

UK Commercial - Spring 2023

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SPOTLIGHT
Savills Research

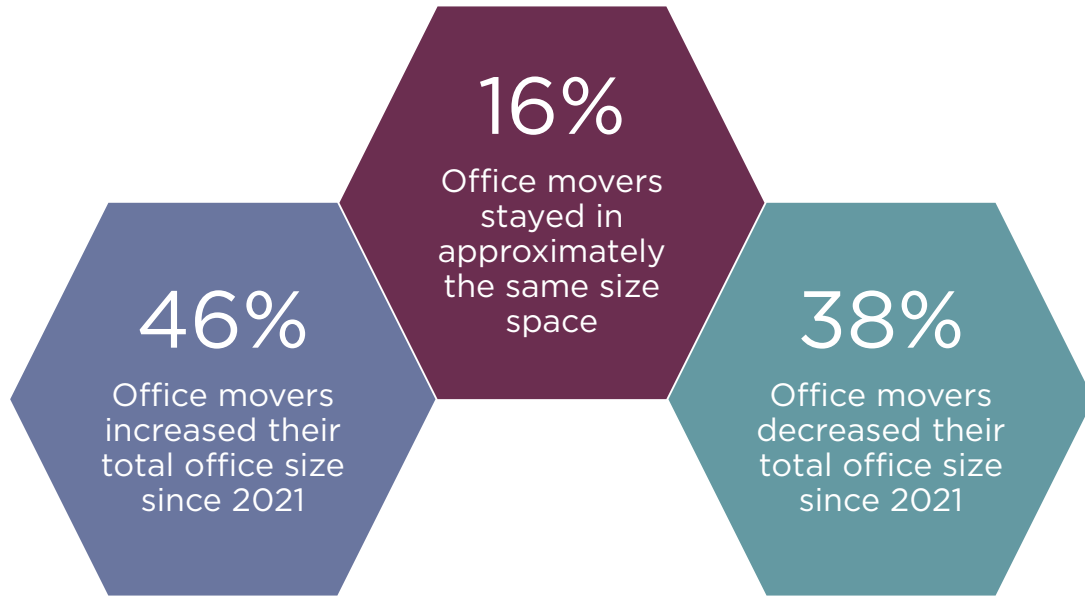
Manchester Office Spotlight



Occupational • Business Sectors • Spatial Analysis

The change in office space requirements post-Covid

46% of office movers analysed have increased their total space occupied compared to 38% who have decreased



Source Savills Research

Have occupiers changed the size of their offices as a result of hybrid working?

To what extent has there been a shift in office occupiers' spatial requirements in Manchester since 2021?

As the office sector looks to adapt to the post-Covid market dynamics, one of the key issues facing decision-makers has been whether occupiers will need the same size and type of office space moving forward.

We know that offices are vital hubs when it comes to attracting and retaining top talent, as well as places to create connection and culture. However, notwithstanding that, hybrid working is becoming a new norm for many companies, with an expectation amongst some commentators that occupiers are looking to reduce their office footprint by between 20 and 30%.

To investigate this further, Savills latest analysis* has looked at office movers over 10,000 sq ft in the Manchester market to see whether they are occupying more or less space than their pre-pandemic offices.

This has produced a mixed set of results, with 46% of occupiers increasing their footprint, 38% decreasing their footprint and 16% signing for a broadly similar-sized space since the start of 2021.

Those who are increasing their office footprint are most commonly those who need more space as a result of significant company growth, particularly in the TMT sector. Examples of these companies include Cloud Imperium and Peak AI Limited who have signed for significant spatial increases at Manchester Goods Yard. The latter has signed two separate deals over the last two years totalling 120,000 sq ft, creating 1,000 jobs as homegrown regional tech continues to prosper in spite of big tech redundancies in London.

Of the 38% who downsized in Manchester, there was a very different occupier profile compared to those that were increasing their footprint. The downsizers were from the more traditional office-based sectors. 56% of those who downsized were 'Professional' occupiers, such as Grant Thornton, with 'Insurance and Financial Services' and 'Banking' each accounting for a 22% share of the group.

The clearest trend that appeared from the downsizers was that the overwhelming majority were moving

to a smaller, but better-quality space. Of this group, 67% moved to what we now categorise as a 'Prime' space within the market as these occupiers look to encourage their staff back into the workplace by offering a better-quality work environment and collaboration space for those who are coming in.

Irrespective of whether occupiers are upsizing or downsizing, the continuation of the flight, or 'fight' to quality remains a consistent theme throughout the market. Early 2023 data suggests that this could be accentuated even further over the coming quarters, with 70% of Q1 take-up being for Prime or Grade A space, compared to the five-year annual average of 43%.

