Lambert Smith Hampton

RIPPLING OUT

SOUTH WEST & SOUTH WALES

OFFICE MARKET REPORT 2019

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WELCOME

In our latest review of the major markets, we can see some key trends and themes emerging in the region. The report's title, 'Rippling Out', reflects the increasing confidence in the region's smaller markets.

There is, of course, no escaping Brexit. In 2019 to date, uncertainty has been reflected in subdued activity at the larger end of the market. That said, large transactions in the smaller centres, such as Nationwide in Swindon and Ecclesiastical in Gloucester, have nonetheless pushed these markets forward.

Backed by strong fundamentals, the region remains a hotspot for investment demand. Alongside Bristol, Exeter and Cheltenham have seen significant investment transactions in the last 12 months. Quality product is arguably the only barrier to investment in some markets, and it is extremely encouraging to see speculative development spread from Bristol and Cardiff to elsewhere in region.

Boasting a buoyant TMT sector, it is no surprise to see that Bristol is being targeted by an array of serviced office operators. This report assesses the current flexible office offer across the region, and we expect this demand to 'ripple out' from Bristol into other tightly supplied markets, in particular Bath.

While the markets have their own individual challenges, we are seeing a lot of opportunities for growth and investment. The local authorities continue to be forward-thinking with exciting opportunities being brought forward in conjunction with the private sector, such as Bath Quays in Bath, Temple Quarter in Bristol, Swansea Central and Capital Quarter in Cardiff.

This report combines granular detail of the region's key locations with our insight on trends and opportunities. If you would like further information, our team of experts in the local offices would be delighted to help.

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GAME CHANGERS

Local authorities are driving major regeneration projects across the South West and South Wales. These schemes have the potential to have a game-changing impact on the region's towns and cities.

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Artist's impression of Bath Quays South.

Numerous projects, either underway or in planning, will bring life to neglected locations by delivering new homes and much-needed employment space. There is a particularly acute need for this in locations such as Bath, where a lack of modern office development in recent years has limited the space available to start-ups and small businesses.

Several projects will also play major roles in the rebalancing of local economies, as traditional industries decline and the creative and digital sectors grow in importance. Swansea, for example, is receiving significant public sector investment in its digital industries. Cheltenham is seeking to build on its existing strengths to become a national hub for cyber security.

Well-planned investment in places and people will enhance the ability of the region's towns and cities to adapt to future economic, technological and demographic challenges. The regeneration 'rulebook' has also changed on the back of structural changes in shopping patterns. Where retail was once an important catalyst of town centre regeneration, employment uses and housing are now key given the challenges facing high streets up and down the UK.

BATH

Bath and North East Somerset Council's flagship regeneration project is Bath Quays, which is part of the wider Bath City Riverside Enterprise Zone covering 98 ha of land along the River Avon.

Bath Quays includes two sites that will be connected by a new pedestrian and cycle bridge. The larger site, Bath Quays North, is described as the most significant development opportunity in the city for a generation. Outline planning permission has been granted for a mixed-use development including more than 400,000 sq ft of new floor space across seven buildings, including approximately 215,000 sq ft of grade A offices.

Across the river is Bath Quays South, where enabling works have begun for the construction of a 45,000 sq ft grade A


SWANSEA
CHELTENHAM
CARDIFF
BRISTOL
BATH
SWINDON
EXETER
PLYMOUTH
M5
M48
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office building. This will be the first newly built office building in Bath for more than 25 years.

BRISTOL

The Bristol Temple Quarter enterprise zone is the city's most important regeneration area. It covers approximately 70 ha around Temple Meads station, and the ambition is that 11,000 new homes and 22,000 new jobs will be created by 2042.

Key projects within the enterprise zone include Temple Quarter Enterprise Campus, a new world leading campus for the University of Bristol dedicated to digital, business and social innovation. An adjacent site at Temple Island was previously earmarked for a new 12,000 seat arena, but the council has scrapped these plans in favour of a mixed-use scheme to be developed in partnership with Legal & General.

Bristol City Council is also considering options for the regeneration of the Western Harbour area, which has up to 20 ha of developable land with the potential for 3,500 homes.

Other important, private sector-led regeneration projects within Bristol are the Finzels Reach and Soapworks mixed- use developments.

CARDIFF

Cardiff has a track record as a regeneration hotspot, with the transformation of the Cardiff Bay area, which began in the late 1980s, being widely regarded as one of the UK's most successful regeneration projects. Cardiff Bay continues to see new development.

A more recent focus for regeneration is Central Square where a six-phase masterplan is being delivered by the developer Rightacres, working in partnership with the city council. When completed, this will see the construction of close to one million sq ft of mixed-use space.

The next potential game-changer is Cardiff Embankment, covering over 15 ha of land owned by a combination of the council and the developer Vastint. Work is progressing on a masterplan, and it is envisioned that it will eventually be the location of a new mixed-use urban village including up to 2,500 new homes.

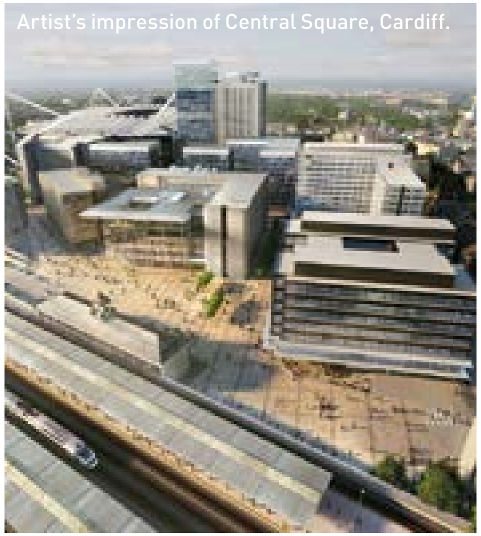
CHELTENHAM

Cheltenham Borough Council has recently acquired 45 ha of land near GCHQ, which is earmarked for the Cyber Central business park. Building on the town's existing expertise in cyber security, this ambitious project aims to create a nationally-important hub for cyber businesses, technology, research and skills.

The scheme is part of a wider 132 ha plan for West Cheltenham Garden Village, which would also see the delivery of approximately 3,000 new homes.

EXETER

Work has recently begun on the regeneration of the Exeter Bus Station site, with the council funding the construction of a brand new bus station and the state-of-the-art St Sidwell's Point leisure complex. The council's vision for the wider area around the bus station includes new


Artist's impression of Central Square, Cardiff.

Artist's impression of Swansea Arena.

homes, offices, hotels, restaurants and retail units, although these will require private sector investment.

Another priority for the council is the modernisation of South Street. Proposals for this area would create a more attractive link between the quay and the city centre, putting a greater emphasis on pedestrian and cycle access.

SWANSEA

Work has begun on phase one of Swansea Central, which will include the development of a 3,500 seater arena and a 'digital square', alongside new homes and commercial units. Phase two, known as Swansea Central North, will be a retail and leisure-led scheme linking the city centre with the new arena and the waterfront.

A project is also underway to transform The Kingsway into a city park with new public areas and green spaces. Plans for the future regeneration of this area also include a scheme to turn the former Oceana nightclub at 71 & 72 The Kingsway into a 'digital village' with around 100,000 sq ft of tech-focused flexible office space.

Elements of The Kingsway and Swansea Central schemes will form part of the Swansea City and Waterfront Digital District, which is being part-funded by the Swansea Bay City Deal. This is providing £1.3bn of investment to 11 major projects across the wider Swansea Bay City Region, with the aim of generating nearly 10,000 new high-quality jobs.

Artist's impression of the Temple Quarter Enterprise Campus, Bristol. Image created by Feilden Clegg Bradley Studios for the University of Bristol.

SWINDON

The borough council's former regeneration partner, Forward Swindon Ltd, was recently wound-up, after being merged with the council's in-house team. The council is now seeking to push forward with the much-delayed mixed-use regeneration of Kimmerfields, with the insurance company Zurich planning to move into new offices at this site by 2022.

A new impetus for regeneration has also come from the launch of the Swindon Heritage Action Zone (HAZ). The HAZ initiative will concentrate on the revitalisation of buildings in the town's historic Railway Village.

These include the old GWR Carriage Works, which is being transformed into a business incubation hub for start-ups and small businesses. The first phase of its renovation, delivering the Workshed co-working space, was completed in 2018. Phase two will see the completion of additional work and educational spaces.

PLYMOUTH

The council is coordinating a number of projects set for completion in 2020, to coincide with the 400th anniversary commemorations of the Mayflower sailing from Plymouth to America. These include The Box, a museum and gallery complex replacing the now-closed Plymouth City Museum and Art Gallery. Also nearing completion is British Land's Drake Circus Leisure development, on the site of the site of the former Bretonside bus station.

Urban Splash's mixed-use redevelopment of Royal William Yard remains the most high-profile regeneration project in Plymouth. A number of other waterside locations are also undergoing regeneration, including the former Millbay docks area and Oceansgate in Devonport, which is being developed as a hub for marine industries.

PLAYING CATCH UP

The pack of serviced office operators circling Bristol is testament to the city's credentials as an elite business location. However, with strong occupancy rates and limited choice elsewhere, it is only a matter of time before the region's other key markets are targeted.

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FLEX PHENOMENON LANDS IN BRISTOL

Bristol city centre has already seen record annual take-up from serviced office operators, with the latter half of 2019 yet to be accounted for. Amounting to 76,000 sq ft, H1 2019 saw five separate deals to a range of operators, the largest of which was Clockwise Serviced Offices at the Generator Building (31,000 sq ft). Furthermore, circa 100,000 sq ft of live requirements from the likes of WeWork and WorkLife means there is much more to follow.

WHY NOW? WHY BRISTOL?

The recent spike of flex-space activity in Bristol reflects a perfect storm of factors. In a rush to grab market share, structural changes in occupier demand have preceded something of a 'space race' among operators and their respective investors. The initial clamour began in Central London in 2017, and has subsequently rippled out to the UK's other major centres.

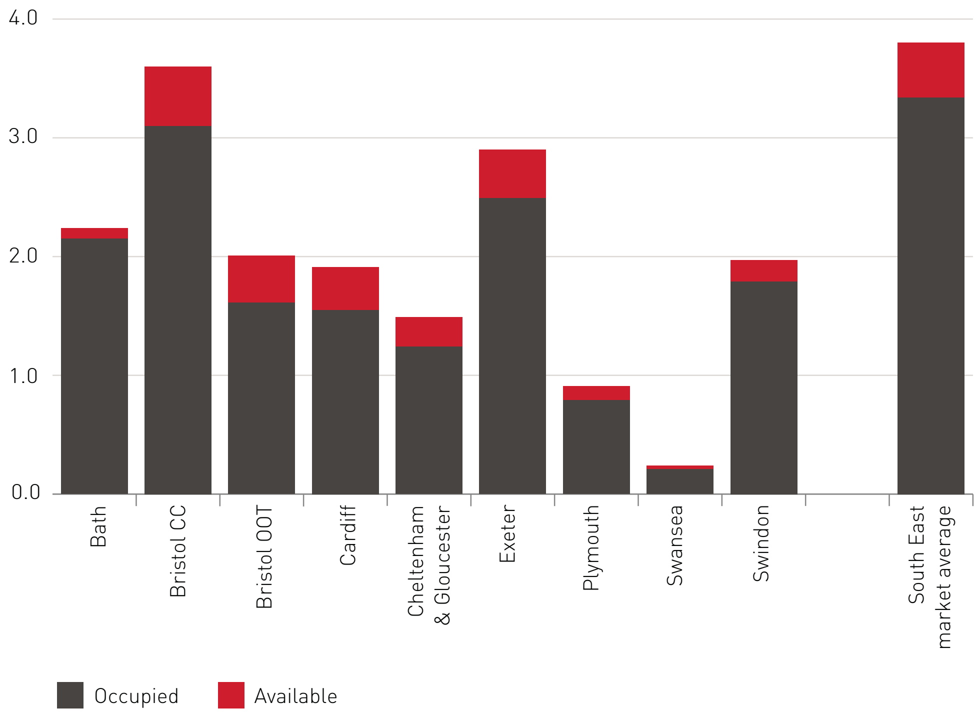
Bristol is a prime target for expansive operators, albeit a lack of suitable stock has seen the city arrive slightly later to the party than other core regional markets. Bristol is highly conducive for flex-space solutions, being a haven for start-ups and small businesses, particularly in creative and tech industries, and fed by a pool of talent from its renowned academic institutions.

PLAYING CATCH UP

Despite the recent scale of activity in Bristol, the growth of flex-space is off a low base. While Bristol is home to the highest proportion of flex-space among the region's key markets, equivalent to 3.6% of total stock, this is below the average for the UK's South East markets (3.8%). Even when the recent acquisitions and live requirements become operational, Bristol's share of flex-space rises to only 5.2%, below that of Central London (5.5%).

