

# MORTONS MARKET MONITOR – H1 2024

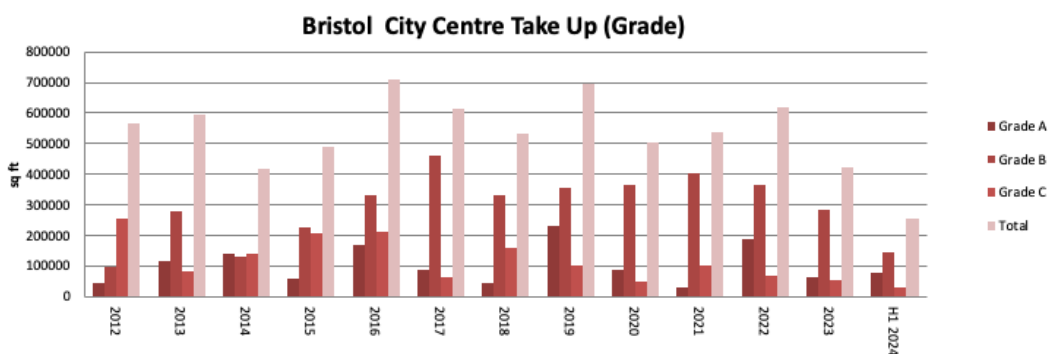
## A positive start to 2024 sees rents move up as take up improves

The second quarter of 2024 built on strong Q1 office take-up figures to leave the Bristol market in a strong position as it enters H2.

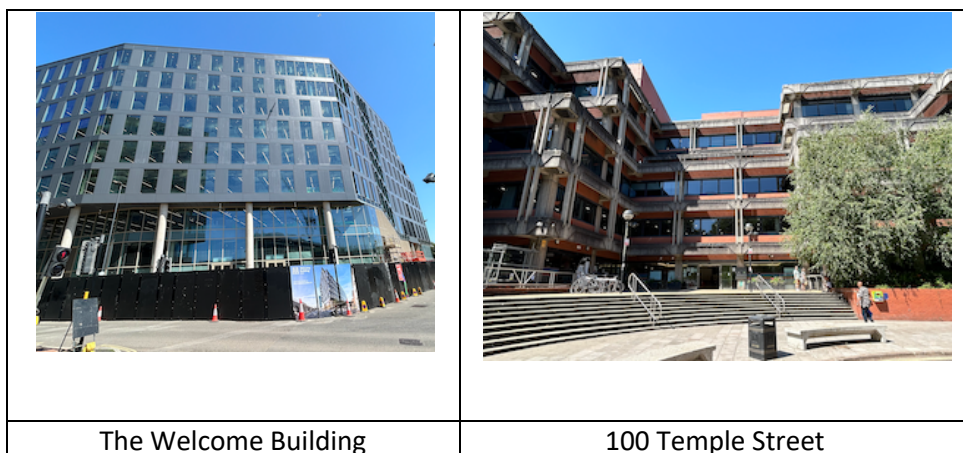
The timing of the General Election may have come as a surprise to many, but the markets had clearly priced in a change in Government, and the usual slowdown in activity seen ahead of an election failed to materialise.

### City Centre take up

In fact, office take up in the city for the second quarter – at a tad over 126,000 sq ft – was almost identical to Q1, adding up to an H1 total of 253,035 sq ft that was well up on the same period in 2023, when less than 150,000 sq ft was transacted. These latest figures are only slightly below five-year averages.



Q1 saw the two biggest deals of the first half: DAC Beachcroft taking 44,196 sq ft across the 6<sup>th</sup> and 7<sup>th</sup> floors of The Welcome Building, while the NHS agreed terms on 31,161 sq ft at 100 Temple Street.

