

Cardiff

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The outlook for the Welsh economy over the next five years is positive with average annual GDP growth forecast to be 2.5%, representing an improvement over its long-term historic annual average of 2.3%. Cardiff is expected to continue out-performing the rest of the Welsh economy, with forecast annual growth of 3.3%, compared to the national rate of 2.7% per annum. Cardiff's economic growth is again likely to be fuelled by strong expansion within the financial and business services sector.

Take up and availability

There was a significant improvement in the take-up rate for Cardiff in 2006 compared to 2005 – take up in the order of 52,000 sq m (560,000 sq ft): a 60% increase on 2005 and above the long term average.

Available floorspace fell for the fourth consecutive year and now stands at approximately 65,000 sq m (about 8% of total stock) with approximately 10,000 sq m of Grade A space.

Market activity

Driven by an unprecedented level of investment activity, with prime yields hardening to 4% in some locations, there was a significant increase in development activity fuelled by diminishing stock levels and strengthening occupational demand. This is significant as Cardiff is the only major regional office market in the UK not to have experienced any growth in prime rents during the last five years. The following are significant schemes

bringing forward much-needed Grade A office space to complement the existing space:

- Rightacres/MEPC – 14,880 sq m (160,000 sq ft) Callaghan Square; and
- Morley Fund Management (through Cardiff Bay Partnership) with consent for over 46,500 sq m (500,000 sq ft) on Cardiff Waterside with an initial speculative build of 6,510 sq m (70,000 sq ft) this year.

Out-of-town business parks (J's 29,30 and 32), notably Cardiff Gate, Greenmeadow Springs, Neptune Court, Celtic Gateway have all maintained robust activity rates with smaller units being sold to owner occupiers and private investors, despite changes to the SIPP rules in April.

In the biggest transaction of the year, the University of Glamorgan bought the former 6,690 sq m BT call centre at Enterprise House, Adam Street.

In the largest letting of the year, The Home Office acquired the 3,060 sq m former Norwich Union building at 31–33 Newport Road from The Bailey Group.

New Baltic House, Kingsway (3,450 sq m) was sold for in excess of £11m, reflecting a net initial yield of approximately 5%.

Cardiff office development pipeline

Scheme	Size sq ft	Developer	Estimated completion date
Callaghan Square, Building 3	43,196	MEPC/Rightacres	July 2007
Greenmeadow Springs, Phase 2	22,000 58,730	Macob	July 2007 February 2008
Callaghan Square, Building 4	67,889	MEPC/Rightacres	December 2007
Linea, St Mellons	75,000	HSI UK/Raglan Consultancy	January 2008
Fountain House, St Mellons	26,000	Wingwest	April 2008
Callaghan Square, Building 5	53,702	MEPC/Rightacres	June 2008
Central Point, St Mary Street	65,000	Contract House Builders	June 2008
Global Reach, Celtic Gateway BP	60,000	Bailey	September 2008
3 Fusion Point	95,000	Landmark Securities/Robert Hitchins	September 2008
Cardiff Waterside, Plot 3D	60,000	Morley Fund Management	October 2008
Sanquhar Street, Ocean Way	50,000	JR Smart Builders	November 2008
Cardiff Gate Business Park	72,000	Sir Robert McAlpine	tba

Source(s) Knight Frank LLP

Rents

Prime rents are still at £18.50 per sq ft in Cardiff City and Cardiff Bay with £15.50 per sq ft on the best business parks. A groundbreaking deal at £20.00 per sq ft is in 'solicitors hands' at present. Quality refurbished space is now also restricted. £14.00 – £15.00 per sq ft is achievable (with air-conditioning) e.g. Agincourt House (former Zurich HQ), Brunel House and Churchill House – all are near full occupancy.

Trends

- IPD total investment returns in 2005 were 20.3% (UK) and 17.5% (Cardiff) and completed forecast returns for 2006 are expected to be in the order of 23.8% (UK) and 19.2% (Cardiff);
- In 2006 Cardiff's economy recorded a growth of 3.6% overall, while the output of its financial & business services sector expanded by an impressive 10%;
- According to Experian, the number of people employed in financial and business services in the UK will rise from 5.91m in 2005 to 6.54m in 2010;
- Some of the smaller cities are also expected to see an increase in office-based employment. For example, total office based employment in Cardiff is expected to rise from 203,000 in 2005 to 224,000 in 2015; and

- The UK flexible managed office sector (examples in Cardiff include Regus, Rombourne, Cardiff Executive Centre, Longford) has grown threefold in the past five years and is poised for further growth. Business centres in Cardiff are predominantly full.

Outlook

Looking forward over the next 5 years, total returns are forecast at 7.9% (UK) and 7.5% (Cardiff) with moderate rental growth (3.5%–5.0%) reflecting shortages of stock but more marginal capital growth (1.5%–2.5%). This suggests a levelling off in the market after the significant gains in the last three years.

Strong performance by the office sector in 2006 appears to be continuing in 2007 with Grade A shortages reported in many regional cities, including Cardiff, fuelling a new wave of development activity.

However, several factors appear to have dampened the rental drivers in Cardiff compared to other regional markets. These include the predominance of public sector and back office functions in Cardiff, which have been disinclined to pay higher rents for better space. In addition, a hold was placed on three large private sector requirements, from Barclays Bank, Legal & General and British Telecom, which together would have represented demand for around 23,250 sq m (250,000 sq ft) of Grade A space.

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