Manchester Office Survey

Spring 2011

With no development pipeline, Grade A supply will continue to reduce throughout 2011.

Belvedere, Booth Street, Manchester

- 2010 recorded take-up of 1.3 million sq ft, a 39% increase on the long term average. However, 2011 take-up has proved sluggish, with forecasts predicting end of year figures reaching 850,000 sq ft.
- Analysis of this take-up for 2010 shows continued strong Grade A take-up (709,637 sq ft) with the main beneficiaries being Belvedere, Chancery Place and No.1 New York Street.
- The city centre market does remain exceptionally competitive in the smaller floorplate sector, where a variety of refurbished office buildings compete within a much larger pool of competition.
- A low level of completions, combined with modest levels of take-up, will drive a steady fall in the vacancy rate over the next five years, and a corresponding rise in rents.
- Headline rents remained at their peak of £28.50 per sq ft throughout 2010. We anticipate £30 per sq ft being recorded in 2011.
- Prime yields continued to harden during 2010, albeit at a slower rate. There has been a compression of over 125 bp since summer 2009, with prime yields now standing at 5.75% - 6%.

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Manchester Office Market

- Manchester's regional economy further illustrated its underlying strength during a difficult 2010 by recording a city centre take-up figure of 1.3 million sq ft, 39% above the long term average. Even taking into account the Co-op letting of 330,000 sq ft, this is an impressive performance. Analysis of this take-up showed continued strong Grade A take-up (709,637 sq ft) with the main beneficiaries being Belvedere, Chancery Place and No.1 New York Street. However, 2011 take-up has proved sluggish, with forecasts predicting end of year figures reaching 850,000 sq ft.

- Demand throughout 2010 originated from a variety of sources, though the Professional sector continued to underpin take-up. In particular, the Legal sector continued to influence take-up figures, notably through the DWF acquisition of No.1 Scot Place, along with the Barlow Lyde Gilbert LLP and the HBJ Gateley Wareing acquisitions as a result of the Halliwells break up. The financial services and insurance sector also performed extremely well.

- What are the anticipated growth sectors going forward? Although the Public Sector is predicted to see a 9% decline, Oxford Economics predict that the Financial & Business Services sector sector will continue to out perform and will see an employment growth of 17% in Manchester over the next five years.

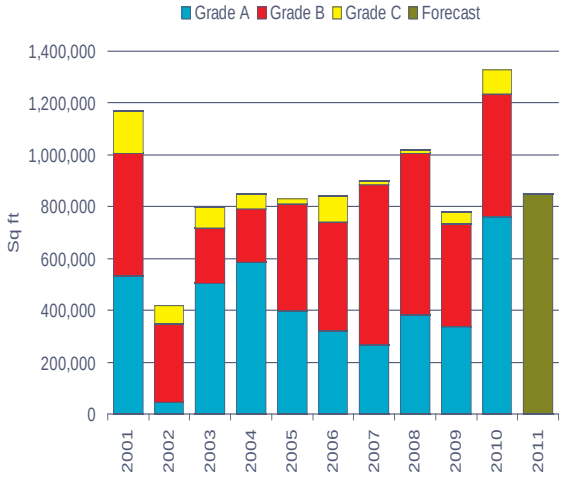
- The Future North West report also talks of developing Manchester's strength in internationally competitive manufacturing, biomedical and digital and creative industries.

- It is difficult to ignore the impact of the public sector spending review in any predictions of office take-up as we go into 2011. The region's exposure to the public sector is relatively large and consequently this is likely to impact on the region as a whole.

- Manchester Council's jobs announcement – which will affect 17% of the council's 12,000-plus non-schools workforce – was triggered by the government-imposed cuts to its budget of more than 20%. On a positive, Manchester is a more attractive place for private enterprise than some other northern towns and cities. The city is expected to return to pre-recession employment levels by 2013, two years sooner than the rest of the region.

