

# Spotlight Manchester Office Market Report

June 2014



One St Peter's Square, Manchester

## SUMMARY

- The office market has seen a significant increase in take-up in the first quarter of 2014.
- This year we predict that Grade A will exceed 60% of total office take-up. In 2013 it was only 20%.
- We anticipate that there is potentially 800,000 sq ft of developments to come over the next three years.
- Headline rents have now reached £32 per sq ft at Spinningfields.
- Savills expects rents to increase by 3.2% per annum over the next five years, increasing to £35.50 per sq ft by 2018.
- Manchester yields are now estimated to be in the region of 5.25%.

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 "Argent and GMPVF's foresight will give developers the confidence to start Manchester's next wave of new developments needed to keep Manchester at the forefront of European cities."  
 Patrick Joynson, Director, Office Agency  
 .....

## → Occupational Market

■ The Manchester office market witnessed a significant increase in take-up in the first quarter of 2014 and a notable increase in the size of lettings and requirements circulating the market.

■ 2013 take-up was 869,000 sq ft, which was broadly in line with the long term year-end average. At Q1 2014 Manchester take up stood at 317,356 sq ft, 16% up on the same time last year.

■ With a number of known requirements circulating the market, we expect 2014 to end the year at circa 1.1 million sq ft, 27% up on 2013 and 26% up on the long term average.

■ In 2013 20% of total take up was for Grade A quality space. In 2014 Grade A take-up should exceed 60% of the total.

■ One of Manchester's greatest strength is the diverse nature of its occupier. Unlike many provincial cities it doesn't overly rely on the Public sector or Banking & Finance.

■ This structural resilience is best illustrated by the current crop of larger requirements that include companies such as, Addleshaws (50,000 sq ft), DLA (40,000 sq ft), PwC (50,000 sq ft) and Ernst & Young (35,000 sq ft), amongst others.

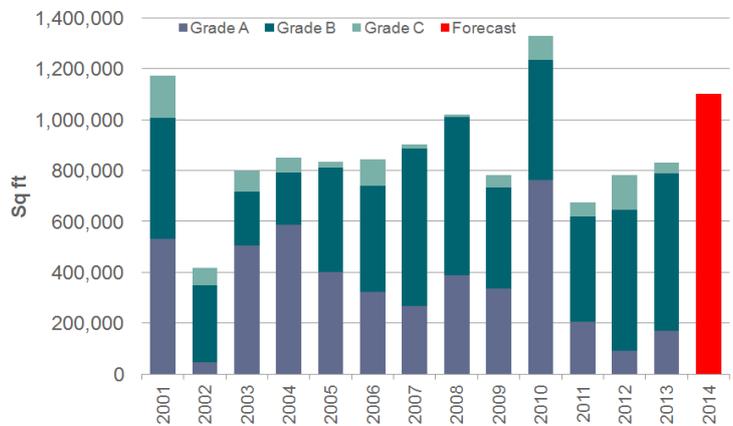
■ 2014 has seen major inward investment by Slater Gordon (100,000 sq ft) and Towergate Insurance (40,000 sq ft), Trader Media (60,000 sq ft) and Ford Finance (25,000 sq ft).

■ The companies are attracted to Manchester by its highly skilled labour pool, public transport network and outstanding amenities, the city is a compelling destination for management and their staff.

■ As other large office transactions complete this year, the supply/demand dynamic will firmly swing back in favour of the landlord for the first time since 2004/5.

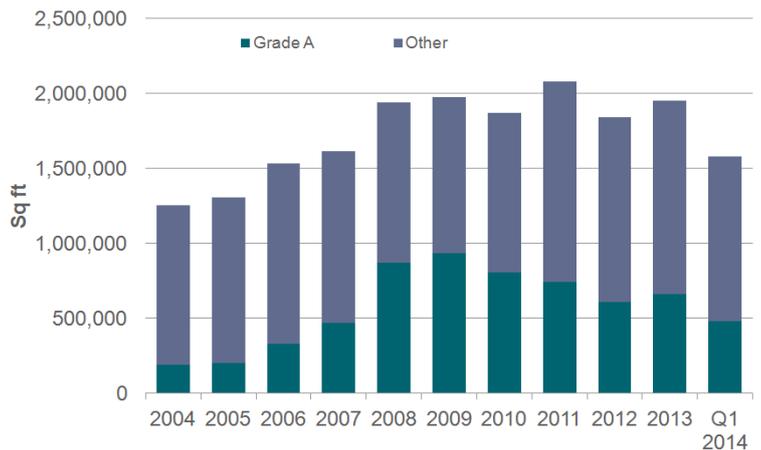
■ Based on current demand, there is less than one years worth of Grade

