Swansea office rental growth one of the strongest in the UK

Swansea has experienced one of the strongest office rental growth rates in the UK with average rents increasing 2% over the past year.

According to commercial property research consultancy CoStar demand has been driven by falling vacancy rates and a limited supply of new quality space – although a wave of new schemes are in the development pipeline.

In addition, it said the city is one of the few UK markets where demand for office space has exceeded the space vacated over the last year. Net absorption, a measure of occupied stock, has risen by around 27,000 square feet, meaning Swansea has outperformed most of the UK's office centres.

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This has helped to drive the gap between its vacancies and those in the wider UK to its highest level on record, due to steady demand and a lack of development activity brought on by economic uncertainty and the high cost of borrowing and construction.

It is one of the UK's smaller office markets, with around seven million sq of stock and around a quarter of the size of near neighbour Cardiff.

Vacancies in the city are amongst the lowest across the UK at 3.5% – the lowest on record – and significantly less than Cardiff, where vacancies are currently approaching 8%.

Over the past 10 years, the net delivery of office stock has been negative, indicating that more office stock has been demolished than built. Less than 100,000sq ft of new office space has been built in the last five years.

However, the imminent delivery of new stock will likely place upward pressure on vacancy rates. Swansea City Council's Kingsway Digital Village scheme, which is being built as part of a broader infrastructure project that includes demolishing two properties on Oxford Street to create a new link between the bus station and Kingsway, is expected to be completed soon. The 100,000sq ft scheme will be the largest in the Swansea market for 15 years.

In addition, the renovation of Princess Quarter, which will deliver 16,000sq ft of sustainable office space in Swansea's prime city centre district, is expected to achieve rents higher than £20 per sq ft.

The acid test for Swansea's office market will be how successful its new office projects are in attracting new tenants from the private sector and the value of rental deals.

The headline rent for the city is around £15 per sq ft, but with the aspiration that the new grade A stock will push it towards the £20 per sq ft mark and beyond. The current average office rent for the city is around £12 per sq ft, compared with just over £14.50 for Cardiff where the headline rent is £25 per sq ft.

A CoStar spokesman said: "Demand for new, sustainable offices is becoming increasingly prevalent in the UK's office markets as businesses look to secure space that will comply with future ESG (environmental, social and governance) regulations and attract the best local talent.

"However, office take-up has been weak this year. Swansea is not a high-volume leasing market; over the last 10 years, only three deals bigger than 50,000 square feet have been signed. "However, there has been only one occupational deal above 10,000 square feet in the last 12 months, which was construction company Andrew Scott's purchase of a 10,700 sq ft office building at Enterprise Business Park for its own occupation in November last year. The long leasehold was being marketed for £650,000.

"The delivery of new space in Swansea's central business district this year is expected to attract interest from local businesses looking to future-proof their presence in the city.

"However, tenants may need to move quickly; there is currently no space in the development pipeline to be delivered beyond this year, limiting options for businesses with approaching lease expiries."