Bristol's scale and positive occupier market attributes merit the attention it has received from serviced office operators, but the region's other key markets should not be overlooked. Variation in both current levels of flex-space and prevailing occupancy levels should be an important consideration to both

SERVICED OFFICES AS A SHARE OF OFFICE STOCK (%)



Source: LSH Research

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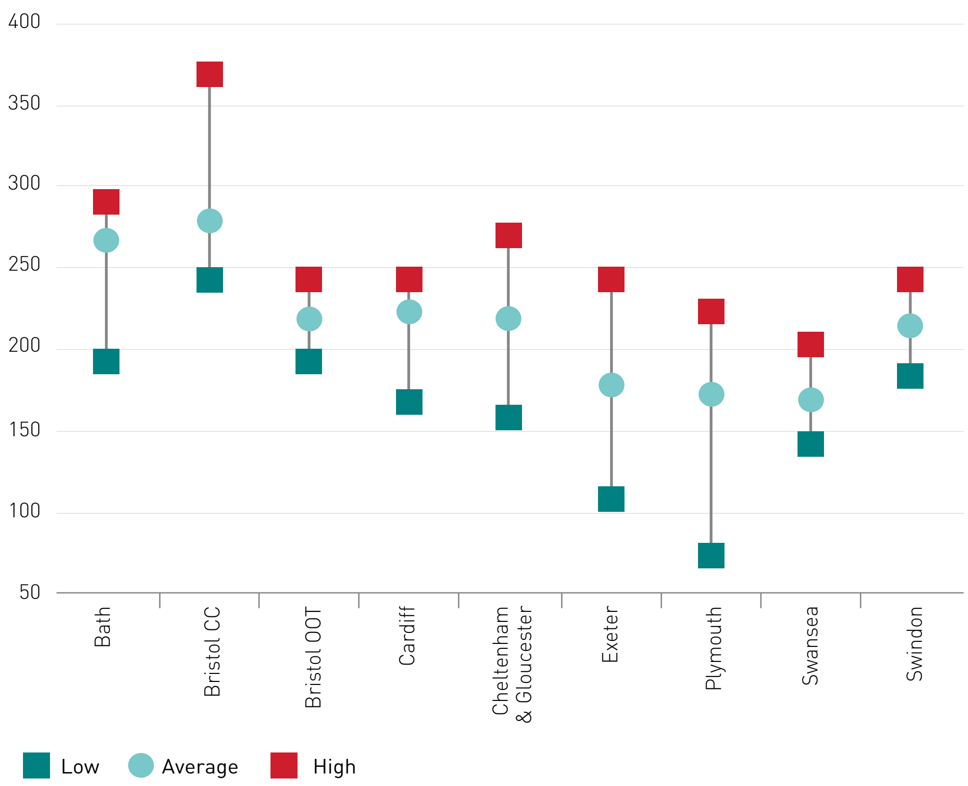
RANGE IN DESK COSTS (£ PER DESK, PER MONTH)



Source: LSH Research

In Q2, Clockwise bought the Generator building, Bristol,which will be converted to serviced office space.

landlords considering more flexible leasing offers and serviced office operators seeking to exploit gaps in the market.

HEALTHY OCCUPANCY RATES

Our detailed analysis of the current flex offerings reveals that occupancy levels are generally strong across the region. Bath boasts the strongest occupancy rate of any location, standing at 96% according to our August survey. While Bath is much smaller scale than Bristol, it enjoys similar traits to its near neighbour, and there is clearly scope for additional flex-space in the market to meet demand.

Elsewhere in the region, current supply of flex-space typically accounts for under 2% of total stock, while the only markets with occupancy of below 85% are Bristol out of town and Cardiff. Clearly, therefore, there is scope for new entrants to other markets across the region, particularly as the current supply is dominated by relatively conventional flex-space.

A WAKE-UP CALL TO LANDLORDS?

With more serviced office requirements set to enter the markets, the recent activity we have seen is no flash in the pan. So, should landlords of conventional offerings be concerned? The tides of structural change will see more and more occupiers, particularly at the smaller end of the market, turn to flexible offerings.

While traditional serviced offices typically lack the wow factor, the new wave of flex-space operations are raising the bar in quality, in terms of design, appeal and amenity provision. Landlords of more conventional offices have to adapt their own offerings to meet the growing appetite for an office to reflect a more holistic, aspirational lifestyle that extends beyond only the functional need for space.

GET SMART!

In future, smart offices will enable increasingly smarter working, meeting the ever growing demand for high quality working environments. Cubex's planned Halo development in Finzel's Reach, Bristol is set to blaze a trail.

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WORKPLACE WELLBEING

Smart offices use technology enabled by the Internet of Things (IoT) to gather complex data on a building's performance or usage. As occupiers and their staff put ever increasing demands on the quality of their working environments, this technology has an important role in promoting health and wellbeing. It can help to create environments that support alert, energised workforces.

Sensors can monitor air and water quality, light, temperature and noise levels. Issues known to affect workers' concentration levels such as poor air quality or a lack of natural light can thus be detected and fixed.

More advanced smart office technology can also make use of data from wearable biometric devices monitoring the health and comfort of workers. Ambient conditions can be adjusted when workers show signs of discomfort, or an individual's immediate working environment can be changed according to their personal preferences.

WORK SMARTER

Sensors, smartphones or wearable devices may collect data monitoring environmental factors such as temperature, light, air quality and noise, as well as data on employees' usage of the building.

The data collected can deliver building managers with actionable insights on how to improve a building's performance, or it may feed through to automated systems controlling the office environment. With smart technology continually evolving, it is being used to support an increasingly wide range of applications, providing multiple benefits to building owners, investors, occupiers and employees.

SMART IS SUSTAINABLE

Firms' sustainability strategies have been a major driver of the rollout of smart technology. By providing more efficient controls over energy usage, it can deliver significant reductions in energy consumption. It is no coincidence that some of the smartest office buildings in the world are also rated by BREEAM as among the greenest.

Smart systems allow lighting, heating, air conditioning and ventilation to be monitored and adjusted according to a building's usage and occupation. Energy wastage can be minimised by turning off heating and lighting when an office is unoccupied. Intelligent building facades may also be used to control the heat and light entering the building in response to changing weather conditions.

The next generation of energy efficient smart buildings have their own sources of power generation and some are even able to generate more energy than they consume, with surplus energy going back to the grid.

ENABLING AGILE WORKING

Smart technology is providing occupiers with a better understanding of who uses the office at any given time, how they work and with whom they collaborate. These insights can enable increasingly agile, flexible working.

Some of the newest generation of smart buildings have fewer desks than workers. Instead, employees may reserve a workspace using an app, with a choice of spaces depending on whether they would prefer a collaborative workspace, private meeting area or a quiet space.

Smart systems may thus facilitate a move away from the convention of employees 'owning' a desk, which then goes unused for periods when they are out of the office. Flexible workspaces can be used more efficiently and may be continually adapted to changing employee demand and new work styles.

IMPROVING WORKPLACE EXPERIENCES

As well as enabling desk and room bookings, workplace apps can also be used to order food and drink, book gym sessions or reserve parking spaces. They may allow employees to control ambient settings, as well as providing new ways of connecting and collaborating with colleagues.

Workplace apps are thus developing as important interfaces between employees and office buildings, giving individuals greater control over their office experience. This will help to align the modern office with the expectations of a younger workforce for whom smart technology already plays an integral part of their lifestyles outside of work.

THE BENEFITS OF BEING SMART

The advantages that smart offices offer in terms of sustainability, employee wellbeing, agile working and workplace experience, combine to produce significant improvements in productivity and cost savings.

Smart offices also aid talent attraction and retention, by creating spaces in which people want to work, while appealing to workers' environmental values. Modern, sustainable offices can help to reinforce a company's brand values and define a progressive, forward-thinking corporate culture.

SMART FUTURES

Truly smart offices, with fully automated smart technology embedded into every aspect of the building's design, remain a rarity. Many of the most innovative smart buildings in the world are in Europe or North America, but smart technology of growing sophistication is making its way into the UK. This will continue as smart systems are increasingly integrated into new build offices.

Smart offices are still at a nascent stage of their development, and the full capabilities of the technology may only be realised over the coming decades. Smart offices will be a key part of our future smart cities.

THE HALO EFFECT

It is still early days for smart buildings and, at present, the South West and South Wales region does not have a single building that could be described as genuinely 'smart' in nature. However, this is set to change with the planned delivery of Halo in Finzel's Reach, Bristol.

Cubex's new 116,000 sq ft development will be a smart, sustainable office building, offering outstanding environmental, wellness and digital connectivity credentials. Marketed by LSH, it has been designed to attract high profile companies to Bristol and appeal to an ever more discerning workforce. An eye-catching entrance leads inside where a unique corkscrew-like staircase rises up through a glass atrium, providing natural light to each floor and leading to a rooftop terrace.

OCCUPIER MARKET OVERVIEW

STRONG FUNDAMENTALS

While uncertainty has weighed on take-up, the markets of the South West and South Wales are generally well-placed to withstand the macro-economic challenges. Indeed, the acute shortage of supply characterising some of its key markets is arguably both the main challenge to activity and a key opportunity for investors.

BACK DOWN TO EARTH

Following strong take-up in 2018, collectively, the key occupier markets of the South West and South Wales had a solid if unspectacular H1 2019. Across the region's nine key centres, take-up in the first half of the year totalled 886,000 sq ft, down 7% on the same period in 2018 and 16% below the half-yearly average.

As witnessed across the UK, uncertainty surrounding Brexit and slowing growth in the wider economy have hung over the market, particularly in Q2. This has weighed more heavily on larger transactions, with a discernible drop-off in larger deals, particularly in the core markets of Bristol and Cardiff.

Indeed, the largest and only deal above 50,000 sq ft in H1 2019 was in Swindon, Nationwide's 76,000 sq ft freehold purchase of the Trilogy building. This underpinned Swindon's exceptional take-up of 120,000 sq ft in H1 2019, which is ahead of the annual total from each of the previous three years.

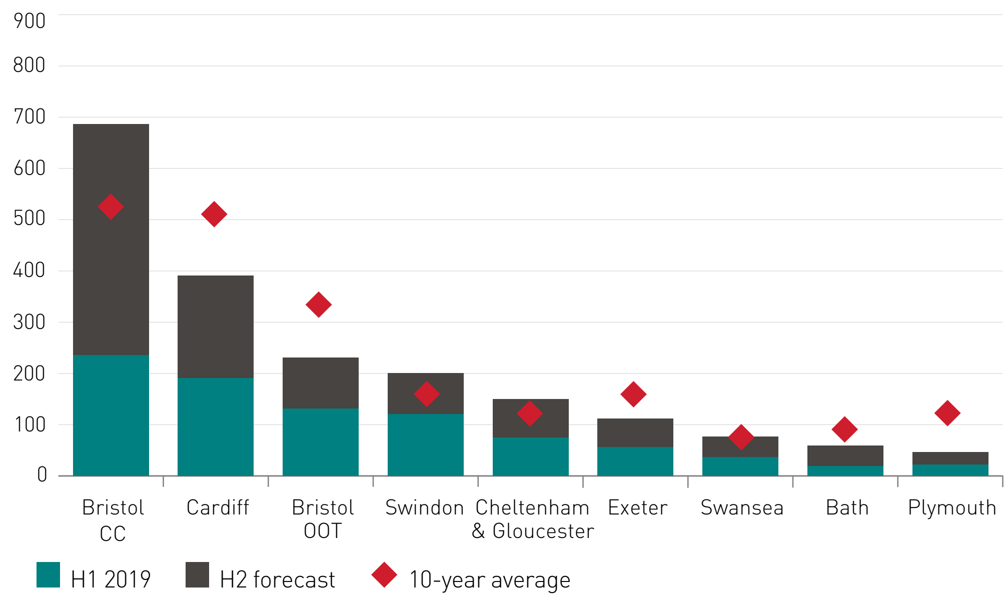
BRISTOL TO BOUNCE BACK

The outlook for activity is complicated by ongoing uncertainty around Brexit, and some form of resolution will be needed to restore market confidence to its full potential. That said, for some markets in the region, a strong second half of the year is expected.

For the region's nine markets combined, take-up in H2 is forecast to surpass 1m sq ft, up 20% on H1 and Bristol city centre is forecast to reach just shy of 700,000 sq ft for 2019, up 30% on its ten-year average. This is on the assumption that BT will sign up the 200,000 sq ft Assembly building by the end of the year.

However, for 2019 as a whole, the region is forecast to fall slightly short of the 2m sq ft ten-year average, and down 12% on 2018. With the exceptions of Bristol city centre, Swindon and Cheltenham & Gloucester, the region's six other markets are predicted to see take-up fall short of their respective annual averages.

SOUTH WEST AND SOUTH WALES TAKE-UP (000 SQ FT)



Source: LSH Research

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FLEX PHENOMENON

Rising activity from serviced offices and co-working providers reflects the structural growth in demand for flexibility, particularly so during the current uncertain outlook.

At 76,000 sq ft, Bristol city centre has already seen record annual take-up from serviced office operators with the latter half of 2019 yet to be accounted for. This was across five deals, with Clockwise Serviced Offices' lease at The Generator Building, Finzels Reach (30,611 sq ft) being the region's second largest deal in H1.

However, the region's other markets are yet to see noteworthy demand from serviced office operators. For the time being, this wave of demand has centred on Bristol, but it is only a matter of time before it ripples out elsewhere into markets such as Bath, Exeter and Cheltenham.

SUPPLY SHRINKS

While tight supply is a familiar theme across the UK office market, it is acutely felt in the South West and South Wales. Across all the markets combined, availability fell by 5% year-on-year to stand at 4.2m sq ft at the end of H1 2019. This is equivalent to 2.0 years of supply based on average rates of take-up. Overall supply has fallen consistently over the last six years, reflecting a combination of healthy absorption alongside a lack of speculative development.

However, supply varies greatly across the individual markets. Exeter and Bath are among the UK's tightest markets with only 1.2 years of supply, closely followed by Bristol's city centre and out of town markets, where under two years of supply is available.

