UK’s economic backdrop

- The UK’s economy is in full recovery mode, output has now finally surpassed its pre-recession peak, and many property occupiers are assessing their requirements.
- The annual rate of GDP growth in Q2 was 3.2%, well above the 25 year average of 2.5% this year compared with the 25 year average of circa 2.6% pa. Growth over the last five quarters has been consistently above trend, and recent survey evidence suggests this will continue in the short term.
- The level of employment has been remarkably resilient since the start of the financial crisis in 2008. With economic output now exceeding its pre-crisis peak and the region’s unemployment rate of 5.3% is well below the UK average of 6.4%, it is clear that the South East and Eastern regions of the UK have lower unemployment rates.

Bristol's economic outlook

- The South West has been one of the strongest performing UK regions over the last few years. Experian estimates that for the year to Q2 2014, its economy grew by 2.3%, which was only exceeded by London, and the wider south east.
- Bristol has outperformed both the South West and the UK in terms of output growth over the last decade, as figure 1 shows. Over the next five years, the city should continue to see growth, driven by its strategic location for access to the South West and South Wales and as a hub for innovation and research.
- The city has a highly educated, highly skilled workforce, buoyed by the presence of four universities in the wider Bristol area, including the University of Bristol, which is ranked amongst the top 100 in the world. This represents a major draw for employees, and has helped to underpin the city’s employment growth.
- Linked to this is Bristol’s track record as a highly innovative city, and has the highest number of net business start-ups per 100,000 people of all the eight English core cities (121.1 per 100,000 in 2011, and 167.7 in 2012). It also has the highest ranking of the core cities in terms of patents per 100,000 population, with 6.3 per 100,000, almost double the UK average. Recent successful start-up companies include Maplebird, which develops unmanned aerial vehicles, Heka which specialises in manufacturing high performing metal products for engine components, and XMOS who develops multicore microcontrollers.
- Bristol’s success is underpinned by the recent Grant Thornton High Growth index, which ranks the past and future growth potential of English towns and cities. This gave Bristol a score of 150, ranking it fourth in the UK.

- Bristol is the largest city in the South West with a population of more than 450,000. Strong growth is expected, with the population projected to rise by 30,000 over the next decade.
- The city has a well-balanced economy, including major contributions from sectors such as professional services, logistics and transport (boosted by its strategic location for access to the South West and South Wales and as a hub for innovation and research).

Bristol property market overview

- The UK’s commercial property construction sector is gearing up for the next cycle and activity in the main commercial property sectors is rising, albeit from a low base. This reflects a widening of activity from central London, as rising capital values, low tender price inflation, improving availability of finance and decreasing supply of prime space combine to improve viability.
- Leasing activity is slowing from the high levels seen in 2013, as rising capital values and increased take-up on the quality space across the UK are now under construction.
- Bristol’s office market continues to show good positive signs as the city continues to attract investment from institutional landlords and development switches from London to the regions the city is able to offer.
- As a result, increased demand and requirements in the distribution market is outstripping the availability of good quality space, driving land prices and selling prices higher. This is a significant trend, and will continue to drive up values as supply becomes increasingly limited.

- The city’s world-class academic research and excellent provision for knowledge-based and hi-tech industries has helped to attract more than a third of UK-owned FTSE 100 companies.
- Bristol is a hub for innovation and research, attracting a wide range of high quality space across a number of markets. Design and build construction continues to dominate new supply as occupiers seek prime space.
- The city’s commercial property construction sector is gearing up for the next cycle and activity in the main commercial property sectors is rising, albeit from a low base. This reflects a widening of activity from central London, as rising capital values, low tender price inflation, improving availability of finance and decreasing supply of prime space combine to improve viability.

- Lease expiry and rising corporate activity will generate increased demand for office space, and our recent report “Driving future growth: core cities and the knowledge economy” reveals the considerable opportunities our cities have to build on the knowledge and creative sectors to boost growth.
- Supply is generally higher in the regional out of town office markets but there has been an encouraging level of take-up and quality supply is now becoming tight in a number of locations across the UK, including the North East.
- The retail sector is also not benefiting from the cyclical upturn, helped by sectors such as the UK’s booming automotive export industry, but also from the structural shift towards demand for e-tailing warehouse space.
- As a result, increased demand and requirements in the distribution market is outstripping the availability of good quality space, driving land prices and selling prices higher. This is a significant trend, and will continue to drive up values as supply becomes increasingly limited.
- In the retail sector, rising consumer confidence, strong employment growth and heavy discounting continue to underpin buoyancy in retail sales volumes. However, continued price deflation is putting pressure under price, although an easing of the squeeze on household incomes should begin to feed through.
- Nationally, vacancy rates for high street retail property appear...
Bristol property market update September 2014

Bristol commercial property market

City centre office market

- Bristol city centre has a total office stock of approximately 16.5 million sq ft.
- Total office availability has been steadily reducing over recent years with the increase in occupier demand coupled with the loss of office buildings to mainly residential uses. This has been driven by the recent relaxation of planning legislation under Permitted Development Rights allowing change of use without the need for planning consent.
- We estimate that approximately 450,000 sq ft of office space has already been sold for residential conversion. This includes buildings such as Westgate, Lewis Place, Norfolk House and Housegate House which combined have taken a total of 325,000 sq ft of office space out of the market.

