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MORTONS MARKET MONITOR – 2024

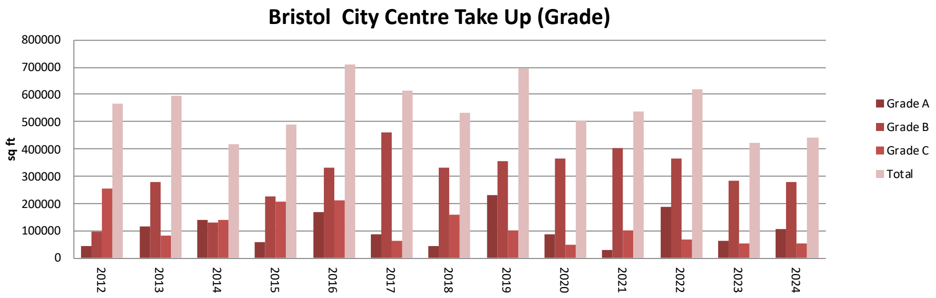
Rents rise against a slight tightening of supply… but options remain

“May you live in interesting times” is an ancient epithet that could well be applied to the Bristol office market during 2024, as a whole series of different factors impacted on take up and supply.

Not least of these was an uncertain macro-economic and geopolitical background, while the Budget (rather than boosting business confidence) made a significant dent in sentiment, leading to a number of deals being consigned to the back burner.

That said, Bristol saw a new record rent being set in 2024, and we continue to attract new businesses and talent into the city.

The total take-up for Bristol City Centre, at 440,560 sq ft, represented a marginal increase over 2023’s 421,200 sq ft… but we seem to have settled into a new “post-Covid norm” of lower take-up figures than prior to the pandemic: in the order of 10 – 15% lower, when compared to the market in the late 2010s. So arguably we should be judging these statistics accordingly.



The out-of-town figure was even more anaemic in relative terms: 186,221 sq ft, down 27% on the five year average. This part of the market is struggling to recover to the scale it once was, as today’s office worker wants to come into a more vibrant environment (ideally by public transport or on foot/bike) with amenities on hand, and somewhere to go at lunchtime and after work.

Are we now in a “new normal”?

It's five years since the start of the pandemic: an event which affected all aspects of society, the economy… and the property market. Since then, we have settled into a different pattern of office occupation. So what does the new “post-Covid normal” look like for the Bristol office market?

“Working from home” during Covid morphed into hybrid working: a three-two days split has become the norm since then, although there is now a distinct trend towards more staff coming into the office for four days rather than three.

This dynamic continues to play a significant role in take-up, with some (but not all) occupiers taking the opportunity to reduce the amount of space they take. Alongside this, businesses are working hard to entice staff into the office, and the focus now is on quality space with good amenities. The emphasis is also on space that includes collaborative working areas.

And it's no co-incidence, post pandemic, that incorporating "wellness" features high on every occupier's must-have list, as this is a principal requirement from personnel who often have a choice of job options.

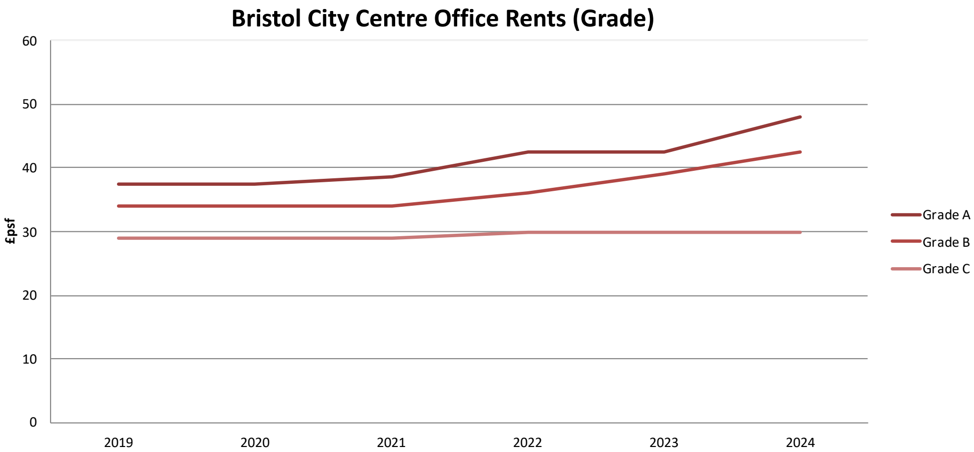
Finally, while the amount of space being transacted has reduced overall, office agents are having to work harder than ever to meet the list of requirements from their clients: we now need to get under the proverbial "bonnet" to understand our clients' business models and HR policies more than ever before… which we see as a positive trend.