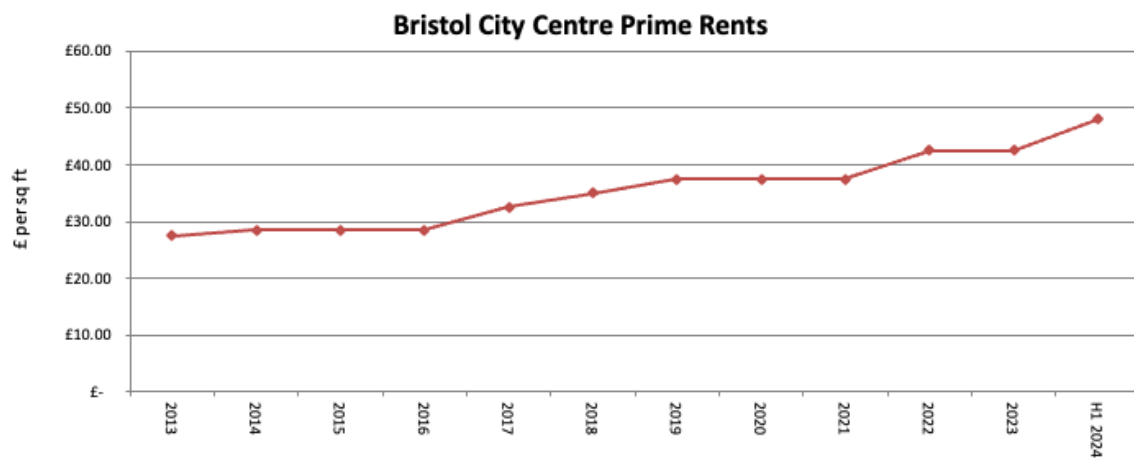


Q2 featured more, but smaller, deals than the first three months: 29 deals completed in quarter two compared with 20 in Q1. The biggest of these was Great American Insurance Group’s move to 20,365 sq ft at One Temple Quay. Other notable deals agreed include Ridge and Partners taking a further 13,559 sq ft within Picton’s Tower Wharf, while three more occupiers signed up for EQ: Rathbones (12,000 sq ft), Birketts Law (7,390 sq ft) and Knights (6,017 sq ft). Also noteworthy was Bristol Office Company taking on 9,504 sq ft in Gilbert House, Corn Street for serviced offices.



### Rents

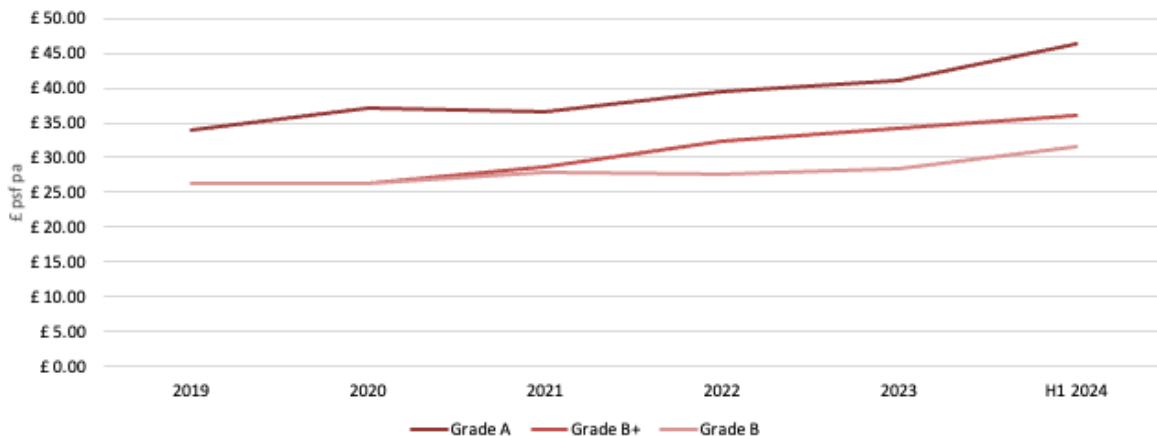
The interweaving dynamics influencing rents in the city remain: tenants are being driven by candidate shortages to seek out higher quality product, and the relative shortage of new Grade A space means that rents are continuing their upward trajectory – DAC Beachcroft paying £46psf at the Welcome Building before a deal for part of the 7<sup>th</sup> floor at EQ topped that at £48psf.



These transactions successively established new benchmarks for the city, putting Bristol just ahead of the pack in terms of regional centres. Direct comparisons, however, can be misleading as Bristol’s prime offices typically include significant amounts of amenity space, and may or may not include parking.

Rents for quality refurbished space offering high levels of ESG are keeping pace, as the chart from our research demonstrates, while the gap with those offices not meeting prevailing ESG expectations continues to grow.