In contrast, Swindon has the equivalent to 3.8 years of supply and, while this has contracted over the past decade, there remains an overhang of poor quality accommodation which is of insufficient quality to appeal to aspiring occupiers.

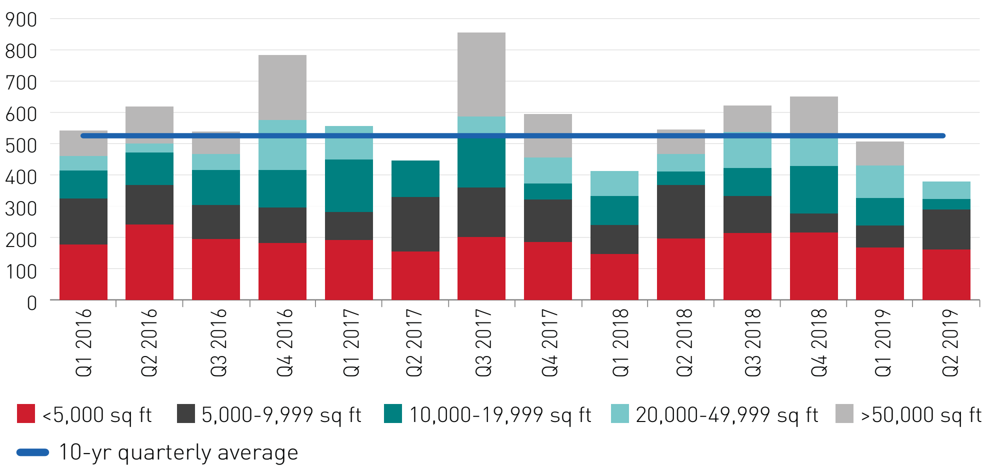
GRADE A SCARCITY

In addition to dwindling supply, perhaps more crucially there is an acute lack of grade A space. Limited speculative development across the region has led to a lack of quality options for prospective occupiers. Across the nine key centres, grade A supply amounts to 860,000 sq ft and accounts for only 20% of total availability.

Predictably, Bristol city centre provides the largest volume of grade A supply of any market, standing at 352,000 sq ft. However, Cheltenham & Gloucester has the strongest concentration of grade A supply, at 46% the total, albeit this largely reflects the recent delivery of Honeybourne Place (63,000 sq ft) in Cheltenham.

Nationwide's freehold purchase of the Trilogy building, Kembrey Park, Swindon was H1's largest deal across the region. LSH advised Nationwide.

SOUTH WEST AND SOUTH WALES TAKE-UP BY SIZE (000 SQ FT)



Source: LSH Research

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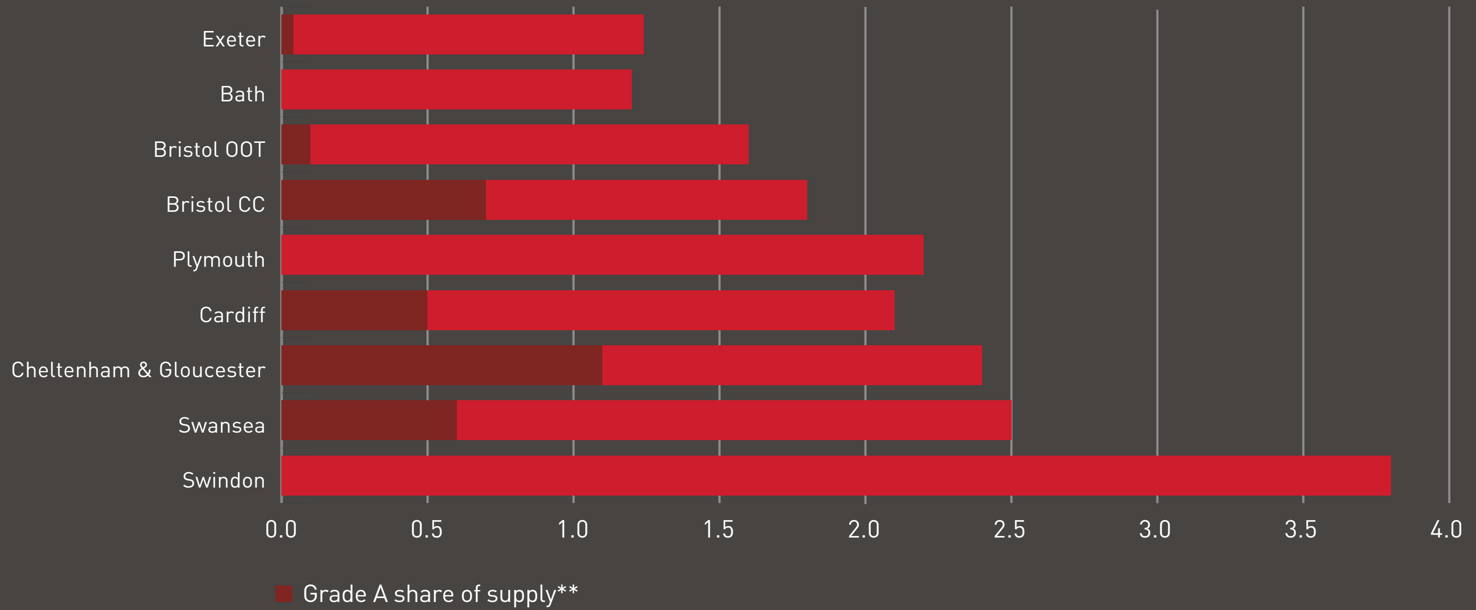
SOUTH WEST AND SOUTH WALES AVAILABILITY AS YEARS OF SUPPLY*



Source: LSH Research

* Years of supply defined as current availability divided by 10-year average take-up.
**Grade A includes speculative space completing in next 12 months

While there is an acute shortage of quality space, it is encouraging to see speculative development return to some of the region's smaller markets. Bristol city centre is the focus with 288,000 sq ft scheduled to complete during the first half of 2020. However, this includes 200,000 sq ft at Assembly, which will be taken out of the market once it is leased by BT as expected.

In addition to the recent completion in Cheltenham, speculative schemes are now progressing in Bath and Plymouth. In Bath, the council is leading two key developments in the pipeline, with Bath Quays South (46,000 sq ft) underway and scheduled to complete in Q2 2020. Development is also underway in Cardiff at 6 Central Square (266,000 sq ft) albeit the building is entirely pre-let.

Elsewhere, a general absence of speculative development in this cycle has left the markets starved of grade A supply, with two acute cases being Swindon and Swansea. Here, achievable rental levels are not seen as sufficient to viably deliver new space, necessitating intervention and encouragement from the public sector to revitalise their respective employment offerings.

MORE IN THE TANK

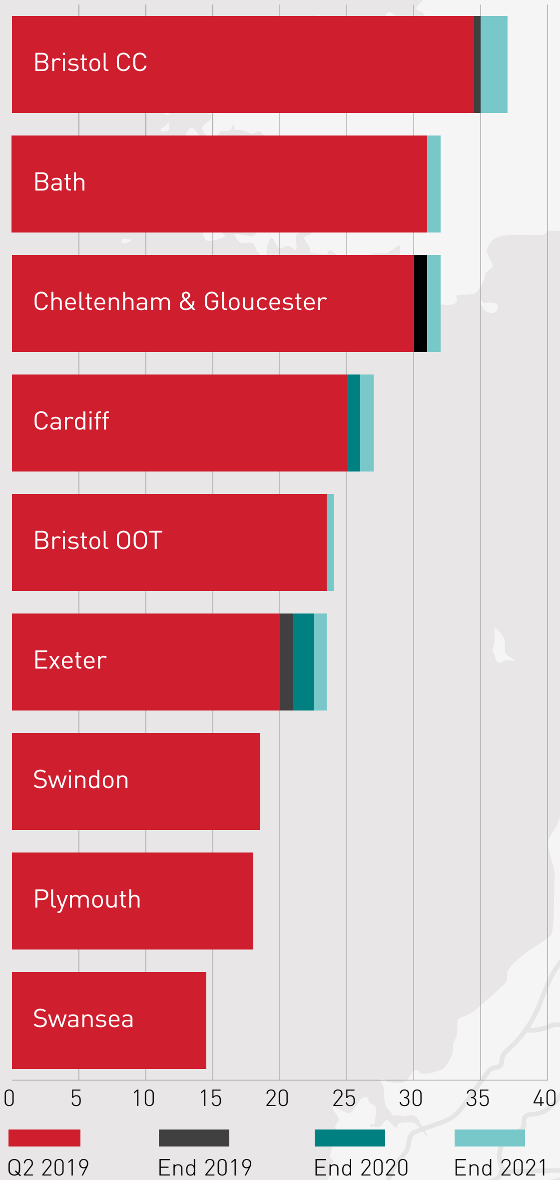
Notwithstanding the prevailing uncertainty in the market, supply conditions are such that there is scope for continuing rental growth across many of the region's key markets. Three locations are expected to see new prime headline rents achieved by the end of 2019, namely Bristol, Cheltenham and Exeter. However, the latter is expected to see the most significant growth over the next two years, with its prime headline rent forecast to increase by 18% from its current position.

REAPING THE REFURB BENEFITS

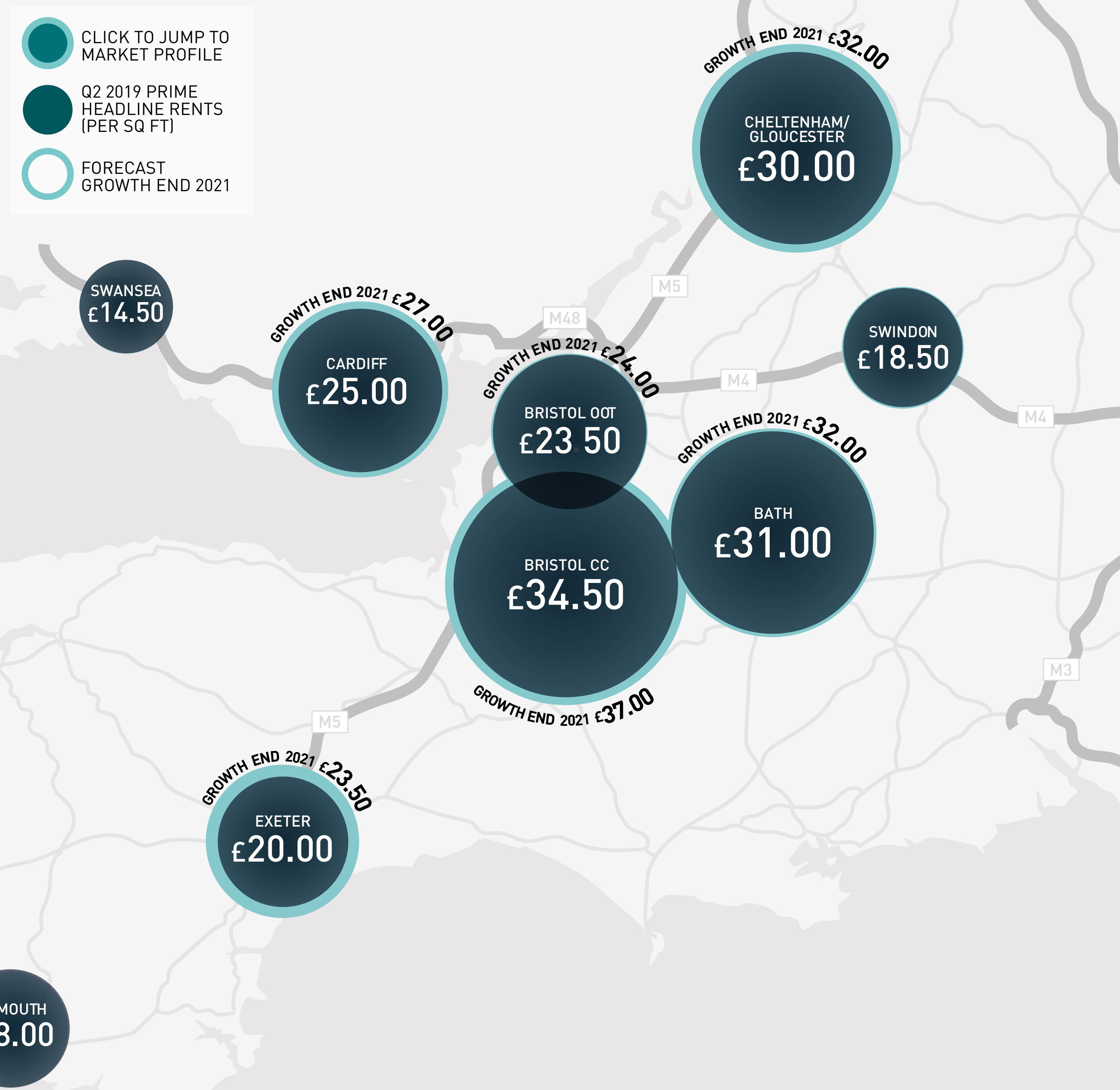
With caution around new speculative development still in the air, there remains a compelling case for investors to capitalise on very low levels of quality supply and consider value-add. These abound across the region, with some markets completely devoid of any grade A options and others in possession of under two years of remaining supply.

Due its scale and recent track record for rental growth, Bristol is an obvious candidate for value-add seekers. However, the region's other markets, particularly Bath, Exeter and Cheltenham are very well placed given the acute supply situation alongside positive fundamentals in their respective occupier markets.