GRAPH 1  
**Take-up is set to increase dramatically in 2014**



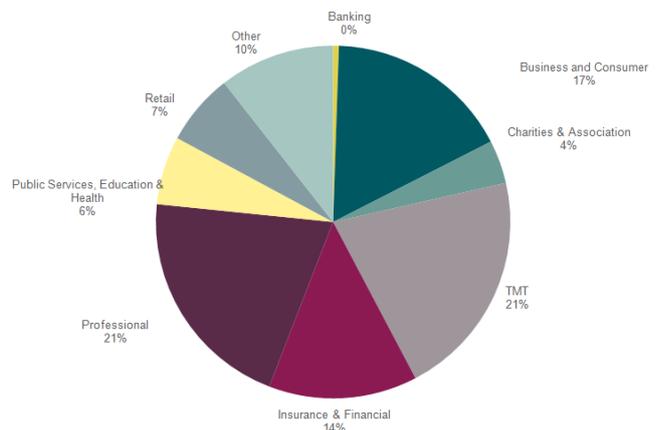
Source: Savills

GRAPH 2  
**Grade A supply has started to fall**



Source: Savills

GRAPH 3  
**The Professional & TMT sectors accounted for over 40% of take-up in 2013**



Source: Savills

A supply in the market (and much of this already earmarked). With a large amount of lease events coming up over the next 36 months, one of the big questions for the city is where will the 'suitable space' come from to meet demand?

■ There is a potential for 800,000 sq ft of developments to come through over the next three years. While this looks substantial, to put it into context, the 10 year average grade A take-up is 380,000 sq ft.

■ Given the renewed demand in the city and the improving economic conditions, there is great potential for those investors and developers with well located sites.

■ The developments most likely to start on site in 2014 are: ASK Developments/ Tristan Capital Partners 165,000 sq ft 101 Embankment, Muse/ English City Fund, 120,000 sq ft New Bailey Street and Allied London's 160,000 sq ft Cotton Building.

■ Other possible developments include: Allied London's 260,000 sq ft One Spinningfields and Mosley Street Ventures (Dome Family) 155,000 sq ft 2 St Peter Square.

■ It is important that developers and funds fully understand the office supply/office demand dynamic in provincial cities. The current pipeline nicely balances this dynamic and provided developers and funds are well advised, this equilibrium should be maintained through a combination

of "self policing" and "first mover advantage".

■ The highest rent achieved in 2013 was £30 per sq ft at 3 Hardman Square. In 2014 rents have now reached £32 per sq ft at Spinningfields. Savills are forecasting headline rents will increase to £35.50 by 2018, with a 3.2% growth per annum over the next five years.

■ The economic outlook continues to see an improvement. In 2014, the North West is expected experience GVA growth of 2.9%.

■ Although London and the South East are likely to lead in terms of job growth, with these areas being dominated by the private sector, key cities such as Manchester will also see substantial growth in the private sector.

■ Indeed, Manchester Chamber's fourth quarter economic survey shows the balance of service sector companies reporting improving UK sales figures standing at +36%, the highest level recorded in the ten-year history of the survey, and exceeding pre-recession average levels.

■ The city will see an average 2% growth per annum in office based employment over the next 10 years. This job growth represents a positive turnaround in the City's economy, which will help keep Manchester at the forefront of European cities.

## Expert view

### Patrick Joynson, Head of Savills Manchester looks "Back to the Future"

In 2000 Argent sparked a resurgence in the Manchester office market, with a bold new speculative office building in Piccadilly Gardens.

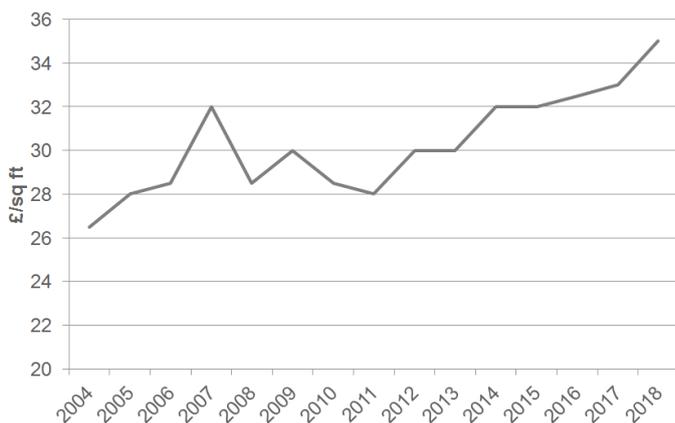
Coming close on the heels of previously ill conceived City Centre developments, many in the market were skeptical on the timing, whilst others considered 150,000 sq ft in one building far too risky for the Manchester office market. In the event, their timing proved to be perfect, as One Piccadilly Gardens was fully let within 12 months. As for size, Argent should have made the building 100,000 sq ft bigger!

The success of One Piccadilly Gardens gave others the confidence to build and fund large scale offices. The resulting surge in development helped drive Manchester forward and enabled the city to present itself as a modern dynamic centre open for business.