## ESG - Bristol City Centre Average Rents



Definitions:			
Significant ESG credentials	Good ESG Credentials	Limited ESG Credentials	
<b>Grade A</b>	<b>Grade B+</b>	<b>Grade B</b>	
New build on cleared site, never been occupied	Redevelopment of existing office building, in part external and internal, structural, secondhand space	Refurbishment of predominantly office space only, secondhand space	
EPC 'A'	EPC 'A/B'	EPC 'B/C'	
NABERS 4.5+	NABERS 4.0	No NABERS score	
BREEAM minimum 'Excellent'	BREEAM minimum 'Excellent/Very good'	BREEAM not registered	
Communal meeting rooms	Communal meeting rooms	Limited communal meeting rooms	
Studio/café	Studio/café	No studio/café	
Extensive shower and changing facilities	Extensive shower and changing facilities	Few showers, limited changing areas	
Lockers - min ratio 1:1000 sq ft	Lockers - min ratio 1:2000 sq ft	Few lockers	
Cycle spaces - min ratio 1:1000 sq ft	Cycle spaces - min ratio 1:2000 sq ft	Few cycle spaces	
Air conditioned	Air conditioned	Air conditioned	
Raised floors	Raised floors	Raised floors	
Fitwell - platinum or better	Fitwell - platinum/gold	Fitwell low score	
Extensive reception area	Improved reception area	Partially improved reception	

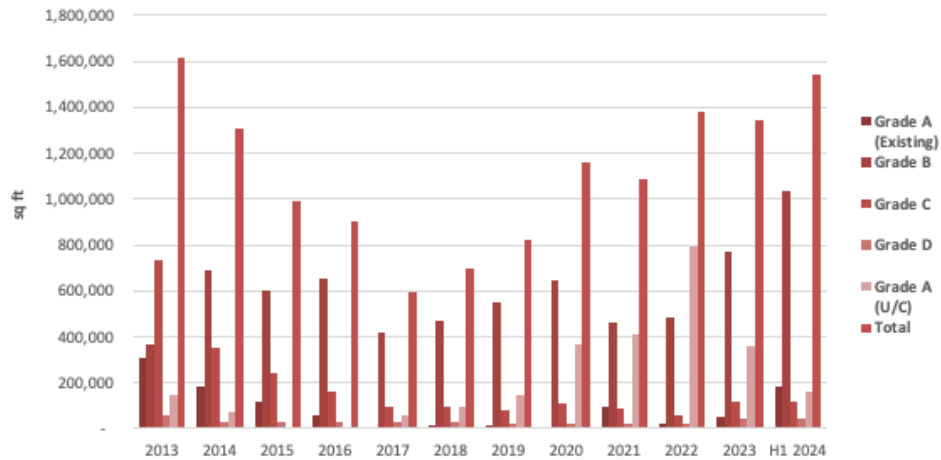
The ongoing challenge for landlords is to offer space that meets the ever-increasing demands of occupiers keen to recruit top talent: fit outs that set new benchmarks some ten, or even five, years ago can quickly become tired and outdated.

Fortunately, there is now a recognition by the tenants that quality comes at a price and that occupational costs are a relatively small part of business overheads. Tenants are also increasingly looking to landlords to follow the London trend on suites of circa 5,000 sq ft or less, offering Cat A+ terms: funding the fit-out, incorporating this into the rental terms or amortising the costs over a five-year lease and offering a “fitout” rent.

### Supply

The total Bristol city centre office space currently available or in the pipeline stands at 1.54m sq ft, of which existing offices account for 1.11m sq ft. Brand new grade A space under construction and not spoken for (Tristan Capital’s Welcome Building) stands at 162,546 sq ft, with a further 270,014 sq ft of redevelopment or refurbished space underway to a Grade B+ standing.

### Bristol City Centre Availability



While several other schemes have recently PC'd (including EQ, Assembly B & C and One Hundred) all have either secured some tenants or are in discussions.

In the short term, this level of available office space across a range of grades represents a good shop window for clients typically looking for up to 10,000 or 20,000 sq ft. What the city centre is currently short on, however, are new Grade A quality offices coming into the pipeline for larger requirements—especially for the 100,000+ sq ft opportunities that the Bristol market encounters every three or four years.

So, while refurbishments and redevelopments are plugging the gaps in supply at the moment, with Redcliffe Quay and Portwall Place being the latest to be given a green light, concerns continue about where demand can be met as from the end of 2026. It is therefore likely the “new grade A” category will be the “current redeveloped grade B+” with full ESG certifications, including the following:



The market is waiting for one or more of the developers with outline consents in place to press the button on new Grade A starts. The prospect of finding tenants for these is not the factor delaying decisions, rather it's a concern around viability: developers will be parsing the complex matrix of construction costs, interest rates and headline rents – which will probably need to move into mid £50s psf territory to instil confidence.