PRIME HEADLINE RENTS AND FORECASTS (£ PER SQ FT)



Source: LSH Research



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TAKING STOCK

While the South West and Wales is not immune from the climate of Brexit uncertainty, positive fundamentals in the local office markets continue to attract investors to the region, evidenced by bumper Q3 volume.

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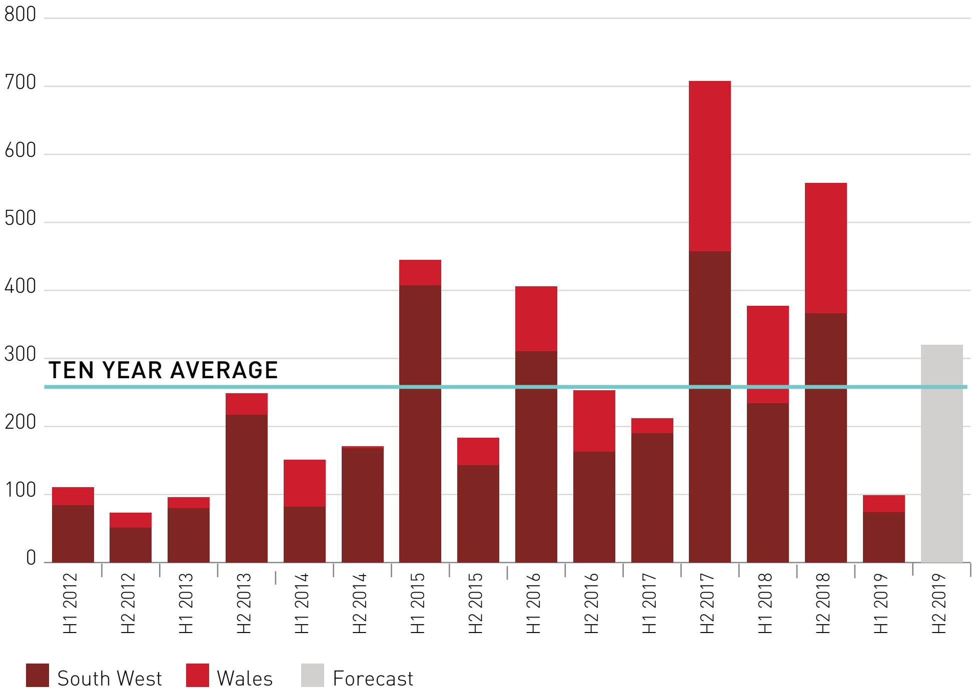
SOUTH WEST & WALES OFFICE VOLUME (£M)



Source: LSH Research

VOLUME SLUMPS AMID LACK OF STOCK

At £98.9m, H1 2019 office volume across the South West and Wales was the lowest half-year total since H1 2014 and slumped 82% from the near record level in H2 2018. A lack of stock was the main reason for subdued activity in H1, with volume having recovered significantly in the period since.

The run-up to Brexit's initial due date in March was certainty a factor, with potential vendors opting to retain their investments and sit on their hands. This was very true of large lot-sizes deals, with no deals above £10m changing hands in the first half of the year. The largest deal in H1 was Scotsgrove Holdings' £9.3m (6.50% NIY) acquisition of St James Court, Bristol from Kames Capital in April.

OVERSEAS BUYERS ABSENT IN H1

UK Institutions – typically the dominant purchaser in the region from a volumes perspective – turned very quiet in H1. Institutional volume of £8.2m in H1 2019 was the lowest since H2 2008 and 90% below the trend level. This pattern was mirrored across the UK, reflecting their requirement to maintain or even boost their cash reserves to guard against redemptions from their property funds.

Notably, H1's subdued volume was also impacted by a complete absence of overseas buying activity across the South West and Wales region. Over the past ten years, the average lot-size of overseas purchases stands at £22m within the region, with their absence in H1 clearly reflecting a lack of suitable stock.

MARKET REIGNITES IN Q3

While the rescheduling of the Brexit departure date to the end of October has only prolonged the uncertainty in the wider UK investment market, larger deals made a welcome return to the region in Q3 as buying opportunities have returned.

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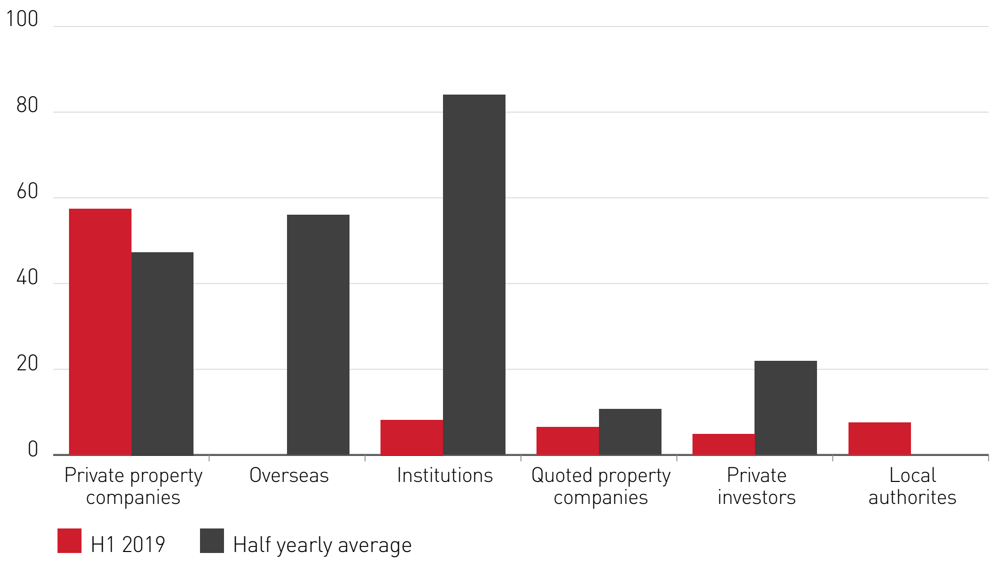
SOUTH WEST & WALES OFFICE VOLUME BY BUYER TYPE (£M)



Source: LSH Research

Two major deals in Q3 included CCLA's £35m purchase of Kings Orchard, Bristol, reflecting 5.15% NIY, followed by overseas buyer Alpha Capital's £73.4m purchase of Temple Quay House from M&G. Reflecting the strength of demand for secure income, the latter deal achieved a record low yield for the region of 4.00%, with the asset let to a government tenant with 18 years to expiry.

At the time of writing, three other prominent deals in Bristol are also under offer, indicating that Q3 volume will represent a substantial improvement from that seen in H1. These comprise South Plaza (c.£17.2m), Hartwell House (c.£25m) and Quayside (c.£25m). Notably, despite Brexit worries over possible redemptions, two of these assets are under offer to institutional buyers.

PRIME STOCK IN DEMAND

Notwithstanding the Brexit uncertainty, the above illustrate the strong demand for quality assets in proven locations. Generally, sentiment towards prime, long income

In July 2019, CCLA purchased Kings Orchard, Bristol from Aviva Investors for £35m, reflecting 5.15% NIY.

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regional office product is strong, with the relative value these assets offer compared with other sectors such as Central London offices being a key draw for investors. Bristol commands the keenest prime yield in the region, standing at 4.75% and in line with the likes of Manchester and Birmingham.

More specifically, a key attraction for the South West in particular is the relatively tight supply conditions within many of its key occupier markets. As the largest market in the region, Bristol is a highly investable location, with supply equivalent to only 1.8 years of average take-up and positive prospects for demand and growth in its occupier base.

PUNCHING ABOVE THEIR WEIGHT

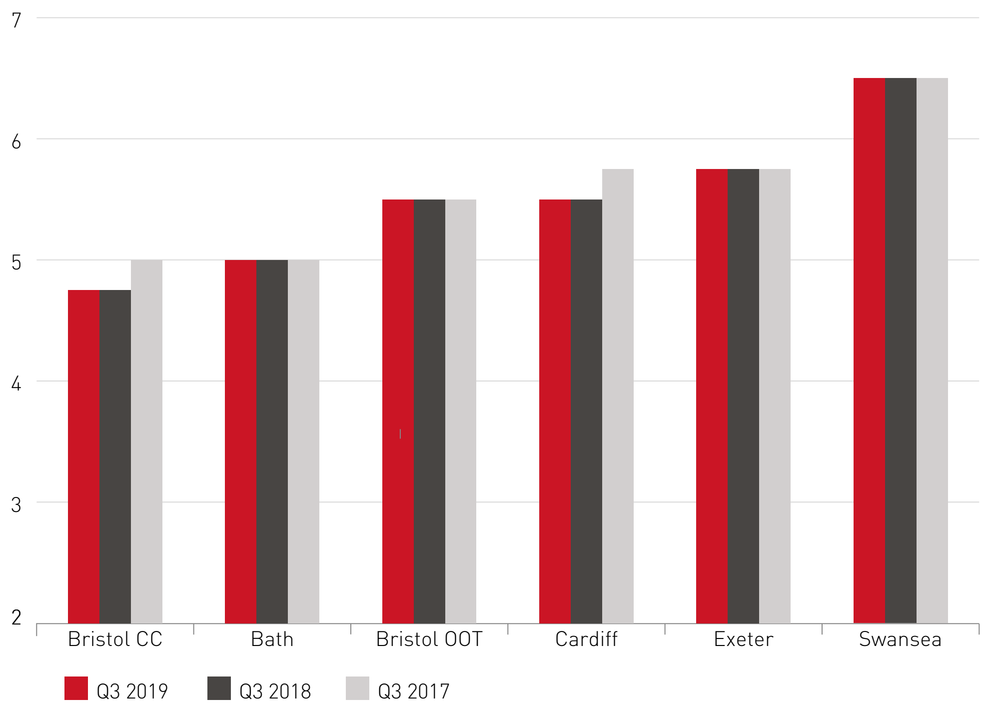
Understandably, Cardiff and Bristol attract the lion's share of investment, accounting for circa 60% of the region's volume over the last 10 years. While the region's other markets lack the scale and liquidity associated with these markets, tight supply and positive economic attributes nonetheless make other locations attractive to a wide range of potential investors. Indeed, the second largest deal across the region to date took place in Cheltenham, where Castleforge Partners purchased Festival House from Alvaglen Estates for £18.75m (6.36% NIY).

LOCAL AUTHORITIES DEBUT

Local authorities have become active investors in UK commercial property over the past few years, as they seek to address the funding gap in their budgets and generate income. Since the first acquisition

In July 2019, Exeter City Council purchased Senate Court, Exeter from Prydis for £9.4m. LSH advised the vendor.

SOUTH WEST & WALES PRIME OFFICE YIELDS (%)



Source: LSH Research

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in 2018, eight separate authorities have since invested in offices across the South West and Wales.

In H1 2019, South Somerset District Council acquired both Linden House, Bristol for £2.8m (7.0% NIY) and Imperial House, Newport for £4.7m (8.1% NIY), while more recently, in July, Exeter City Council acquired Senate Court for £9.36m (5.90% NIY) from Prydis.

Debate surrounds the sustainability of local authorities as a source of investment demand. While two recent CIPFA publications highlight a number of pitfalls and risks to property investing, they are in no way binding. The main risk to demand is arguably political in nature, with individual decisions in each local authority depending on changes in policy following recent local elections.

ASSET MANAGEMENT OPPORTUNITY

Notwithstanding the current uncertainty in the market, many of the region's key markets are very well placed for asset management strategies. Until recently, the majority of the region's smaller markets had seen little by way of speculative development during this cycle, yet the underlying market fundamentals are strong in the likes of Exeter, Cheltenham and Bath.

As and when clarity on Brexit does emerge, we expect activity for secondary stock to rebound strongly. Backed by evidence of rental growth, demand for value-add opportunities will return as a key feature of the market, supported by a growing sense that residential plays via permitted development may have peaked.

KEY SOUTH WEST & SOUTH WALES OFFICE TRANSACTIONS

Month	Property	Price (£m)	Net Initial Yield	Size (sq ft)	Purchaser	Vendor
Jul-19	Senate Court, Exeter	9.36	5.90	36,400	Exeter City Council	Prydis
Jul-19	Festival House, Cheltenham	18.75	6.36	60,800	Castleforge	Formal Investments
Jul-19	Kings Orchard, Bristol	35.0	5.15	89,000	CCLA	Aviva
Apr-19	St James Court, Bristol	9.30	6.50	36,400	Scotsgrove Holdings Ltd	Kames Capital
Apr-19	Bridge House, Bristol	8.20	3.30	40,400	CBRE Global Investors	Kames Capital
Mar-19	DLVA, Sandringham Park, Swansea	9.10	8.30	66,800	Client of Hardington Capital	Maya Capital LLP
Mar-19	Imperial House, Newport	4.66	8.00	24,000	South Somerset Council	Urban Logistics REIT Plc
Mar-19	7 - 9 Whiteladies Road, Bristol	4.78	4.75	12,000	University of Bristol	Sunnyday Capital
Feb-19	Trimbridge House, Bath	8.80	4.31	21,000	Boultbee Brooks RE	Scotsgrove Holdings Ltd
Nov-18	Ty Admiral, 1 David Street, Cardiff	86.45	4.00	207,000	Royal Mail Pension Fund (LaSalle IM)	Amundi Real Estate
Oct-18	Station Square, Swindon	8.50	7.84	49,000	Hillview Real Estate	GreenOak Real Estate
Sep-18	Aurora, Bristol	62.0	4.75	95,500	RLAM	Palmer Capital/Cubex
Aug-18	Cambridge House, Bath	20.8	4.60	51,580	BMO	Maybrook Properties

Source: LSH Research

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TRACKING DEMAND

What has been motivating companies to acquire new office space in the South West and South Wales and what influenced their choice of property? Despite uncertainty surrounding Brexit, our analysis of transactional activity above 5,000 sq ft reveals that expansion continues to play a key role in driving recent demand.