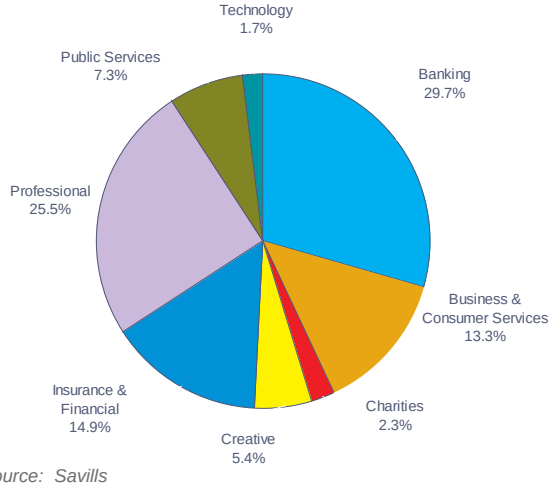
- Positive figures released by ONS from the Inter-departmental Business Register (IDBR) show that the number of businesses in Greater Manchester has risen by 22.3% between 2009 and 2010. This is in comparison to a fall of 0.2% in the number of businesses in 2009.

Take-up was buoyant in 2010



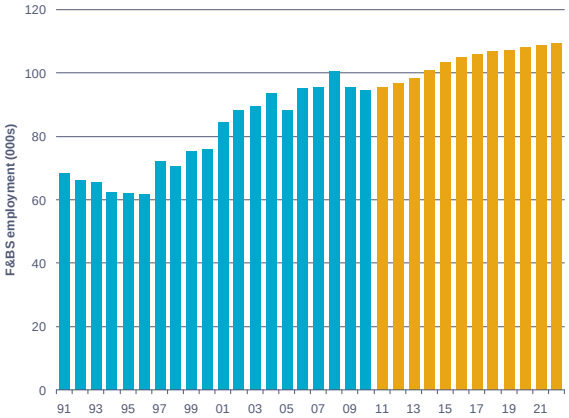
Source: Savills **2011 forecast*

2010 demand originated from a variety of sources



Source: Savills

Employment levels to return to pre-recession levels by 2013



Source:Oxford Economics

Manchester Office Market

- With speculative development finance remaining exceptionally scarce and the development pipeline remaining muted, the challenge in Manchester is to present a more cost-effective solution to any shortages of Grade A space in the market.

- Refurbishment is one solution, and the current lack of new build provides a window of opportunity for refurbishing old stock to maximise letting potential and thus value.

- Is the outlook bright for 2011? Savills predict that activity within Manchester city centre will remain relatively strong, however, a lack of speculative office development will continue to place rental pressure on an already dwindling supply of large floorplate Grade A buildings.

- This low level of completions, combined with modest levels of take-up, will drive a steady fall in the vacancy rate and will be likely to lead to rental growth in this particular sub-sector. This rental growth however will be reliant on occupiers from outside the region continuing to fuel demand, along with those incumbent occupiers who have yet to relocate from their second hand office buildings making a move soon.

- However, the city centre market does remain exceptionally competitive in the smaller floorplate sector where a variety of refurbished office buildings compete within a much larger pool of competition. This has led to continued upward pressure on rental incentives, and downward pressure on rents. However, this negative impact on rental growth is likely to temper and level out throughout 2011.

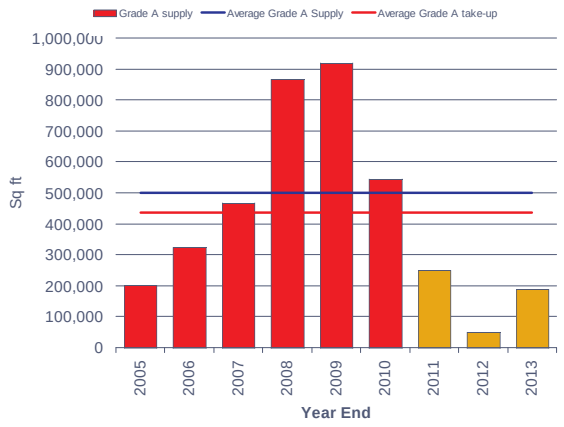
- Headline rents have remained at their peak of £28.50 per sq ft throughout 2010, however on the back of diminishing grade A supply, and as demand recovers, we expect average prime rents to increase through 2011. Top rents are predicted to reach £30 per sq ft during 2011. Rent frees have started to reduce.

- Investment levels have increased throughout 2010 with approximately £310 m of office investment transactions within the city centre, however, the majority of investors remain relatively risk adverse, focusing on acquiring prime, well-secured assets displaying strong property fundamentals.

