

Commercial EDGE

Bristol and Bath
Spring 2023

Bristol Offices

Annual office take-up in Bristol city centre increased in 2022 to 620,000 sq ft, compared with 540,000 sq ft in 2021, and 5% above the average over the previous 10 years (590,000 sq ft per annum).

Take-up eased in Q4 2022 to 111,130 sq ft, 23% below the five-year quarterly average (source: Bristol Office Agents Society).

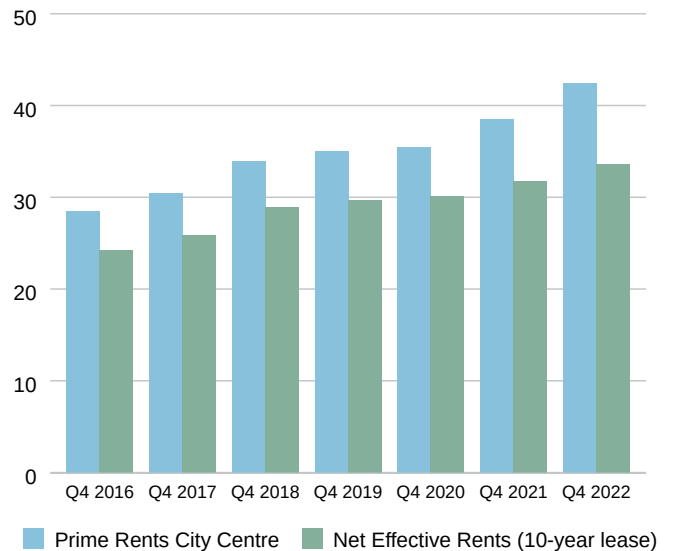
The out-of-town market recorded stronger leasing volumes in Q4 2022 at 109,190 sq ft, up 33% quarter on quarter and 50% above the five-year quarterly average. This took out-of-town take-up in 2022 to 340,000 sq ft, 12% above the average over the previous 10 years.

The largest transaction of Q4 was 39,700 sq ft let to Boeing at 100 Bristol Business Park. Other large deals in 2022 include the pre-let of 54,767 sq ft at CEG's EQ to Paymentsense; 24,375 sq ft let to Pax8 at The Distillery; and Deloitte's pre-let of 22,500 sq ft at Cubex's Halo at Finzels Reach.

There is currently a wave of construction activity. New schemes due to complete this year include Halo (which is now substantially pre-let); The Welcome Building, a 207,000 sq ft scheme by Candour / Tristan Capital Partners; and CEG's 200,000 sq ft EQ scheme. Work is now under way at AXA / Bell Hammer's Assembly B and C (117,000 sq ft), and several major refurbishments are also in progress. In the out-of-town market, 1000 Aztec West (80,000 sq ft) will set a new benchmark for quality when it completes later this year. These schemes are a welcome addition to Bristol's office stock, and reflect the shift in occupier preferences towards high-quality, energy efficient space.

Prime city centre headline rents have risen to £42.50 per sq ft (see chart). In the out-of-town market, quoting rents at Aztec West have risen to £28.50 psf, from a previous headline level of £23.00 psf, again principally due to the lack of available product.

Bristol Headline and Net Effective Office Rents (£/sq ft)



Bristol Retail

Retailer demand remains robust despite the economic headwinds and is currently stronger than usual for the time of year.

We are still seeing plenty of interest from independent retailers and the food & beverage and leisure sectors, with national operators of roadside food & beverage outlets also still active. Several fashion retailers are again showing interest in bricks and mortar, and we are also seeing a revival in demand from the charity sector.

The main driver of Bristol's city centre retail market is the uncertainty being created by various redevelopment proposals in the Broadmead shopping area. Of these, the furthest ahead is the redevelopment and repurposing of the 1990s Galleries Shopping Centre. Owners LaSalle are accelerating the project and advising occupiers of scheme's commencement within two years.

Hammerson, owner of Cabot Circus, also has redevelopment plans for their ownership of parts of The Horsefair, Broadmead and Merchant Street but are now offering occupiers five-year term certain plus a rolling development break. Other development proposals include blocks owned by AEW that include the former Debenhams and separate plans for the former M&S store.

Many suburban locations are performing well. Good examples are Clifton Village, where rents have increased in recent years and are now close to parity with the secondary end of Broadmead; and Wapping Wharf, with its thriving offer of independent bars and restaurants.

Bristol Industrial

Industrial leasing activity in Bristol fell in Q4 2022, totalling 348,948 sq ft, 32% below the five-year quarterly average.