TRIGGERS – WHAT IS PROMPTING RELOCATION?

An impressive 48% of office relocations over the last 12 months were triggered primarily by a need to expand. This was only marginally down from 49% in 2017/18, and particularly encouraging given the wider UK market has seen evidence of businesses stalling expansion decisions due to uncertainty surrounding Brexit.

Bristol City Centre was a key focus in this regard, with 58% of deals primarily triggered by expansion. This was boosted by the growth of the serviced office sector, with four operators taking space during the last 12 months, including Spaces and Landmark who expanded their footprint in the city. Meanwhile, Swindon was home to the largest deal triggered by expansion, namely Nationwide's 76,000 sq ft acquisition of the Trilogy building, as they seek to expand into the commercial banking market.

While consolidation was the primary trigger for only 5% of office moves, it was the main reason behind the largest deal of the past 12 months, namely Cardiff and Vale University Local Health Board's 84,750 sq ft acquisition of Woodland House, Cardiff.

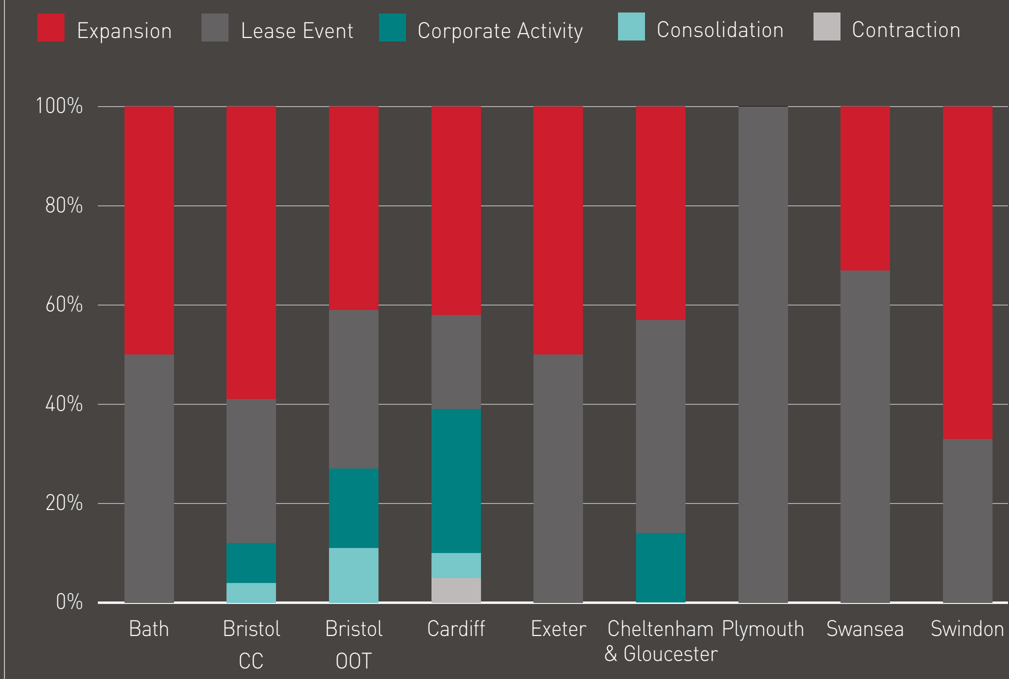
DRIVERS – WHAT DETERMINES END CHOICE?

Beyond the trigger to move, location continued to be the main driver when it came to determining occupier end choice for deals above 5,000 sq ft. Notably, however, it reduced in importance to 36% from 48% of deals in 2017/18.

Meanwhile, workspace improvement – essentially an occupier's desire to improve the quality of its working environment – increased in importance over the last 12 months. It was the main driver for 27% of deals, up from 23% in 2017/18. This included Ecclesiastical Insurance's move to Gloucester Business Park into a purpose-built headquarters, with a modern and flexible working environment.

Cost was cited as the main driver for 15% of deals, with most of these involving

PRIMARY TRIGGERS 2018/19 (%)



Source: LSH Research

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companies relocating to more affordable out of town office space. Specific physical need was the driver in 9% of deals, including Netflix's 6,554 sq ft lease at St Stephen's House.

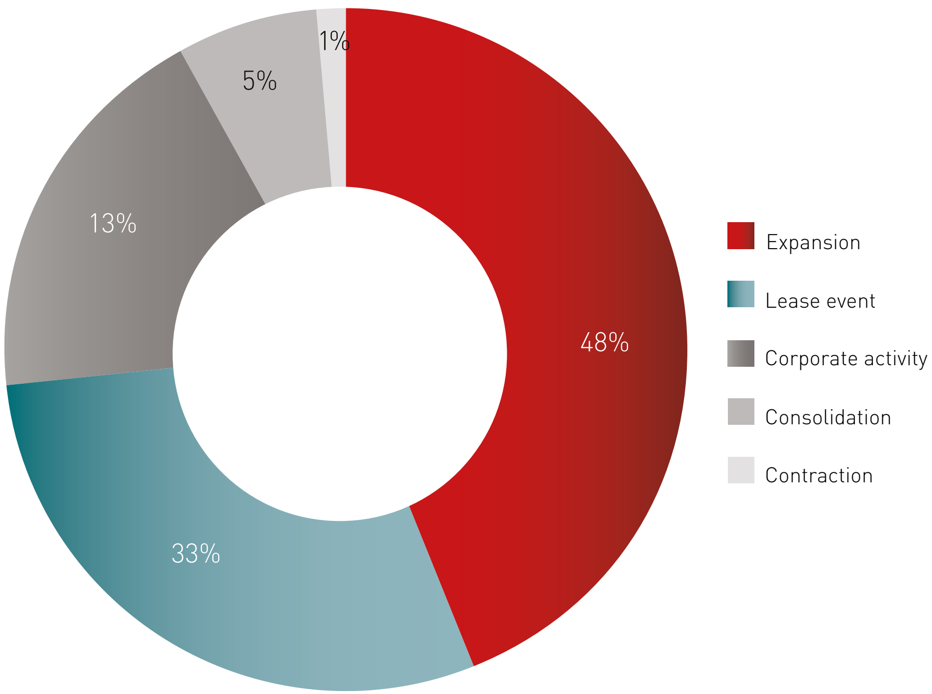
INWARD INVESTMENT – WHERE IS IN DEMAND?

Inward investment deals – those involving occupiers locating to new markets in which they were not previously present – represented 16% of all transactions over 5,000 sq ft over the last 12 months to the end of Q2 2019.

Of all the key markets, Cardiff was the largest attractor of inward investment, with six deals over the past 12 months amounting to 58,322 sq f. This included KeolisAmey's relocation of its headquarters from London to Cardiff, leasing 21,171 sq ft at St Patrick's House, and Monzo's 11,194 sq ft lease at 2 Kingsway for a customer service operation.

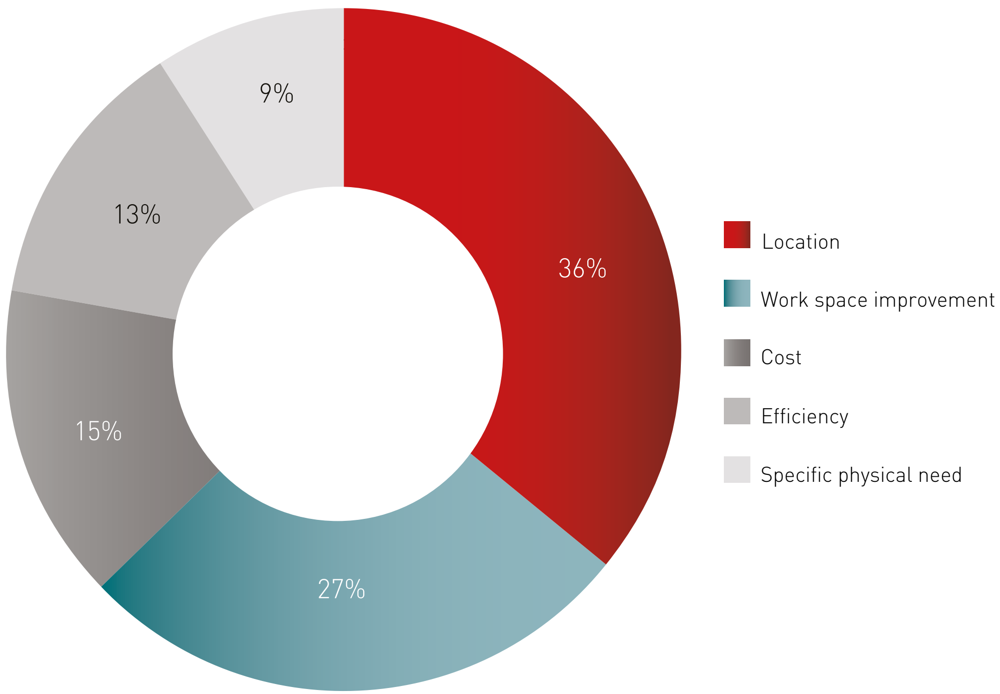
The next largest destination for inward investment was Bristol City Centre, with 52,343 sq ft of space acquired. This included serviced office provider, Clockwise's expansion into Bristol which takes their operations into a fifth UK regional city, and Netflix's 6,554 sq ft lease at St Stephen's House.

PRIMARY TRIGGERS 2018/19 (%)



Source: LSH Research

PRIMARY TRIGGERS 2018/19 (%)



Source: LSH Research

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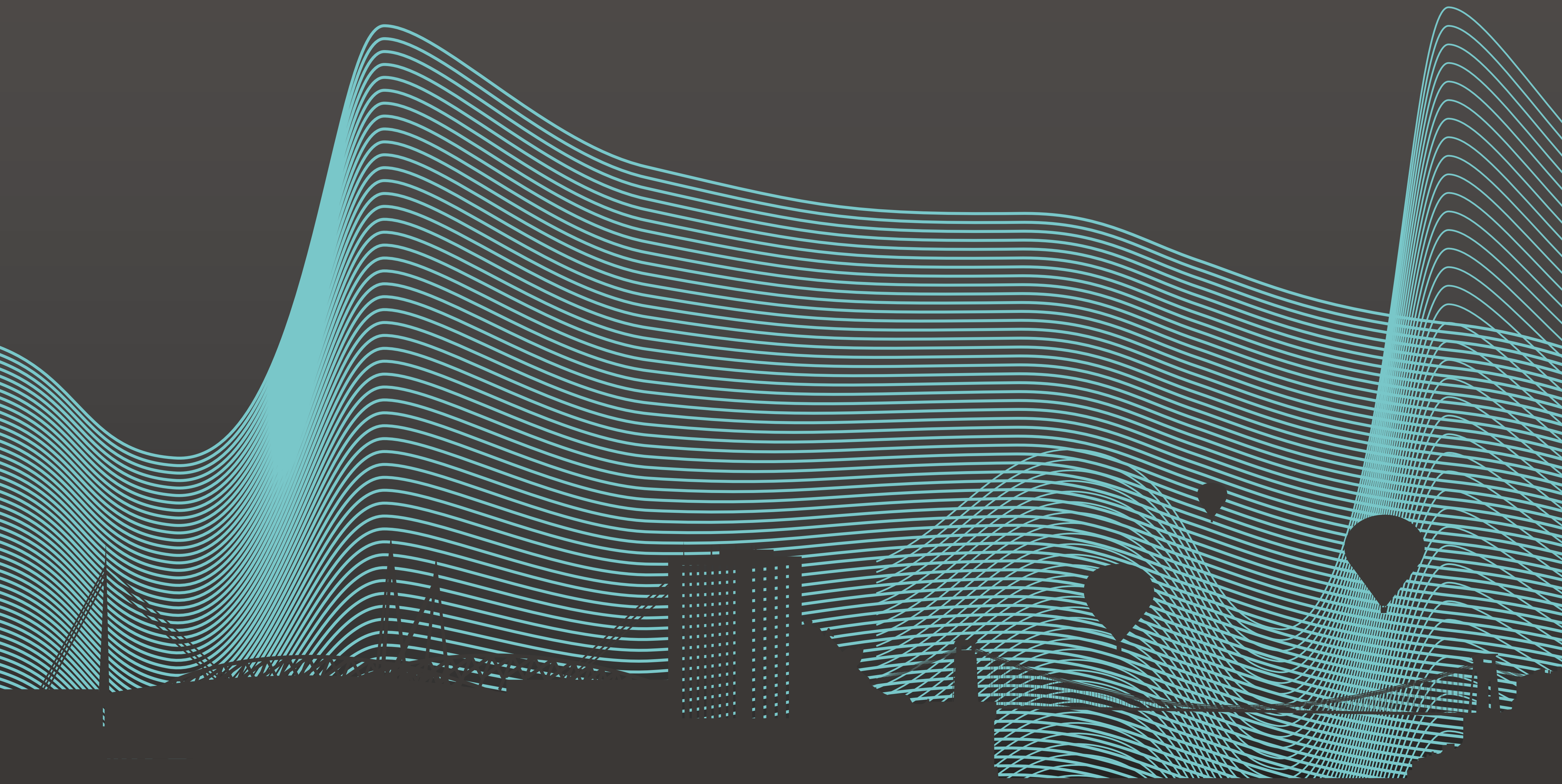

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MARKET INSIGHT

BRISTOL CITY CENTRE

FEELING THE SQUEEZE

Bristol city centre continues to be a thriving, sought-after location with ever-improving amenities. However, activity in the last 18 months has been squeezed by the growing lack of good quality supply. For businesses seeking a grade A space to attract and retain staff, options are limited.

