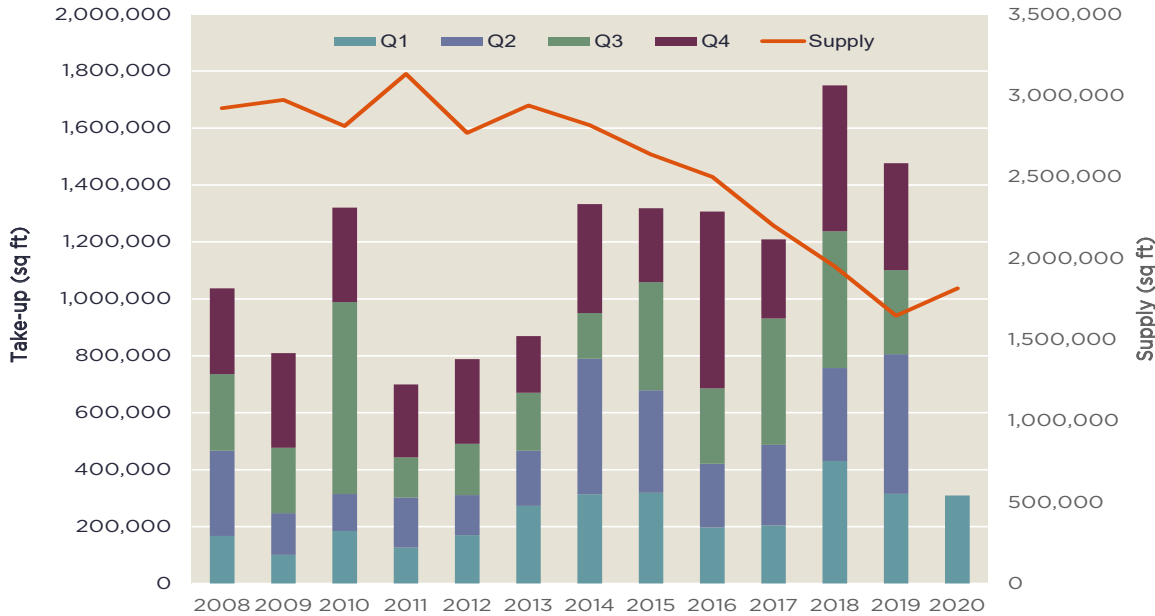


Manchester Offices



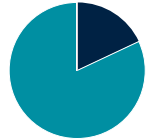
Manchester's underlying supply/demand dynamic remains positive



Source Savills Research

Take-up, supply, rental performance

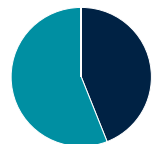
Key data points



Grade A space accounted for 18% of take-up in Q1 2020 (five-year average 33%)

1.8 years

Years of Prime Grade A supply - demonstrating an undersupply of high-quality office space within the city



There has been significant activity from the TMT sector in Q1 2020 (44%)

£36.50 per sq ft

Manchester's current top rent

Manchester city centre office market round-up

A lack of Grade A supply continues to characterise the Manchester office market

1 Despite the threat of Covid-19 to the market, the Manchester office market has had a strong start to the year. During Q1 2020, take-up in Manchester city centre reached 309,212 sq ft and exceeded the Q1 ten-year average by 25%.

2 57,039 sq ft of this was for Grade A space accounting for 18% of Manchester's Q1 take-up.

3 There has been activity from a variety of sectors with significant activity from TMT (44%), Insurance & Financial Services (19%) and Public Services, Education and Health (9%).

4 The Manchester office market continues to be characterised by a lack of supply. Grade A office

supply now sits at just under 800,000 sq ft, reflecting only enough supply to meet the demand for 1.8 years of average take-up.

5 A new rent of £36.50 per sq ft was achieved at the end of 2019. Limited supply of new and refurbished floorspace makes it likely that top rents will remain at this level for the short term, however we expect incentives to start to move out. As businesses adjust to the 'new normal' and begin to consider life beyond Covid-19 we may start to see rental growth on the best space.

6 Unsurprisingly, the Manchester investment market has been subdued post-lockdown. However, there are two notable deals which appear to remain under offer, albeit

progressing at a slower pace. These are 3&4 Piccadilly Place (£140m) and The Hive (£27.5m).