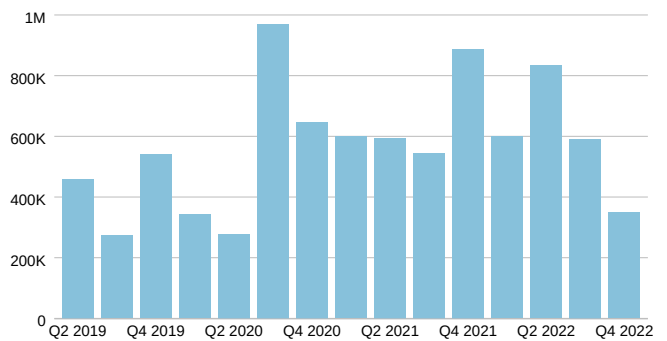
However, 2022 overall was a strong year for take-up, which totalled almost 2.4 million sq ft, only slightly below the 2.6 million sq ft let in 2021, and ahead of the five-year average which stands at 2.2 million sq ft.

Occupier demand remains robust, driven by the logistics sector and the continued evolution of retail supply chains. Indeed, the slowdown in leasing activity is largely due to the lack of available stock, particularly mid-box & big-box space, following a flurry of deals in these size brackets over the previous four quarters.

Supply is likely to remain restricted during 2023, with development held back by factors including elevated build costs and the recent upward shift in industrial yields. However, some new schemes are under way, focussed on Severnside.

Prime industrial headline rents in Bristol have risen by 16% over the past five years, with average asking rents now at £9.00 psf.

Bristol Industrial Take Up (Sq Ft)



Bath Offices

Office take-up in Bath eased in Q4 2022. Just over 17,000 sq ft were leased in the fourth quarter, 25% down quarter on quarter, down 34% year on year and 19% below the five-year quarterly average.

This took annual take-up in Bath in 2022 to 62,700 sq ft, below the average over the previous 10 years of 105,000 sq ft per annum.

The largest letting of Q4 2022 was IDH taking 7,200 sq ft at Frome Road. Other key lettings in 2022 included Altus and Fidelius taking 9,546 sq ft and 5,866 sq ft respectively at 1 Bath Quays; and Smart Bear taking 6,842 sq ft at Royal Mead. As is usual in the Bath market, most transactions were sub-5,000 sq ft.

Prime office rents lifted to £36 psf, compared with the previous level of £28 psf (see chart), as recent new stock coming to the market, including the Bath Quays scheme, has set a welcome new quality benchmark for office space in the city.

Bath Retail

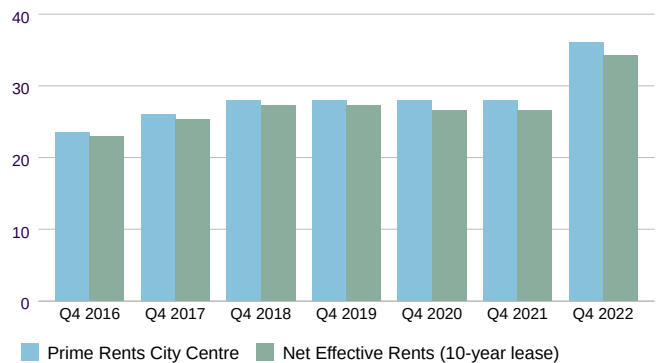
2022 saw a record number of retail lettings, with several units currently under offer, underlining the resilience of Bath's retail market.

The majority of enquiries are food & beverage-led, driven by the city's buoyant café culture, and its thriving bars and restaurants.

However, the city is also attracting new retailers, which is important in maintaining a balanced offer. Demand is coming not only from independent operators, with several unique businesses moving in, but also from a revival in interest from the major national brands, with operators such as Monsoon and Mint Velvet recently agreeing to take space. In addition, Zara is rumoured to be moving into the SouthGate centre.

Landlords reduced rents in order to avoid vacancies during the pandemic and this has proved highly successful in terms of occupation levels. Indeed, unlike many locations, Bath's key problem is a lack of available units rather than oversupply. As a result, we are now beginning to see some upward pressure on rental levels, with competitive bidding in some recent instances, and deals being agreed at above the asking rent. Although high energy bills remain a headwind, retailers should see the benefit of lower business rates from this April.

Bath Headline and Net Effective Office Rents (£/sq ft)



Bath Industrial

The industrial market across Bath, Somerset and Wiltshire continues to see demand which cannot be met given current levels of supply.

With very little development under way, the supply shortage shows no signs of easing. In Bath, this is a long-term issue around the lack of land opportunities and industrial stock being re-purposed/ demolished to accommodate higher value uses, whereas in the wider market it can be attributed to elevated build costs plus the recent upward shift in industrial yields.

This yield shift and higher risk aversion has also reduced investor appetite, although we are now beginning to experience some renewed interest from this sector. Given the lack of supply, owner occupiers are now prepared to pay higher prices than investors, so capital values remain strong.

Prime rents have held firm at £12.50 psf in Bath, although brand new smaller units (below 1,500 sq ft) would let in excess of this should the stock be available. In the wider Bath market, rents for secondary stock (5,000 sq ft) stand at £10.00 psf.

Larger transactions over the last year include St Modwen's new 100,000 sq ft unit at Chippenham Gateway, let to Furniture Box at £7.50 psf; and Keypoint, Swindon, where Panther Logistics took an existing 225,000 sq ft unit at £8.15 psf.

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