Artist's impression of Halo, Finzels Reach

SERVICED OFFICES TO THE FORE

At 536,000 sq ft, total take-up in 2018 was in line with the 10-year annual average but slightly below the total for the previous year. Supply shortages are increasingly hampering potential activity; H1 2019 saw take-up of 236,000 sq ft and included only three deals above 10,000 sq ft.

Bristol city centre's two largest deals in H1 2019 were to serviced office operators. In Q2 2019, Clockwise Serviced Offices leased 30,611 sq ft at The Generator Building while Spaces leased 26,500 sq ft at Programme. They are attracted to the city's growing TMT sector, as well as the high number of SMEs originated and staffed by the city's large pool of university graduates.

Despite the acceleration of serviced office activity, Bristol has lagged the UK's other major regional markets in this regard. As with other sectors, requirements from many of the larger brands are hampered by a lack of sizeable options. Yet, the high occupancy rates within Bristol's existing serviced operations reflect strong demand for flex-space.

BREADTH OF DEMAND

Bristol's economy has benefited hugely from the burgeoning growth of the TMT sector alongside continuing demand from its traditional base of service sector occupiers. At 25% of the total, Professional Services has taken the leading share of sector take-up in H1 2019, and included Forrest Brown's 23,207 sq ft lease at Templeback, while the TMT sector has accounted for the most deals, with 28% of the total.

Many large businesses have chosen to inward invest in Bristol city centre, attracted to the city's deep talent pool and its ever-improving leisure and retail offering. Well-known brands such as Dyson, Netflix, English Heritage and Channel 4 have all established offices in Bristol over recent years.

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Active demand is healthy, with an increasing emphasis on the quality of the workspace and amenity being key to recruitment and staff retention. We expect several Bristol firms in the financial and legal sectors to upgrade their accommodation for this very reason over the next 18-24 months, as their current leases reach expiry.

BT SNAPS UP SUPPLY

In the past five years, Bristol has lost more office space through conversion to residential than any other major UK market, with stock levels decreasing by circa 18% over the period. While new supply has been delivered during this cycle it has done little to redress the imbalance. Indeed, Bristol's only available new-build space consists of 15,500 sq ft at the Aurora building. Some refurbishment of grade B space has taken place to bring it close to grade A standard, but these opportunities are increasingly limited.

Two prominent schemes are under construction, namely the Distillery (91,000 sq ft) and The Assembly (200,000 sq ft), both of which will complete in 2020. However, this gives a misleading impression of improving availability in the market. The Assembly is actually set to make the headlines in the second half of 2019, with BT expected to pre-let the entire building.

THE HALO EFFECT

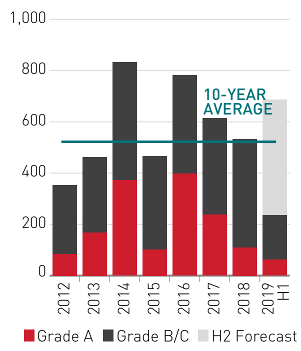
Two additional schemes in the pipeline comprise Cubex's Halo, Finzels Reach (100,000 sq ft), and CEG's Aspire, Temple Meads. While these will provide a major boost to the quality of Bristol's offer, Halo is almost two years from delivery and Aspire is potentially three years away. Other than the above, there are few further sites available for development in the city centre, indicating that Bristol's tight supply characteristics will remain over the medium.

RENTS HELD BACK BY SUPPLY

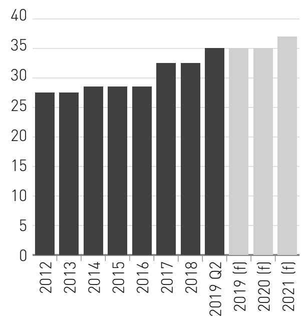
The arrival of much-needed new supply in a supply constrained market has driven steady rental growth over the past two years. The prime headline rent has increased from £32.50 per sq ft in 2018 to £35.00 per q ft in 2019, a level confirmed by Forrest Brown's lease at Templeback in Q1.

However, the lack of grade A space will hold back further growth for the next two years. However, as and when new supply comes to market in 2021, we expect pent up demand to catapult prime headline rents to potentially £37.50 per sq ft.

TAKE-UP (000 SQ FT)



PRIME HEADLINE RENT (£ PER SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
-5%

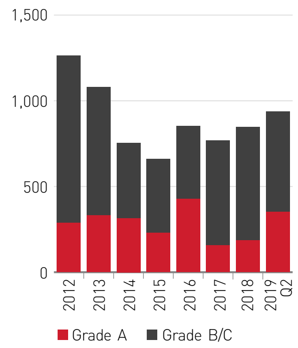
YEARS OF SUPPLY
1.8

GRADE A SHARE OF SUPPLY
38%

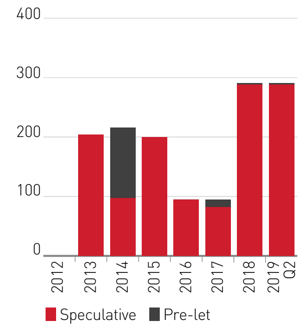
Q2 HEADLINE RENT (PER SQ FT)
£35.00

PRIME YIELD
4.75%

AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q3	Aurora, 3rd and 4th floors	31,233	Parmenion Capital	£33.75
2019 Q2	The Generator Building, Finzels Reach	30,611	Clockwise Serviced Offices	£34.50
2018 Q3	Unum House	28,732	Desklodge Limited	Freehold purchase
2019 Q2	Programme, Pt Grnd, Pt 7th & 8th flrs	26,500	Spaces	£26.00
2019 Q1	Templeback, 2nd floor	23,207	Forrest Brown	£35.00

Source: LSH Research.

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BRISTOL OUT OF TOWN


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IN THE CITY'S SHADOW

Occupiers' increasing preference for Bristol city centre has been reflected in a weakening of take-up in the out of town market. To remain competitive, existing landlords and investors will have to give greater consideration towards high quality space and enhanced on-site amenities.

OCCUPIERS EYE THE CITY CENTRE

Following strong take-up in recent years, activity slowed discernably in the first half of 2019. The number of deals above 10,000 sq ft dropped from nine in the second half of 2018 to three in H1 2019. Aztec West remains the key focus for activity, however, and was home to all of these deals, the largest being management company St James Place Partnership's 40,760 sq ft lease at building 2610.

Reflecting wider structural changes in demand back to city centre locations, Bristol's out of town market appeals to a smaller pool of occupiers than it once did. However, there remains a backbone of demand from companies requiring access to the motorway and/or those linked to the Ministry of Defence, a major occupier in this market.

STEADY OCCUPIER BASE

The market continues to be dominated by the defence and public sectors, although the construction & engineering sector has been relatively active in the market. In Q1, engineering firm Integral leased 13,000 sq ft at Aztec West and construction company BDW Trading leased 11,000 sq ft at Almondsbury Business Park.

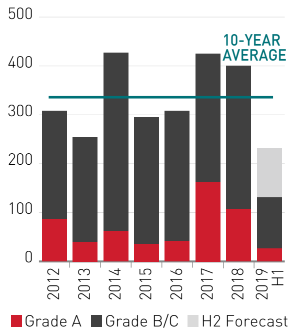
In time, the removal of the Severn Bridge toll may encourage more businesses to consider Bristol's out of town office market, as the number of commuters from Wales could increase.

A PRE-LET MARKET

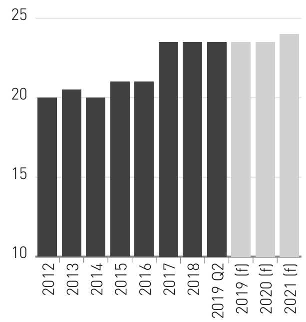
On face value, availability is relatively tight, standing at 541,000 sq ft and equivalent to 1.6 years of supply based on average rates of take-up. However, weaker demand at present and total grade A availability of only 49,000 sq ft across six buildings puts the supply in a different light.

Speculative development is still yet to return to Bristol's out of town market in this cycle. Future development is likely to be driven by larger occupiers taking pre-lets to consolidate their operations into one site, and there is land available. At this point, the headline rent could increase but until then is likely to remain static at £23.50 per sq ft.

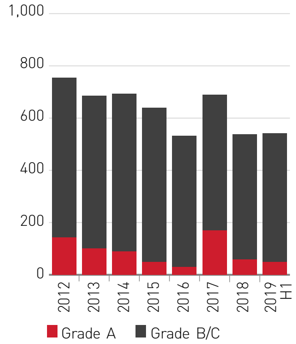
TAKE-UP (000 SQ FT)



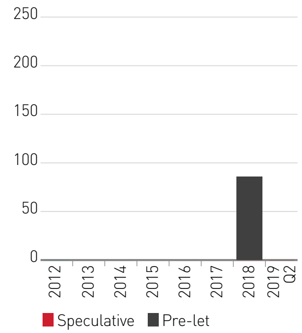
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

+7%

YEARS OF SUPPLY

1.6

GRADE A SHARE OF SUPPLY

9%

Q2 HEADLINE RENT (PER SQ FT)

£23.50

PRIME YIELD

5.50%

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q1	2610 Aztec West	40,760	St James Place Partnership	Confidential
2018 Q4	Ground Flr, 800 Aztec West	32,007	HM Government	£20.00
2018 Q3	1st Flr, 800 Aztec West	30,670	Edvance	£21.00
2018 Q4	Bristol North Baths, Gloucester Road	19,566	SCHQ	£20.75
2018 Q3	2nd Floor, The Chocolate Factory, Keynsham	16,931	IVC	£23.00

Source: LSH Research

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BATH


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ENTERPRISE ZONE CRUCIAL FOR SUPPLY

Bath is an attractive choice for local occupiers and potential in-movers, boasting excellent amenities and all the lifestyle benefits associated with being a world heritage city. However, a severe lack of supply puts the city at risk of losing businesses to other markets over the next two years.

TMT DOMINATES

Take-up in Bath amounted to 111,000 sq ft in 2018, an impressive performance considering an absence of any deals over 10,000 sq ft. However, subdued take-up of only 19,000 sq ft in H1 2019 reflects the city's now-severe lack of supply, while there are no grade A options currently available.

Occupiers in the technology, media and telecommunications (TMT) sector have been a key driver of recent activity. H1's only deals above 2,000 sq ft were to TMT occupiers, namely Play Sports Network's lease of 9,486 sq ft at 15-17 Trim Street and Fitronics' lease of 3,799 sq ft at 4-5 Palace Yard Mews. Reflecting the burgeoning growth of start-ups and SMEs in the city, Bath's supply of serviced offices such as The Guild and Spaces Northgate House are all fully occupied.

DEVELOPMENT ON THE CARDS

To address the supply shortage, the council is leading two key developments within the city's Enterprise Zone, Bath Quays South and Bath Quays North. Bath Quays South (45,000 sq ft) commenced construction in Q1 2019 and is due to complete in 2021, while work is due to start on Bath Quays North in 2020, now that Legal & General and Bell Hammer have been appointed as development partners.

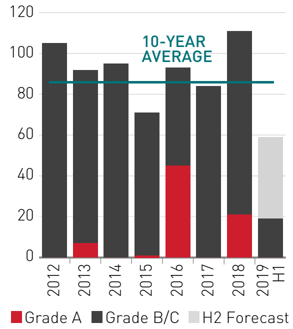
Outline planning permission has been granted for 200,000 sq ft of offices at Pinesgate. This development will boost the city's office offering significantly in due course but, with delivery still several years away, the challenge for the city will be to retain occupiers during the interim.

RENTS PLATEAU

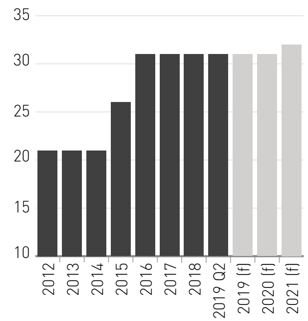
The acute shortage of supply will continue to weigh on activity, with take-up for 2019 as a whole predicted to fall short of trend level. While occupiers are prepared to pay a premium for high quality space, much of the current availability is confined to period buildings that cannot be upgraded to grade A standards.

The absence of available grade A supply is also reflected in the plateauing of the city's prime headline rent at £31.00 per sq ft, with further growth only set to come through as the new supply in the pipeline is delivered.

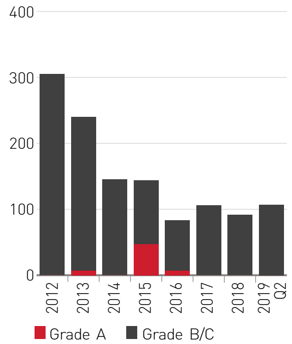
TAKE-UP (000 SQ FT)



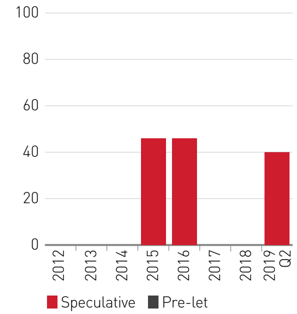
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
-37%

YEARS OF SUPPLY
1.2

GRADE A SHARE OF SUPPLY
0%

Q2 HEADLINE RENT (PER SQ FT)
£31.00

PRIME YIELD
5.00%

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q2	15 - 17 Trim Street	9,486	Play Sports Network	£27.00
2018 Q4	Part Ground Floor, Cramer House, The Square	6,903	Pure Planet	£22.00
2018 Q4	1st Floor, St James House, The Square	3,979	IQVIA	£21.00
2019 Q2	4-5 Palace Yard Mews	3,799	Fitronics	£21.00
2018 Q4	Sterling House	2,744	Unividual	£21.90

Source: LSH Research

CARDIFF

PROMISE IN THE PIPELINE

Several large redevelopment schemes on the horizon are bringing an air of excitement to the Cardiff market. However, the current lack of supply is hampering take-up at present.