7 We expect the underlying supply/demand dynamics of the occupational market to start to improve post-lockdown and this will continue to drive investor interest in the city. That said, we expect there to be an immediate short-term softening in pricing as leasing assumptions become more tenant-friendly.

8 Yield softening is likely to be more evident on core plus/value add opportunities as pricing will be driven by more conservative leasing and exit assumptions.

🏆 The Manchester office market had a strong start to the year, exceeding the 10-year average by 25% 🏆

The impact of Covid-19 on the Manchester office market

Manchester is one of the fastest-growing tech cities in Europe and the tech sector will help drive the city forward post-Covid-19

Covid-19 has undoubtedly hit the UK office markets hard, with a number of issues having arisen from the pandemic.

Aside from many potential occupiers now taking a 'wait-and-see' approach to acquiring space, the more physical aspect of not being able to undertake viewings has put the majority of office requirements on hold.

We envisage the majority of these requirements being deferred by at least a quarter, if not more.

However, the situation is constantly evolving, and encouragingly, we are now starting to see more 'virtual' viewings, enabling occupiers to shortlist buildings ready to make a decision post-lockdown.

Landlords are continuing to engage with potential occupiers to find a pragmatic solution that fits both parties, and with the ongoing lack of supply, many larger strategic requirements are remaining active, realising that they have to act now if they are to ensure they secure suitable accommodation over the next couple of years.

In recent weeks, a lack of manpower on development sites as well as delays to the global supply chain for some building materials have been a key concern from a development perspective. Encouragingly, this situation is changing by the day and only this week, Ibstock – one of Britain's biggest brick-makers – announced they will restart production in May.

The question is where will demand come from post-lockdown? Although the UK's start-up tech scene is likely to take a hit in the short term, we do expect to see a wave of new businesses focused on e-commerce, healthcare, gaming and cloud-computing – all sectors likely to grow as social distancing restrictions redefine how we spend our time.

Ultimately, the UK tech sector will remain strong and will play a vital role in helping put the UK economy back on track following the pandemic.

Manchester is home to one of the largest tech clusters in the UK with more than 62,000 skilled workers. According to Tech Nations, it is the fastest-growing tech city in Europe and has more than doubled its Venture Capital investment within a year. Annual data released by the UK tech network shows an overall increase in investment from £48m in 2018 to £181m in 2019 – 277% growth over that period.

"Ultimately, the UK tech sector will remain strong and will play a vital role in helping put the UK economy back on track"

The new tech 'neighbourhood' in the city – Bruntwood SciTech's Circle Square development will be a key location for this sector to develop and expand going forward. The first quarter of the year has already seen deals signed to occupiers such as Northcoders, HPE, Accenture and Hilti.

Many employees are embracing technologies that they may not have relied upon as heavily before – with 5G network connectivity further improving this experience over the next 12-24 months.

Whilst some companies will use technology to enable employees to work from home post-Covid-19, it is our belief that the office is more important to people than ever for face-to-face meetings, collaboration and knowledge sharing. An office with an attractive design and culture is also an important component for the attraction and retention of staff.

Homeworking will continue, but we are sociable creatures so office life will too. Many employees will look forward to getting back to the sense of community and the increased social interaction being in the office brings. The challenge lies in how to adapt workplaces. Employees will be substantially more aware and interested in the space and working environment they occupy.

Looking forward landlords and occupiers are likely to invest in new contactless technologies to reduce disease transmission – resulting in employees rarely needing to touch the building with their hands. Office doors will open automatically using motion and fob sensors, while lifts – and even a coffee – can be ordered from a smartphone.

We are certain some requirements may start to shrink as businesses realise that a percentage of their staff can now work from home, but the converse is that other requirements may increase as social distancing may require office densities to be revisited. Office desks have shrunk over the years, but we may see a reversal of that, as people won't want to sit so close together.

Ultimately, occupiers will demand more flexibility. Some occupiers will require shorter leases and maybe we'll see core space on a more traditional lease whilst occupiers add extra floorspace on more flexible arrangements. Nothing is certain yet, and it is only as we start to come out of lockdown and employees start to return to the office that we will really know to what extent things have changed.

The office is likely to take on a different significance post-Covid-19 but it still has an important part to play, and we expect the Manchester office market will continue to thrive.

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“Many of the larger strategic requirements are remaining active, realising that they have to act now if they are to find suitable space over the next couple of years.”