14 years on, history is beginning to repeat itself. Argent in conjunction with their JV partner GMPVF, are delivering the extraordinary One St Peter Square, totaling 268,000 sq ft of Breeam Excellent offices. The building, that was in part facilitated by a 63,000 sq ft pre-let to KPMG, was started when development confidence was at an all time low and much of the UK had ceased office construction.

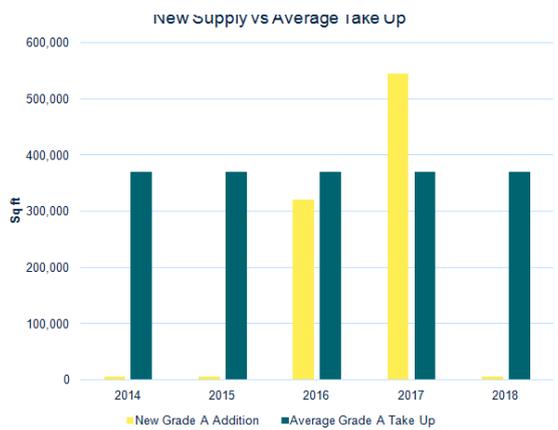
Now whilst other cities have to play catch up Manchester, thanks to Argent and GMPVF's foresight, through One St Peter Square is able to demonstrate in the most visible way possible, a confidence, self belief and 'can do' attitude. Once again Argent's timing looks to be spot on as it completes Manchester's first City of London quality speculative office building.

GRAPH 4 **Current supply constraints are reflected in our rent forecasts**



Source: Savills

GRAPH 5 **Grade A supply will increase from 2016**



Source: Savills

→ Investment Market

■ 2014 has continued to see a marked rise in investor interest in UK Regional Cities from UK Institutions, Property Companies as well as overseas Opportunity Funds. Interest is driven by the improving occupational market, and the yield gap between London and the regions. The lack of supply in London, coupled with the weight of overseas demand means the focus is now firmly on the regional economies of Manchester, Birmingham, Edinburgh and Glasgow, which offer excellent characteristics for both security and potential for growth. Overseas Investors accounted for 60% of volumes in the North West in 2013, an increase on their 2012 share of 48%.

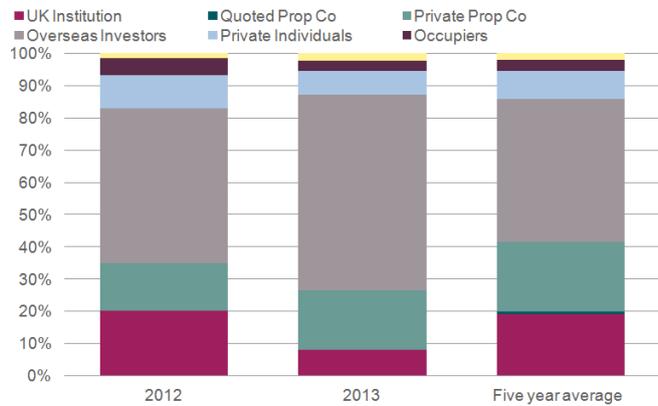
■ With a limited amount of prime stock available to occupiers over the last 12 months, coupled with the pent up demand implied by upcoming lease breaks, the potential for rental growth is becoming a reality. This has resulted in some transactions achieving above their asking price, as seen with 86 Deansgate, which was originally bought to the market at £14.25m (6.6%). The property generated strong levels of interest, finally selling at £15.935m (5.9%) in April 2014. We have also seen assets that could not be sold 18 months ago acquired off market below their previous marketing yield. Although there has been increased activity over the last 12 months, with a lack of supply there has inevitably been a number of unsatisfied investment requirements.

■ Manchester is now beginning to see an increased level of stock coming to the market, including some very high profile sales such as sale of City Tower on behalf of Bruntwood, which has recently transacted at £130m (7%) to Schroders, as well as a number of larger prime investments such as One Spinningfields and One Hardman Boulevard coming to the market through Savills on behalf of receivers Ernst & Young.

■ Manchester yields are now estimated to be in the region of 5.25% and as pressure on pricing intensifies, prime regional yields are now likely to harden more quickly than those in London.

GRAPH 6

Overseas investors dominated in 2013



Source: Savills/Property Data

<b>Property criteria</b>	Transactions and supply recorded for units in excess of 1,000 sq ft.
<b>Study area</b>	City centre as broadly delineated by the inner ring road.
<b>Top rent</b>	Highest rent achieved in one of more transactions during given period.
<b>Grade A</b>	All new development (including speculative schemes reaching practical completion within six months, plus major refurbishments).
<b>Grade B</b>	Space previously occupied, completed or refurbished in last 10 years.
<b>Grade C</b>	Space previously occupied, completed or refurbished more than 10 years ago.

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