Artist's impression of JR Smart's No1 John Street

IN TOWN FALTERS

Take-up in H1 2019 was relatively subdued, with the only deal above 20,000 sq ft being Sky's 39,714 sq ft acquisition at 4 Capital Quarter. This followed an unspectacular 2018, when total take-up fell 5% below the ten-year annual average, despite being supported by several large deals, such as Admiral Insurance's 65,000 sq ft pre-let at 3 Capital Quarter.

As well as Admiral, other long resident occupiers have taken the opportunity to relocate. These include law firm Geldards, which signed for 30,453 sq ft at 4 Capital Quarter in Q4 2018, and the aforementioned Sky deal, joining the likes of Lambert Smith Hampton, Atkins and Faithful & Gould.

SUPPLY ISSUES

Forecast take-up in H2 2019 is subdued due a lack of larger suitable options. The remaining speculative development at JR Smart's Capital Quarter in the city centre is now entirely pre-let while remaining grade A space elsewhere is not of the size or configuration that larger occupiers are seeking.

Positively, two refurbishments will provide the only additional grade A supply in the next year: Hodge House will provide 68,000 sq ft by the end of 2019 and 1 Fusion Point will provide 63,000 sq ft by Q3 2020.

FUTURE CONSTRUCTION

Although some way from delivery, Cardiff welcomed the commencement of JR Smart's latest speculative development in the summer of 2019, namely No.1 John Street (109,000 sq ft), sandwiched between Capital Quarter and Callaghan Square.

Several large schemes are in the pipeline. Rightacres' Central Square has redefined the city and continues to deliver much needed stock. Plans are now being advanced for a new transport interchange which will also provide a mix of commercial and residential uses, as well as 6 Central Square.

Rightacres is also promoting Central Quay, south of the station on the former Brains Brewery site. The vast 2.5m sq ft mixed-use development will include residential, hotels, a university campus and office space. There is already significant pre-let interest from occupiers for the first office element, comprising 270,000 sq ft at the Ledger Building

RENTS ON THE RISE

The arrival of quality supply into the market has been key to driving headline rents. After a long period of stagnation, Cardiff's prime headline rent moved to £25.00 per sq ft in 2016, and has held at this level over the subsequent three years. We expect the prime headline rent to reach a new high of £27.00 per sq ft by 2021 if not before.

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The gap between the prime headline rent and the level achieved for good quality grade B space has closed significantly in the last two years. As property owners of grade B space recognised the growing lack of grade A space, they have invested in high quality refurbishments. Many have achieved rental growth of 40-60%, from circa £13.00 per sq ft to as high as £20.00 per sq ft.

OUT OF TOWN BACK IN FAVOUR

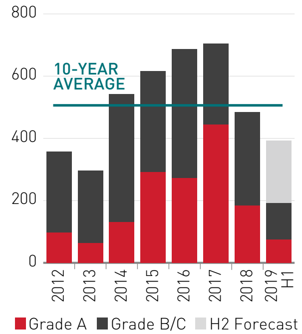
The sharp growth in grade B rents has been bad news for occupiers that have moved into the centre of Cardiff from out of town, where the market has struggled for several years. The out of town offer has not been high quality in terms of facilities and transport, which resulted in a flight to the city centre. Now space has been absorbed in the centre and rents have risen, cost conscious occupiers are pushing their enquiries out of town again.

There is potential for imminent development out of town. Construction of Cardiff Parkway station is set to begin in 2020, adjacent to 160 acres of former farmland subject to Cardiff Council's local development plan. The proposed business district could provide up to 3m sq ft of commercial space in the long term, although the initial phase would see the construction of 300,000 sq ft of office space.

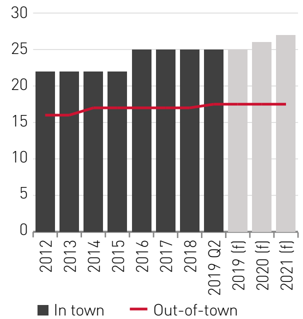
THE FUTURE BRIGHTENS FOR CARDIFF BAY

Cardiff Bay is an area with enormous potential that is yet to be fully exploited. However, like the out of town market, the area could soon benefit from infrastructure development. Improvements to Cardiff light rail services and metro include the construction of a new station The Flourish at Cardiff Bay. The area between Cardiff Bay and the city centre will also be improved by the development of a 2,000-home residential scheme as part of the Dumballs Road redevelopment. A planning application is set to be submitted in Q2 2020.

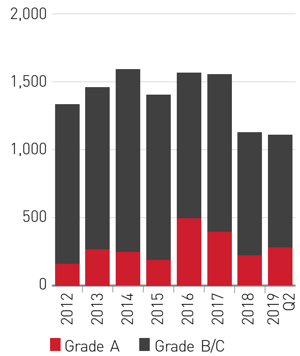
TAKE-UP (000 SQ FT)



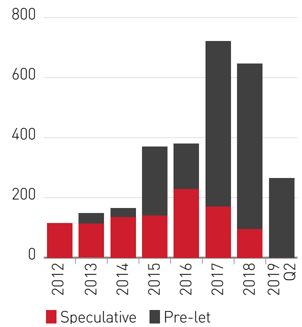
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
+7%

YEARS OF SUPPLY
2.2

GRADE A SHARE OF SUPPLY
25%

Q2 HEADLINE RENT (PER SQ FT)
£25.00

PRIME YIELD
5.50%

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q3	Woodland House/Tesco House	84,750	Cardiff & Vale University Local Health Board	£39.30 (Freehold sale)
2018 Q4	3 Capital Quarter	65,091	Admiral Insurance	£22.50
2019 Q1	4 Capital Quarter	39,714	Sky	£23.00
2019 Q1	4 Capital Quarter	18,915	Optimum Credit	£23.00
2019 Q1	3 Callaghan Sq	6,500	Grant Thornton	£19.50

Source: LSH Research

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SWANSEA

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DEMAND DRAWN TO OUT OF TOWN

A lack of quality supply in Swansea city centre is driving occupiers to out of town locations. Healthy take-up in Swansea has reflected the popularity of the Enterprise Park, where quality space is available.

ACTIVE ENTERPRISE PARK

At 97,000 sq ft, take-up during the last 12 months has comfortably exceeded the ten-year annual average and included three large deals at Enterprise Park. At Matrix One, the Welsh Ambulance Service and healthcare company NZ Manuka Group leased 15,000 sq ft and 10,000 sq ft respectively while Pobl leased 18,800 sq ft at Epona House.

The focus of larger deals at Enterprise Park partly reflects a lack of suitable options elsewhere across the market, particularly in the city centre where there is no grade A space and very little quality grade B accommodation.

IN TOWN CHALLENGE

A major challenge is that the prevailing top rent of £14.50 per sq ft does not allow for new construction. Much existing city centre office stock requires redevelopment with many occupiers operating from relatively substandard accommodation. Indeed, long term occupier Pobl opted to move its main HQ from the city centre to Epona House in the out of town market, as there was an opportunity to purchase and refurbish the building.

If new office space was delivered in the city centre, demand would follow as existing occupiers look to upgrade their accommodation. However, the council needs to actively encourage developers to look at speculative development. Office space aside, the council is midway through the construction of a 3,500-seat digital indoor arena to attract people to the city centre.

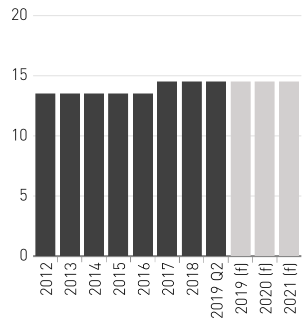
THE UNIVERSITY DOUBLES UP

Swansea's higher education sector continues to grow. The number of students across the city's universities has increased from 12,500 to 22,000 in the last two years and applications to Swansea University have increased by 60% in three years. Student accommodation has increased rapidly; five new properties will open in the next two years, offering a further 3,000 rooms.

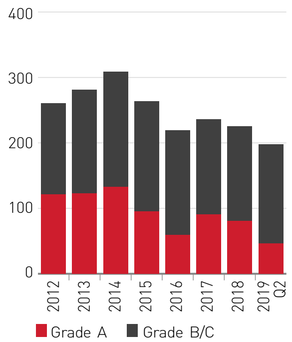
The growth of student accommodation has reduced office supply considerably, such as the conversion of 150,000 sq ft at The Oldway Centre. Eventually, this lack of space could lead to rental growth, although redevelopment will be needed. Of the 40,000 sq ft of transactions expected in H2 2019, almost all will be transacted out of town where quality space remains.

TAKE-UP (000 SQ FT)

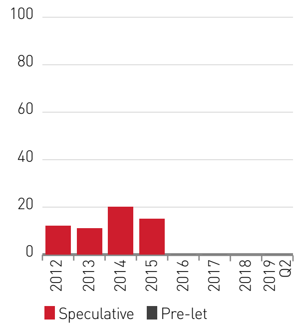
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
+15%

YEARS OF SUPPLY
2.4

GRADE A SHARE OF SUPPLY
23%

Q2 HEADLINE RENT (PER SQ FT)
£14.50

PRIME YIELD
6.50%

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q1	Epona House	18,810	Pobl	Freehold
2018 Q4	Matrix One	15,000	Welsh Ambulance Service	£10.00
2018 Q4	Matrix One	10,000	NZ Manuka Group	£10.75
2018 Q4	Axis 4, Axis Court	3,566	Towergate	£11.50
2019 Q2	The Warehouse, Urban Village	3,300	Afan Coffee Company	£10.00

Source: LSH Research

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EXETER

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TIME TO BUILD

An acute shortage of supply is set to weigh heavily on take-up in 2019. New development is increasingly needed if Exeter is to capitalise on its growing potential as an attractive business location.

TAKE-UP RESTRAINED

Subdued take-up of 55,800 sq ft in H1 2019 comprised entirely grade B and C space. The largest deal in the last 12 months was to engineering firm Jacobs, which leased 13,900 sq ft out of town at Pynes Hill.

An almost complete absence of grade A supply in Exeter is threatening to drive occupiers out to other markets. Grade A supply amounts to only 5,600 sq ft and is confined to a single building out of town, namely 1 Tiger Moth Road, Skypark. With no change to the supply status quo expected, take-up is set to remain subdued in H2 2019, despite relatively robust active demand.

SHORTAGE OF SPACE

The chronic shortage of space within Exeter city centre is attributable to both a loss of supply to other uses during the last five years and a lack of development over the past 15 years. Moreover, only 15% of total current availability in Exeter is deemed lettable.

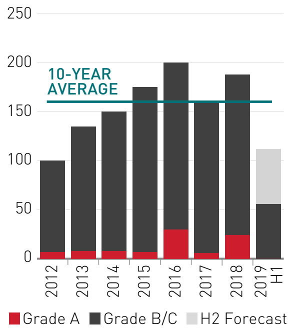
Exeter Council is well aware of the shortages and is putting its efforts into improving the quality and appeal of the city centre. A £300m redevelopment scheme known as the Bus Depot will create new retail, leisure, hotel and office space in the city centre over the next five years. In January 2019, work began to redevelop the bus station to provide a new leisure centre.

OUT OF TOWN DEVELOPMENT

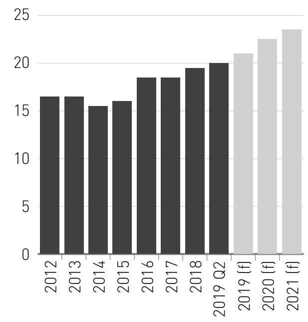
Two schemes could commence within the next 12 to 18 months, both out of town. Winslade Park, a 140,000 sq ft former office and leisure property set within 86 acres to the east of Exeter city centre, is currently under offer to a developer. At Exeter Gateway Office Park, adjacent to the popular Science Park, Eagle One is planning three office buildings totalling 45,000 sq ft. The developer is considering speculative development of 15,000 sq ft, although work is yet to commence.

Until these schemes present further grade A space, occupiers have extremely limited options. This squeeze is set to increase the top headline rent of £20.00 per sq ft up to £21.00 per sq ft in H2 2019, with a further, more considerable, rise expected once new grade A supply is delivered.