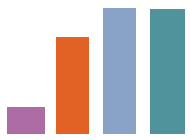
With this ever-increasing appetite for the best space, paired with comparatively low availability levels, we believe that this will facilitate prime rental growth for best-in-class product. Latest forecasts suggest that the headline rent of £40 per sq ft will grow by at least 16% to £46.50 per sq ft over the next five years in the city centre market.

What attracts occupiers to the city?

Despite cultural shifts that have altered the way we live and work, Manchester city centre continues to attract occupiers and retain its talent. Manchester has retained its title as the UK's most liveable city in the Global Liveability Survey by The Economist, supporting the attractiveness of the city as somewhere to live and work in a post-Covid world.

Not only does Manchester provide an excellent city centre location for companies to operate without such significant office costs compared to London, but it also has one of the largest and most diverse student populations in Europe. There are currently over 115,000 students in the city, and it also has a 50% graduate retention rate, which is second only to London in the UK for retaining talent. This further attracts businesses into the city to tap into the significant emerging talent pipeline.

*Savills spatial requirement analysis looks at occupiers moving within the Manchester area to a new office space over 10,000 sq ft from 2021 onwards. The total size of the new space that these occupiers have taken is compared with the space that the business was previously occupying to produce a net % change in space occupied for the whole market. Those who may have shut down their office completely and those who have newly expanded or entered into the Manchester market are not included in the analysis.



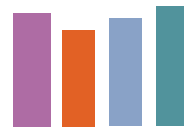
211,000 sq ft

Take-up in Q1 2023 (29% below the five-year Q1 average)



Top sectors for take-up 2023

TMT (24%), Professional (24%), Insurance & Financial Services (13%)



520,000 sq ft

Prime supply in Manchester (1 year of supply)

£ 46.50 psf

Top rent

Forecast for Manchester city centre by 2027

'Professional' sector take-up 2018-2023

2022 signalled a return to market for 'Professional' sector occupiers



Source Savills Research

The return of the 'Professional' sector in Manchester city centre

'Professional' sector take-up has traditionally underpinned office sector demand across the UK as one of the most active sectors in the market. However, over the last five years, the 'technology, media and telecom' (TMT) sector has been more dominant, taking more space than any other sector between 2017 and 2021, averaging 343,000 sq ft per year. Between 2017 and 2021 'Professional' sector averaged 135,000 sq ft of yearly take-up at an annual average of 11% of total market demand.

This dip in 'Professional' demand reached a low point in 2020 and 2021, as the pandemic forced occupiers to review their real estate strategies in line with what they want their future office space to look like. That being said, Savills data from the past 12 months for Manchester has signalled that these traditional 'Professional' office occupiers are ready to make a return to the occupational markets. 2022 proved to be a significantly more active year for the sector, with 260,000 sq ft of take-up demand making 'Professional' the most active sector in the market in 2022, accounting for 22% of total take-up. This was the first time that the sector achieved this accolade since 2016. Demand was spread across 54 transactions, which was nearly double the number

of deals seen in the last strong year for the sector in 2019. As a result, the average deal size fell by 35% as 'Professional' activity has shifted towards a higher volume of smaller-sized deals.

In the first few months of 2023, the 'Professional' sector has continued to perform strongly, with Q1 data making it the joint most active sector alongside 'TMT' with a 24% share of demand. There were 16 completed 'Professional' transactions, which is the highest Q1 total that Savills has on record, suggesting that these corporate occupiers are set to continue to be active following a strong 12 month period.

How will this impact the market moving forward?

The historical data shows that 'Professional' occupiers are more likely to demand a better quality of space. Over the last five years, the Grade A proportion of 'Professional' take-up was 59%, compared to 42% for the whole market over the same period.

There is currently just 520,000 sq ft of Prime availability, which equates to one year of supply based on average Grade A demand. Increasing demand from the 'Professional' sector is likely to put further pressure on these already limited Prime supply levels moving forward.

In terms of occupier impact, with just one year of Prime supply in the market and best-in-class demand remaining resilient, the flight to quality that has been associated with the market could become a fight to quality, whereby occupiers must compete with one another for best-in-class space with a lack of suitable alternatives.

In responding to this, the task facing landlords is to continue to deliver amenity and sustainability-driven space that 'Professional' occupiers are demanding in a competitive labour market. There is currently just 815,000 sq ft under construction between now and 2025, with the longer-term outlook remaining uncertain based on current market conditions. If this space can be delivered, this could unlock further prime rental growth of around 16% for these building owners over the next five years.

There were 16 completed 'Professional' deals in Q1 2023, the highest Q1 total that Savills has on record for Manchester

Source Savills Research



Savills Commercial

We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team

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