savills

Market Watch
Manchester Office

June 2017

The first quarter of 2017 has been driven by smaller deals

Market Snapshot

■ Take-up in Q1 2017 reached 208,233 sq ft, which is 3% up on the first quarter long-term average take-up of 196,000 sq ft. Manchester is on track to exceed one million sq ft by year end.

■ The largest city centre deal during Q1 2017 was to TravelJigsaw Ltd, who took 22,196 sq ft of refurbished space at 42-44 Fountain Street.

■ The business and consumer services sector was the most active sector during the first quarter of the year, accounting for over a third of take-up at 39%, followed by the insurance and financial sector (13%).

■ Like 2016, the first quarter of 2017 has been driven by a high proportion of smaller deals. Deals under 3,000 sq ft accounted for 40% of take up, above the five year average of 20%.

■ Availability of city centre Grade A space rose by 6%, which was accounted for by 8 First Street coming onto the market, and is set to reach practical completion during October 2017.

■ We expect several large Grade A deals to complete by the end of the second quarter, which will see Grade A supply fall. There will then only be around one year of Grade A supply remaining in the market.

■ With a number of Grade B refurbishments coming to the market, Grade B supply has risen by 8% in the first quarter of the year.

■ The top rent achieved in the first quarter was £32.50 per sq ft at 82 King Street to Arbuthnot Latham on 4,078 sq ft of space.

■ Looking forward, Savills expect top rents to reach £35 per sq ft by the end of 2017. We also expect a rise in average rents as refurbished space is delivered to the market. There is now a £4 gap between top refurbishments and new builds in Manchester, the biggest gap of all the regional cities.

■ Office investment in Manchester reached £114m at the end of the first quarter of 2017, 10% down on the first quarter long-term average.

■ Significant deals included the Zenith Building purchased by AM Alpha for £23m and 201 Deansgate purchased by Essex County Council (Aviva) for £29m.

■ The UK institutions were the dominant investor type in the first quarter of 2017, making up 38% of the market.

■ However, we expect overseas investment to remain the key contributor through 2017, as investors continue to take advantage of weak Sterling.

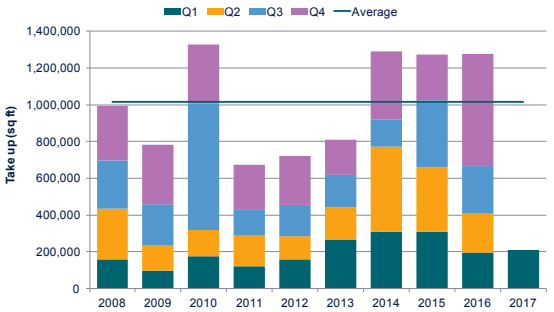
■ Prime yields currently stand at 5% where we expect them to remain for the second half of the year.

■ Aside from the prime end of the market, there remains strong investment demand for lot sizes from £5m to £50m with asset management potential.

■ Lack of stock will be the big issue this year. There will be a number of parties who would like to sell but with limited opportunities to re-buy, may end up stalling.

GRAPH 1

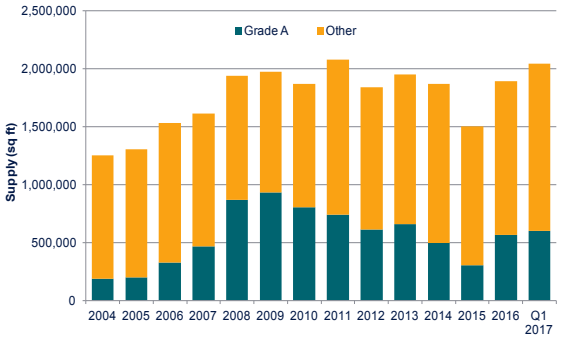
Take-up by quarter



Source: Savills Research

GRAPH 2

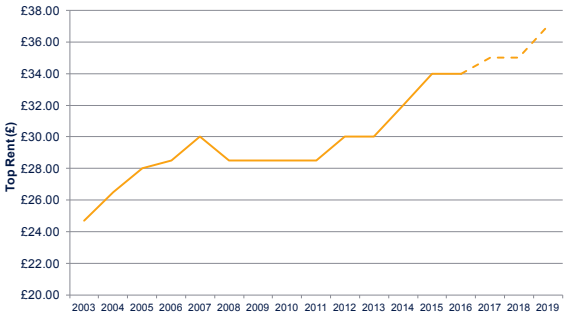
Availability



Source: Savills Research

GRAPH 3

Top rents

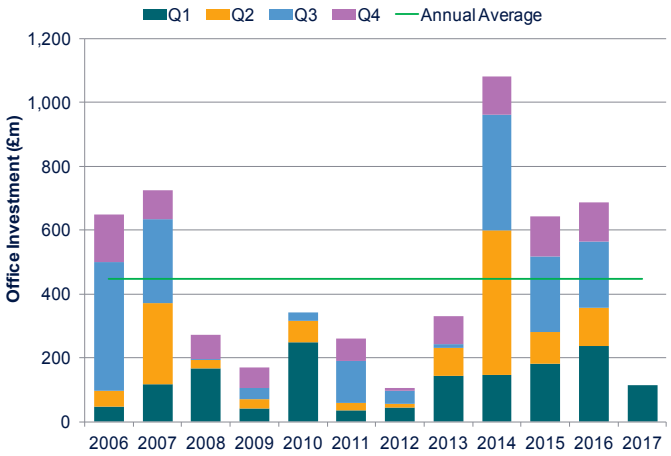


Source: Savills Research

The Zenith Building purchased by AM Alpha for £23m

GRAPH 4

Office investment by quarter



Source: Property Data

TABLE 1

Significant Occupational Deals in Q1 2017

Address	Sq ft	Grade	Business Sector	Tenant
40-44 Fountain Street	22,196	B	Business and consumer	TravelJigsaw Ltd
40 Spring Gardens	12,088	A	Insurance & Financial Services	Aldermore
35 Dale Street	7,700	B	TMT	Flatshare Ltd
82 King Street	4,078	A	Insurance & Financial Services	Arbuthnot Latham

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