Industrial market

- The latest Bristol take up data suggests a strong first six months of 2014. Our number one concern is the declining supply of high quality space, which mirrors the trend we are also seeing in many other parts of the UK. However, there is a limited speculative development on site at Warramley in North Bristol and at Avonmouth a proposed 3 unit speculative scheme by St Modwen is currently going through the planning process.
- Demand is still quite patchy, led by companies serving the changing retail markets and a resurgent trade counter sector. On-going development deals are indicating some very strong rental growth in the next six months with prime appraisal led deals such as Victoria Quays by Emmersons Green and Chancerygate’s landholding at Great Western Pkts in Yate. Grade B deals are rumoured to be approaching £80 psf.
- Land values have remained stable at £300,000 - £450,000 per gross acres; prime rents at £65.00 - £70.50 psf. The shortage of the stock is improving rental growth prospects at the near end of market with rents of £4.00 - £5.00 psf, and incentives are moving in from 12 months plus on a five year lease.
- Feehold availability is virtually non-existent, and this is generating upward pressure on values for ageing stock.

Retail market

The retail sector continues to recover with significantly fewer administrations of householders over the last year compared with the previous 12 months. This is borne out by a reduction in shop vacancy rates for the third successive quarter, although high street vacancy rates still sit at 10%.

- In August 2014 AXA Real Estate Investment Managers acquired Land Securities’ 50% stake in Cabot Circus/Qualities Fairs for £267.8 million, for China’s Ginko Investment. Current rent of 61.7 million per annum with Cabot Circus extending to 830,000 sq ft and Quakers Fairs a further 170,000 sq ft.
- Recent lettings in Cabot Circus include Pull and Bear (a
subsidiary of Inditex), who took 6,000 sq ft for only their second store outside London. Other lettings include Lloyds Bank, Smiggle, Vans, Yo! Sushi and Office along with restaurants TGI Friday’s and Five Guys. Current Zone A rents in Cabot Circus stand at approximately £175 psf with East Broadmead at approximately £125 psf.

• Quakers Friars is reinventing itself as the ‘place to eat’ and has planning permission to convert a further 3-4 of the retail units into restaurants. Demand is holding up for this use but retail in Quakers Friars is still a challenge.

• The Mall at Cribbs Causeway is trading well with football and sales up over the last 12 months. The centre is consistently in the top 10.

• There has been a high level of activity at the Mall over the last 12 months. Lettings include Jack Wills, Joules, Office, Superdry, Lakeland, Pet A Manger, Illigis, Warehouse, Clinton Cards, Ernest Jones and Fat Face. There has also been significant upsizing in the last 12 months, including River Island, Gap, Top Shop/Top Man and Fraser Hart. In total there have been 30 new lettings/rellocations and 20 lease renewals.

• There are proposals for an extension to The Mall, with a major planning application due to be submitted shortly.

Investment market performance

Investor demand

• 2013 saw a return to normality for the South West investment market, with approximately £1.3 billion of investments concluded across the region, a rise of almost 100% from the 2012 level of only £690 million.

• The first two quarters of 2014 have seen transactional volumes totalling £760 million, which is on par with the same period last year.

• In Bristol, very few office transactions have completed in the first two quarters of 2014 with only £53 million concluded so far. This is wholly down to lack of supply rather than demand which remains extremely buoyant.

• There is still a considerable weight of money looking to invest in UK commercial property and with an increasingly positive sentiment towards the occupier market, the current high level of domestic and overseas demand for UK property looks set to continue this year and into 2015.

• The result will be further downward pressure on yields, particularly for good quality secondary property in the South West markets. The yield gap between London and the South West has already started to narrow, but remains historically high and so we think this trend has some way further to run.

• We are now forecasting total returns of 24% for Bristol offices in 2014, above the UK average of circa 20%.

• Although UK government bond yields have risen over the last year, they remain low by historical standards. 10-year gilt yields are circa 2.5%, compared to an average of nearly 5% from the late 1990s until the global financial crisis. As global economic recovery continues both short and long term interest rates will rise towards more ‘normal’ levels.

• Prime in-town office yields have moved down to circa 5.75%, and this is evidenced by the off market purchase by Lothbury of The Paragon, Victoria Street, Bristol, for an initial yield of 5.93% early in 2014.

Outlook for performance

• The market is currently looking stock, and with an estimated £1.6 billion of available capital for every £1 of available supply, competition will remain intense.

Residential land

The housing market has been leading the economic recovery and outperforming the commercial sector in the last three years. There is no doubt that government initiatives have assisted the housing market, particularly ‘Help to Buy’, which has positively increased the sales rates of house builders. Most of the national house builders are reporting significant increases in revenue and profits over the last 12 months.

The Bristol residential market has been buoyant and growing fast in recent years. All of the national house builders are in the market to secure land opportunities and many have been successfully acquiring and promoting land in the city.

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• We are now forecasting total returns of 24% for Bristol offices in 2014, above the UK average of circa 20%. We then expect performance to reduce to circa 8% in 2015 as the downward yield movement ends and rental growth becomes an increasingly important component of performance.

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Chart 3: South West investment transactions
(Source: Property Data, GVA)

Yields trends

• At the UK level, average all property equivalent yields have moved in by 45 basis points since the start of the year and by 80 basis points since their peak in the middle of 2013 (IPD Monthly Index).

• This downward movement has been particularly focused on good quality secondary property, which saw a fall of 63 basis points between December 2013 and June 2014, whilst at the prime end yields have fallen by a more modest 29 basis points.

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