

Market in Minutes Manchester Offices

November 2018

Grade A supply is at its lowest level since 2005

Market Snapshot

■ Impacted by the best third quarter take-up since 2010 (470,697 sq ft) take-up in the first three quarters of 2018 is already 3% up on 2017's year-end figures. This is 59% up on the long-run average for the same period.

■ Take-up has reached a Q1-3 all time record level, with 1.25 m sq ft leased in the city centre and 2.48 m sq ft in total across our market area. We expect city centre take-up to end the year in excess of 1.6m sq ft - the highest take-up figures on record.

■ South Manchester has also had a particularly strong year in terms of take-up reaching 639,000 sq ft at the end of quarter three. The best Q1-3 take-up on record.

■ Dominated by the GPU letting the Public Sector made up almost 9% of take-up in the first three quarters of the year. Other sectors with strong levels of take-up were the Business Services (14%) and the TMT (12%) sectors.

■ Strong demand in the city centre has had a knock on effect on space available. Grade A supply is now at its lowest level since 2005 - with only nine months worth of Grade A supply available.

■ Although the next two years will see 1.1 million sq ft come into the supply figures this still only equates to less than three years worth of Grade A supply. With the current pent up demand in the city we expect a large proportion of this space will let prior-to-practical completion.

■ The top achieved rent remains £34 per sq ft, however the impact of scarcity of Grade A stock is starting to be felt and Savills expect headline rents to move on to £35 per sq ft by the end of the year. One Spinningfields has the highest quoting rent for existing stock at £36.50 per sq ft.

■ This upward pressure on headline rents is anticipated to last in the short term, as Grade A availability decreases. Rents are forecast to increase further as 125 Deansgate enters the market in 2019 at a point when Grade A supply is likely to be at a historic low.

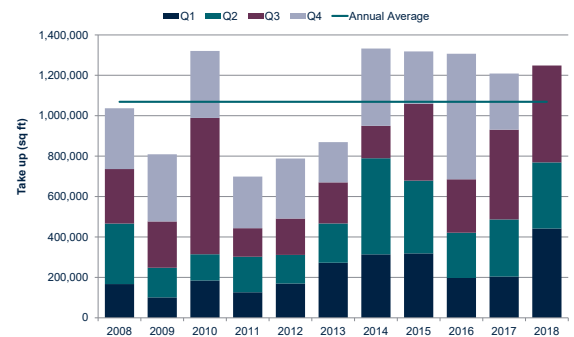
■ Notwithstanding continued investor demand, investment volumes for the year to Q3 were predominantly hampered by the shortage of stock in the market.

■ However, we expect a strong final quarter with around £440m of assets either already transacted or currently being marketed.

■ This is driven by Aviva's £300m funding of Allied London's St Johns, which is an office led development predominantly let to Booking.com. We therefore expect volumes for the year to end well above the long-term average of £492m.

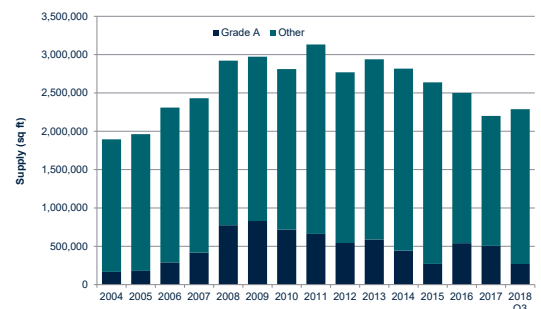
■ The limited supply of prime assets has resulted in pressure on prime yields and we believe they currently sit at 4.75%.

GRAPH 1
City centre take-up by quarter



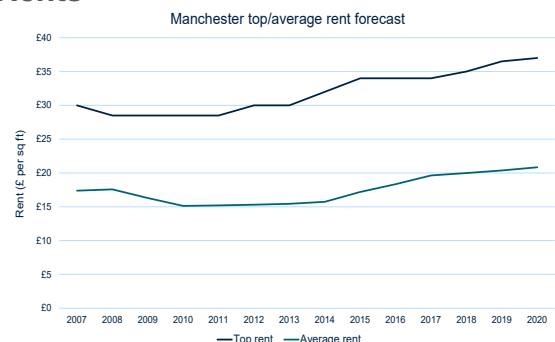
Source: Savills Research

GRAPH 2
Availability



Source: Savills Research

GRAPH 3
Rents



Source: Savills Research

Expert view

Richard Lowe, Director of Office Agency in Manchester, provides his insight into the growing serviced office sector within the city.

Demand from serviced office providers in the UK regional markets has seen unprecedented requirement levels with take-up outside of London set to reach 500,000 sq ft by the end of 2018. This is a 14% increase on the previous year.

Manchester has been one of the regional cities that has so far seen the greatest levels of growth in terms of serviced office take-up, accounting for 26% of the overall regional figures last year.

The serviced office sector in London accounted for less than 2% of London's take-up prior to 2012, and then rocketed to nearly 16% in 2017. Manchester has one of the most diverse regional economies and we expect the city to start to mirror what has happened in London over the next couple of years. Indeed, there has been over a dozen active searches for new co-working space in the city - with various buildings close to going under-offer.



The city has also witnessed a considerable portion of demand coming from London based businesses as they begin thinking about expanding beyond the capital. According to WorkThere 20% of searches for Manchester are coming from companies that already have space in London. Average desk prices in Manchester are around £350 per desk per month compared to London at £700 per desk per month - so as a cost saving exercise the numbers certainly stack up!

However, landlords are starting to question the impact this emerging sector will have on the traditional office market. To date, Savills has not seen a serious impact on deal numbers in the sub 5k sq ft bracket since co-working took off in Manchester. Like 2017, the first three quarters of 2018 have been driven by a high proportion of smaller deals. Deals under 3,000 sq ft accounted for 24% of take-up, above the five year average of 20%. However, London deals in the same bracket have halved since co-working took off, so we do expect to see an impact in Manchester assuming the current round of acquisitions happen.

Landlords can lessen the impact on their smaller floor plate buildings by considering certain things when letting space. This could include providing an element of fit-out, meeting spaces and cafés. They may consider organising events to build a community within their building, which would lead to networking opportunities and help their tenants to attract and retain a high quality staff. Landlords may look where possible to simplify the legal process to allow tenants quicker access to buildings and in some instances may offer more flexible lease lengths.

This isn't a one space fits all phenomenon and co-working doesn't work for every type of occupier. There are plenty of tenants in the market who are currently in co-working spaces and believe a more conventional space would benefit allowing them to create their own culture and identity.

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