Breaking down the stats

The best biggest deal of the year saw DAC Beechcroft take 44,196 sq ft at the Welcome Building in Q1. The second biggest was at 100 Temple Street, also in Q1, where the NHS acquired 30,161 sq ft.

		
The Welcome	100 Temple St	EQ

What was expected to be the headline deal of the year at The Welcome fell at the last hurdle, but the £48 psf paid by Knights for 6,017 sq ft at EQ still marks a significant hike on the 2023 benchmark of £42.50 psf.



Other interesting deals during the year include serviced office operator BLOCK taking 21,235 sq ft at The Fairfax, and the successful pre-letting of 3 Rivergate, which was repurposed by Credit Suisse, with two lettings totalling 26,385 sq ft to Aecom and DNV… proving that if you do repurpose a dated office building well, then you achieve success.

The Fairfax

3 Rivergate

Back to the earlier point of what clients (and, specifically, staff) expect: the fundamentals of a modern repurposing are to have a good end-of-journey facilities, be ESG compliant and incorporate good wellness facilities. Put those together, and you start to get a winning formula.

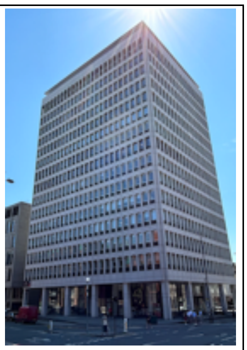
Critically, landlords prepared to invest in that way can now reap the rewards of rents in the early £40s – well up on previous years' refurbished benchmarks. Occupiers do recognise what they will need to pay for space that ticks all of the boxes to recruit talent in a tight labour market, and that occupational costs still represent a relatively small part of their business outgoings.

The trend towards greater lease flexibility continues, with even landlords of Grade A space prepared to offer 10-year leases with 5-year breaks in return for a pound or two on the rent, spurred by the prospect of rental growth in the future. Rent frees, meanwhile are holding steady at around one to 1.5 months per year of term taken.

Supply vs demand

What is becoming very apparent on the existing supply side is the ever-widening two-tier market between those buildings that meet current occupier expectations and those looking distinctly outdated, where rents can go down to the £29.50 psf mark.

On the supply side, the current existing office availability across all grades of stock is 1,100,000 sq ft. In addition, a further 162,000 sq ft of brand-new Grade A space is under construction along with a further 243,000 sq ft of second-hand space being repurposed to Grade B+ standard, incorporating sustainable good quality end of journey and well being spaces – such as the 21,000 sq ft available at One Redcliff.



One Redcliff

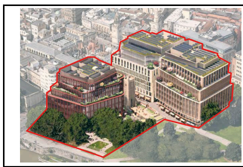
For the most active part of the market, which is circa 4 to 5,000 sq ft, that means there is a good level of supply for someone looking to make a move in 2025. Even for someone coming in with a very large requirement, there is still 100,000 square feet of top-quality space available at the Welcome building.

Going forward from 2025 is where it gets interesting, because (with the exception of the Friary, which can offer 59,000 square feet) nothing has started on-site for the last 18 months, which will mean no new additional space which can be occupied for the next two years.

