, the decision to do so for landlords is being made a lot easier.

From both landlord and tenant's perspective, three or four years ahead of a lease event is becoming the norm to consider options for over 15, 000 sq ft. However for everyone it is never too early to start looking at future requirements, knowing that – if the current building cannot be remodelled or refurbished within a reasonable budget or timeframe – then the tenant will need to start looking elsewhere and even, perhaps, get the benefits of a pre-let, rather than being left with no 'Option B'.

If you or your tenants are approaching a lease event, don't hesitate to get in touch to start the ball rolling.

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