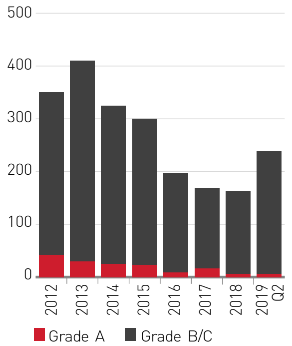
TAKE-UP (000 SQ FT)



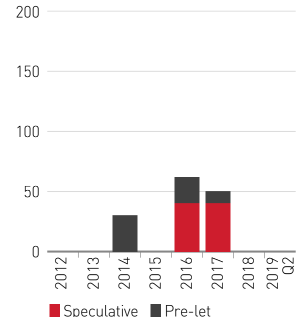
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
-3%

YEARS OF SUPPLY
1.2

GRADE A SHARE OF SUPPLY
0%

Q2 HEADLINE RENT (PER SQ FT)
£20.00

PRIME YIELD
5.75%

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
Q4 2018	Vantage Point, Pynes Hill	9,877	South West Academic Trust	£16.50
Q4 2018	Aperture, Pynes Hill	8,100	Axa PPP	£15.00
Q4 2018	1 Tigermoth Road	5,500	Troy UK	£20.00
Q2 2019	Part Ground Floor Broadwalk House	3,087	Veitch Penny	£15.00
Q1 2019	Sterling Court, 16 Dix's Field	1,400	LSH	£18.00

Source: LSH Research

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PLYMOUTH


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MAKING A SPLASH

A slow start to activity in 2019 reflects both subdued demand and a lack of quality space to entice occupiers. Urban Splash's mixed-use redevelopment at Royal William Yard is just the tonic the market needs.

A SLOW START

Following unspectacular take-up in 2018, take-up in H1 2019 slumped to only 22,000 sq ft. Plymouth is home to a large call centre market, which remains strong due to the area's suitable demographic and competitive labour costs. This is evidenced by the largest deal in 2018, Mortgage Advice Bureau's lease of 5,000 sq ft at Hyder House.

2018's headline transactions were change of use deals and therefore not included in take-up. Plymouth University leased 53,652 at 28-29 Central Park while Plymouth City Council purchased Crownhill Court (58,000 sq ft) for future refurbishment for the Valuation Office. Similarly, the largest transaction in H1 2019 was a sale of 4,210 sq ft at 7-8 Ford Park Road for conversion to student accommodation.

SPLASHING OUT ON SPEC

There is a reasonable level of supply, with availability of 265,000 sq ft equivalent to 2.2 years of average annual take-up. However, there is currently no grade A availability in the city, with three buildings of grade B+ comprising Princess Court, Old Tree Court and The Merchant, but these account for less than 80,000 sq ft.

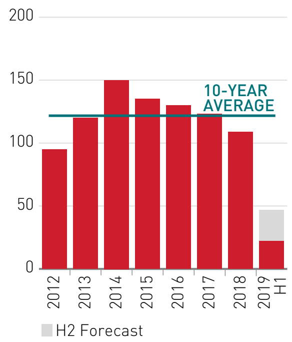
Outside the centre, Royal William Yard is proving to be a popular destination, providing high quality office space alongside retail and residential. Positively, Q3 saw developer Urban Splash commence speculative refurbishment of 80,000 sq ft of heritage warehouses (built for King William IV) which will provide a major boost for the SME market when it is delivered in late 2020.

RENTS TO STAY PUT

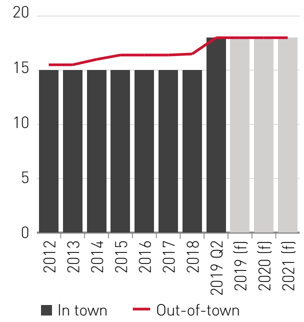
Plymouth has is a high concentration of 1950s-1960s office space that is need of redevelopment. However, Plymouth town centre could start to attract occupiers from Exeter due to its lower rental tone, which could cause a supply shortage from 2020 onwards.

While the redevelopment at Royal William Yard will bring much-needed good quality supply to the market, with nothing in the immediate pipeline in the city centre, the current prime headline rent of £18.00 per sq ft is likely to remain static for several years.

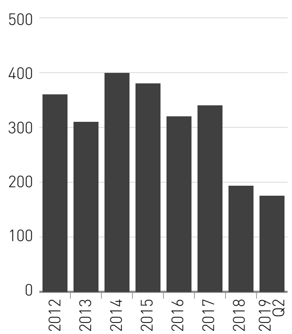
TAKE-UP (000 SQ FT)



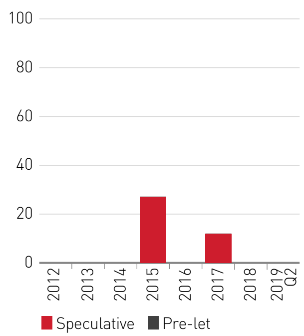
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
-37%

YEARS OF SUPPLY
2.2

GRADE A SHARE OF SUPPLY
0%

Q2 HEADLINE RENT (PER SQ FT)
£18.00

PRIME YIELD
6.75%

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
Q3 2018	28-29 Central Park Avenue	53,652	Plymouth University*	£6.24
Q4 2018	Hyder House	5,000	Confidential	£84.00 (Freehold sale)
Q4 2018	North Quay House	4,028	Confidential	TML Solicitors
Q1 2019	1 Research Way	2,659	Sentinel Healthcare	£14.00
Q1 2019	Poseidon House	2,325	Confidential	non-disclosed

Source: LSH Research. *Change of use to educational

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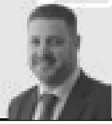
CHELTENHAM & GLOUCESTER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IN TOWN FIGHTS BACK

While the market is dominated by the out of town offer, the in town offer in both Cheltenham and Gloucester is improving at long last.

STRONG TAKE-UP

Take-up across Cheltenham and Gloucester totalled an impressive 220,000 sq ft in 2018, far exceeding the ten-year annual average. This was boosted by Ecclesiastical Insurance's 65,000 sq ft pre-let at Gloucester Business Park in Q4 2018.

The market has remained busy into 2019 but has lacked large deals to drive take-up. H1 2019's headline deal was Wynne Jones' lease of 6,000 sq ft at Gloucester Business Park, although the largest was Diocese of Gloucester Academies Trust's 9,020 sq ft lease at Olympus Park Business Centre, in Gloucester out of town.

GLOUCESTER LAGS BEHIND

Interest remains strong in Gloucester's out of town market, which is dominated by Gloucester Business Park. In Q2, the unfortunate demise of Horizon Nuclear Power saw Sunrise House come back to the market, although hopes are high that a new occupier will be found in the short-term.

While Gloucester's city centre has struggled with weak demand, prospects are looking more positive moving forward. Work has now started on the redevelopment of King's Square, a mixed-use development consisting of a hotel, new residential and 40,000 sq ft of office space.

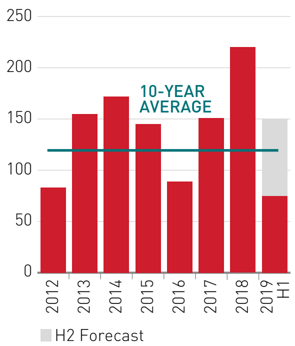
CYBER BOOSTS OUT OF TOWN

Despite the town's prestige, Cheltenham's market has come to be dominated by the out of town offer, due to relatively higher physical restrictions associated with town centre development and high car-based commuting from the surrounding area.

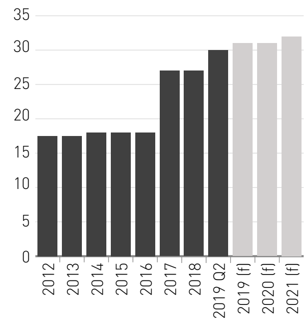
However, in town activity is set to benefit from the recent completion of Honeybourne Place (63,000 sq ft), a development by Formal Investments. The newly delivered scheme is expected to push the market's prevailing prime headline rent to a new high of circa £31.00 per sq ft by the end of the year.

Cheltenham Cyber Business Park is the next exciting addition to Cheltenham's office offer, with a joint funding bid led by the Universities of Gloucestershire, Bristol, Bath and Cardiff being shortlisted to move to the next stage of business planning. Located next to the world renowned GCHQ, the park will provide 2m sq ft of business space.

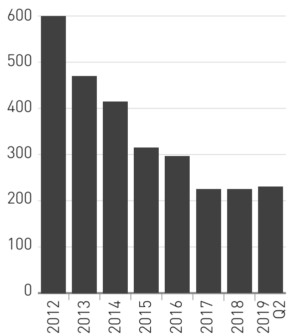
TAKE-UP (000 SQ FT)



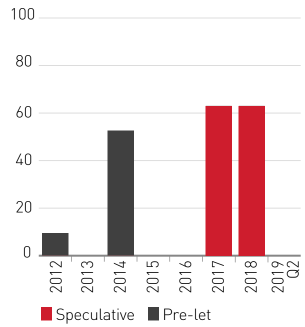
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE

+102%

YEARS OF SUPPLY

2.2

GRADE A SHARE OF SUPPLY

0%

Q2 HEADLINE RENT (PER SQ FT)

£30.00

PRIME YIELD

5.50%

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2018 Q4	Gloucester Business Park	65,000	Eddlesiastical	Confidential
2020 Q4	The Brewery	28,675	SLG	£16.00
2018 Q4	Olympus Park	23,153	Sanctus	£12.00
2019 Q4	The Brewery	11,192	THB Global	£21.50
2019 Q1	Valiant Court	7,065	Wynne Jones	£21.50

Source: LSH Research

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SWINDON

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KIMMERFIELDS TO KICK-START

Having been blighted by an overhang of poor quality supply and weak demand, the imminent redevelopment of the Kimmerfields site has the potential to radically boost Swindon's appeal in the coming years.

ONE DEAL DOMINATES

At 120,000 sq ft, take-up in H1 2019 is ahead of the annual total from each of the previous three years. However, demand remains relatively subdued with H1 take-up buoyed by a single major deal: Nationwide's freehold purchase of the 76,000 sq ft Trilogy building, Kembrey Park.

The market is increasingly reliant on large lease events among existing occupiers to drive take-up. If the town centre is to attract new occupiers and retain existing businesses long term, redevelopment is required to provide the amenities that today's office occupiers increasingly expect.

KIMMERFIELDS TO KICK OFF

While supply has contracted considerably over the past decade, it continues to overhang the market. In contrast with the tight supply seen elsewhere in the region, current availability of 595,000 sq ft equates to a relatively elevated 3.8 years of average annual take-up.

A key issue is that current supply is not of sufficient quality to appeal to aspiring occupiers. However, following on from recent trends, further supply may be converted to residential over the next few years, allowing a more focused remedy for the remaining stock.

Positively, the much-needed redevelopment of Kimmerfields is set to begin later this year. This major town centre regeneration scheme will deliver 600,000 sq ft of grade A office space, including a new 100,000 sq ft operation for Zurich Insurance, alongside retail and leisure and 430 homes.

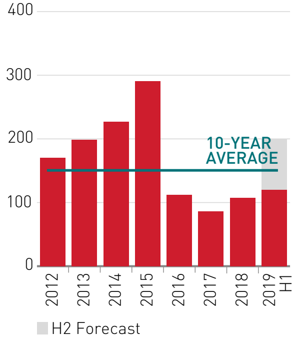
The scheme's prospects for attracting inward investment could be boosted by the opening of the Elizabeth Line in Reading, expected in 2020. This will put Swindon within an hour of Central London with one change at Reading.

OUT OF TOWN SHAKE UP

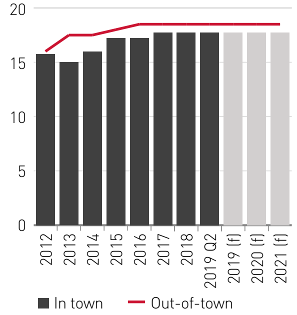
Swindon's headline rent has remained unchanged at £17.75 per sq ft in town and £18.50 per sq ft out of town for the last two years and is not expected to increase until new supply is delivered.

A blow was recently delivered to the local economy with Honda's announcement that it will close its Swindon factory in 2021, losing 3,500 jobs. The council is currently debating whether to designate the land as a core employment site, rather than to provide residential. The impact of Honda's loss will be clearer once this decision is made.

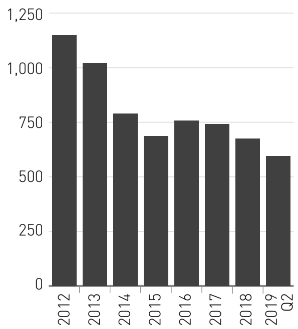
TAKE-UP (000 SQ FT)



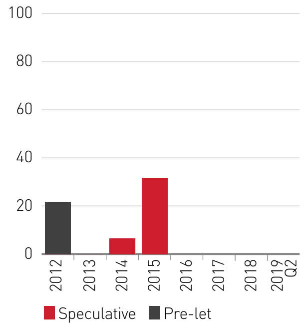
PRIME HEADLINE RENT (£ PER SQ FT)



AVAILABILITY (000 SQ FT)



UNDER CONSTRUCTION (000 SQ FT)



MARKET AT A GLANCE

12 MONTH TAKE-UP VS 10-YEAR AVERAGE
+19%

YEARS OF SUPPLY
3.8

GRADE A SHARE OF SUPPLY
0%

Q2 HEADLINE RENT (PER SQ FT)
£18.50

PRIME YIELD
6.75%

KEY SELECTED TRANSACTIONS

Quarter	Property	Size (sq ft)	Occupier	Rent (per sq ft)
2019 Q1	Trilogy Building	76,000	Nationwide	Freehold Purchase
2019 Q1	100 Victoria Road	42,752	Blewbury Homes	£900,000 freehold for PD conversion
2018 Q4	The Patent Store	18,316	Bristol Diocese	£1.3million freehold
2019 Q1	Cherry Orchard East	11,600	Thames Water	£14.66
2019 Q1	Stella Building	7,598	TIBCO	£18.00

Source: LSH Research

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