- Prime yields continued to harden during 2010, albeit at a slower rate. There has been a compression of over 125 bp from summer 2009, with prime yields now standing at 5.75% - 6%, with continued hardening predicted through 2011.

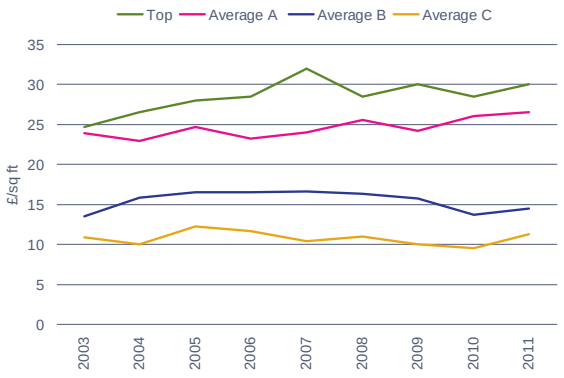
- Significant investment sales includes, the sale of 40 Spring Gardens (circa £45m 6% yield) to CCC Ltd and the sale of Ship Canal House, which was acquired by Himor, a North West based private investor (£22.88 m 6.7% yield).

Grade A supply will continue to fall



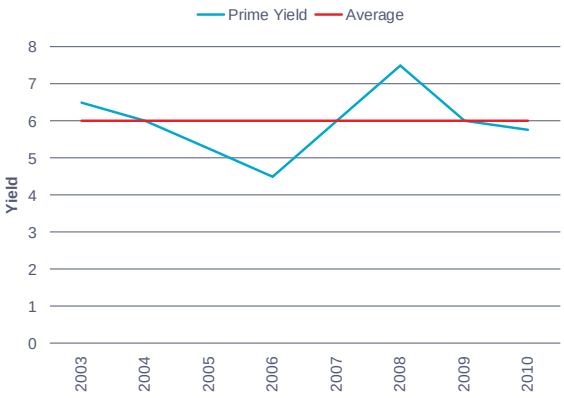
Source: Savills

Rents have remained stable



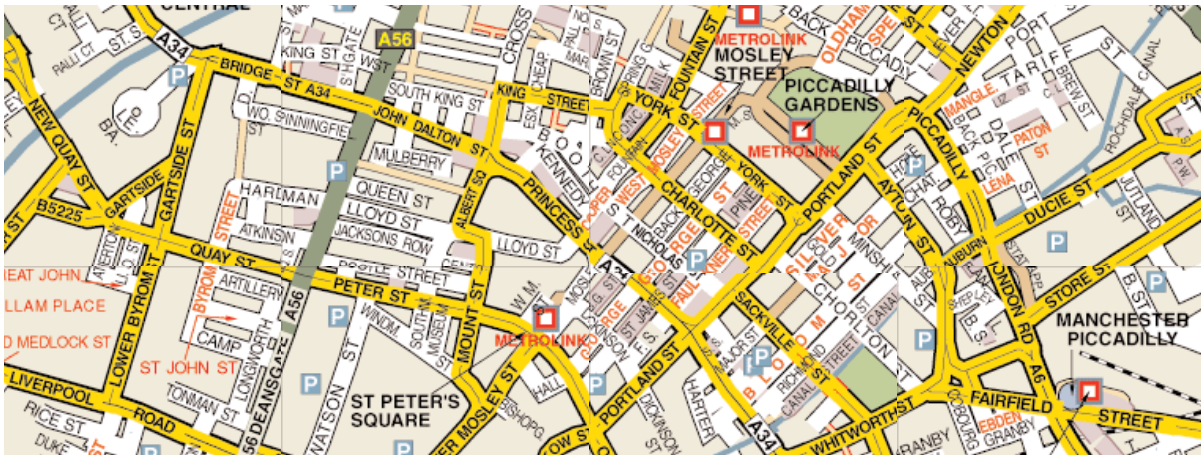
Source: Savills **2011 forecast*

Yield hardening slowed in 2010



Source: Savills

Survey area & key contacts



Please note: we monitor space over 1,000 sq ft.

Grade A - New developments (including speculative schemes reaching practical completion within the next 6 months.
Grade B - Space previously occupied, completed or refurbished in the last 10 years.
Grade C - Space previously occupied, completed or refurbished later than 10 years.

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