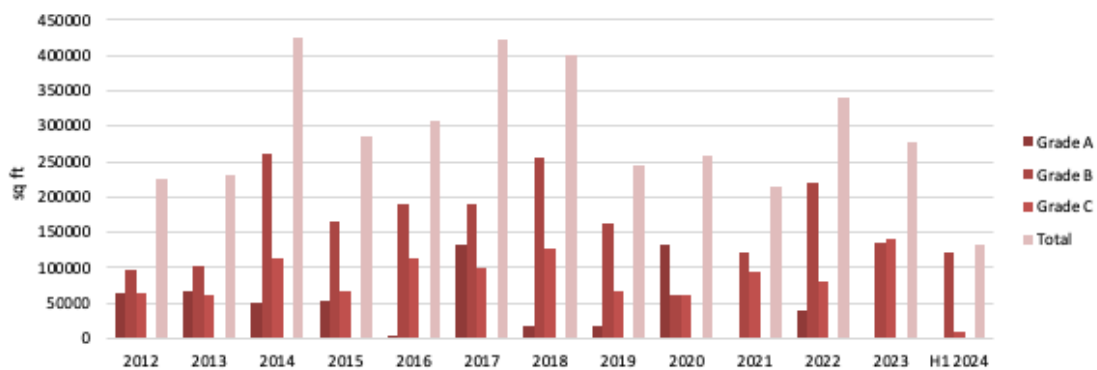
This nexus may not be too far into the future, with prospective tenants at the Welcome Building already being quoted rents north of £50psf, and interest rates tipped to edge downwards in the coming months.

Meanwhile, the proximity of rents being achieved for redeveloped Grade B+ with good ESG certifications (peaking at £44.50 psf in H1) is making the financial equation for redevelopment increasingly attractive for those landlords with kit coming up with broadly aligned lease events.

### Out of town

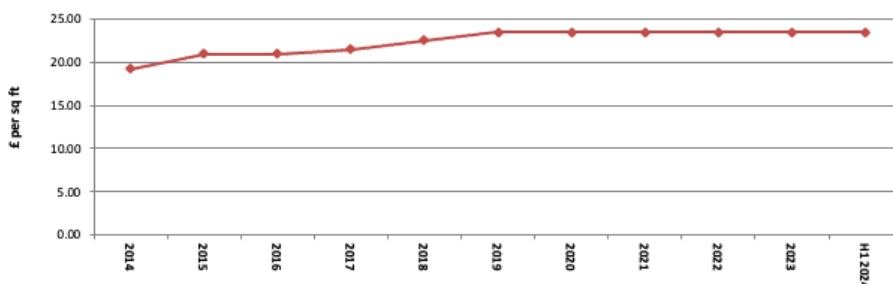
The OOT market continued to move along steadily in H1, with a respectable if unspectacular 54,118 sq ft transacted in Q1 and a further 77,330 sq ft in Q2. Headline rents remain moored at around £23 psf, as the gap between city centre and North Bristol continues to widen. There remains a market for out of town, but the dual attractions of amenities and public transport links to be found in the city centre continue to act as a magnet for many.

**Bristol Out of Town Take Up (grade)**



The largest two deals both came in Q2: Sirona Care and Health agreeing terms on 20,420sq ft within South Gloucestershire’s Council offices in Yate, and Citibase taking 19,328 in the Aztec Centre.

**Bristol Out of Town Prime Office Rent**



## Trends to watch

- ESG (described earlier) continues to be the dominant factor driving deals and rents, reflecting the ongoing challenge to recruit top talent.
- While the professional sector, along with the tech and creative, continues to play a big role in take up, demand from engineering companies is increasingly helping to shape the market.
- Working From Home / Hybrid Working have settled as established working practices, but while three days a week (choice) has been the pattern for most organisations, there is a distinct trend for more staff going into the office an extra day – and, more often than not, that is on a Monday. To date, that is not impacting space requirements.
- Looking ahead, there is confidence in the market and a very positive business “vibe”. With inflation under control and the UK proactively looking to attract investment, there is every reason to assume H2 will be another positive year for the city’s office market.

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