The Friary

Against this, there are six development or redevelopment opportunities over 100,000 sq ft with consent in the city centre, and several more in the planning pipeline. These include:

		
Soapworks 154,000 sq ft	One Passage St 106,000 sq ft	Portwall Place 144,000 sq ft

		
St Mary Le Port 100,000 sq ft	One Temple Way 113,878 sq ft	2 Temple Back 154,829 sq ft

There are various major occupiers with lease events coming through during 2027- 29 who will be struggling to find suitable space unless one or more of the developers presses the start button. The challenge is that, despite the record rents now being achieved for Grade A in the city centre, there remains a viability issue: construction costs have stablised but remain high, and yields are still around the 7% mark. EQ, one of the city's prime office spaces, was sold at a yield equivalent to 7.25% and 10 Victoria Street at 7%, at the end of 2024.

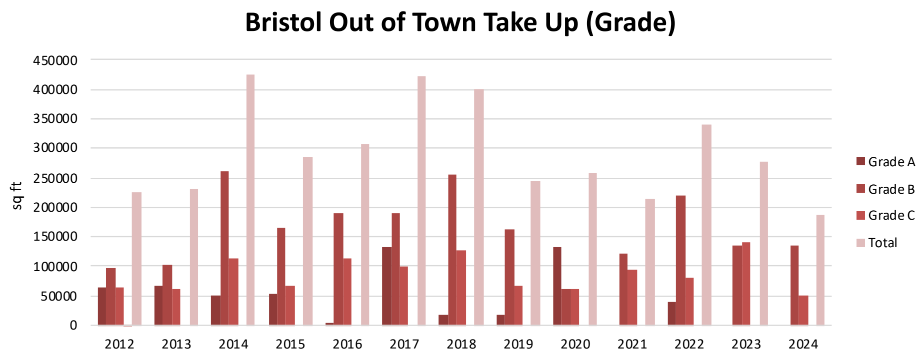
The best chance going forward would be an institution or propco with available funds being contrarian, ignoring the current exit yields, looking at the continued tenant demand… and reaping the rewards come 2029-30.

Furthermore, we feel there is a strong argument for agents, developers and occupiers to collaborate and stack several pre-lets together to bring at least one of these opportunities together.

12 Whiteladies Road, Clifton, Bristol BS8 1PD | 07921 061 198 | 0117 973 63 99 | phil@mortonpc.co.uk | www.mortonpc.co.uk

Out of town

The 186,221 sq ft of space transacted during 2024 was significantly lower than 2023's 276,867 sq ft, but a number of deals are in solicitors' hands and several large requirements are circulating in the market which are expected to land in 2025, bolstering the market. The two largest transactions of 2024 both occurred in Q2: Sirona taking 20,420 sq ft in the South Glos Council Offices in Yate and Citibase acquiring 19,328 at The Aztec Centre.



There are plenty of occupier options available here, although a significant proportion of this is now looking dated: 1000 Aztec West stands out as the one recent redevelopment on the market, with a rent of £28.50 psf being quoted with strong interest.

The gap between rents in the city centre and out of town continue to widen, making new development here a difficult proposition; however, there remain plenty of occupiers whose businesses need to be close to the motorway network, or to UWE, the MoD or Hinkley Point C.

2025

Looking ahead into the coming year, several drivers will continue to make the Bristol office market "interesting".

Firstly, candidate shortage is still setting the mood music in the city, so quality space will continue to be the focus for most occupiers, leaving offices that don't meet their requirements harder to let.

Against that, there are uncertainties around the economy and the wider geopolitical situation, so many businesses are being more cautious about their growth strategy.

While there are options across the board at present, the current supply situation will almost certainly tighten during 2025/26; and, unless at least one or more new or refurbished schemes get the go-ahead, the options going into 2027 and 2028 will be significantly fewer.

For further information please contact:
Phil Morton MRICS,
DIRECTOR,
T 0117 973 63 99 **M** 07921061198
E phil@mortonpc.co.uk **W** mortonpc.co.uk