

MANCHESTER | OFFICES

Q1 2018

Quarter At A Glance

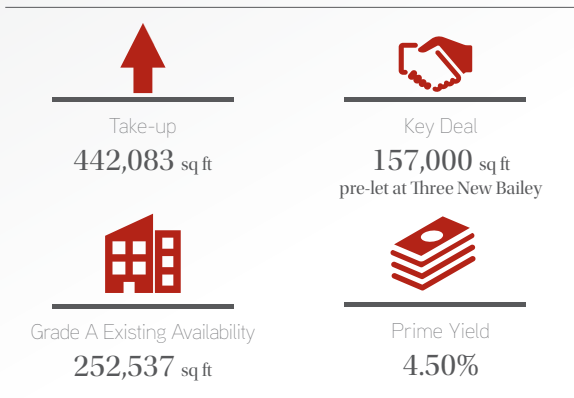
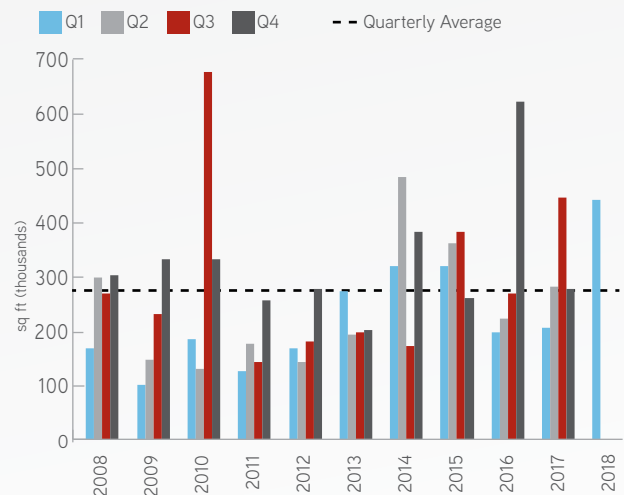


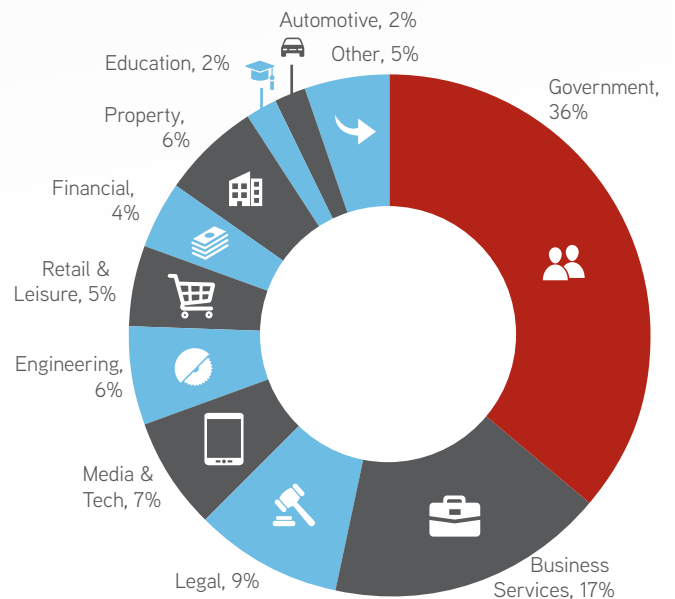
Figure 1: Manchester Office Take-up by Quarter



TAKE-UP

- > The Manchester office market hit a record Q1 take-up of 442,083 sq ft in 82 deals in the first three months of the year. The figure was significantly boosted by a 157,000 sq ft pre-let to the GPU at Three New Bailey, which accounted for more than one third of total demand. Excluding that deal, Q1 2018 would still have been 34% above the ten-year average. In total, there were 22 deals over 5,000 sq ft, including five over 10,000 sq ft, bringing the average deal size in the first quarter to 5,400 sq ft.
- > One other notable large transaction in the first quarter was Irwin Mitchell choosing 33,382 sq ft at One St Peter's Square for its new location from June 2018. The firm signed a 15-year lease, with a break clause after 10 years, and will occupy one and a half floors within the 13 storey building. In terms of tenant types, the largest proportion of demand was generated by the Government (36%), followed by Business Services (17%) and Legal (9%).
- > There are a number of impending larger requirements, suggesting Q2 2018 will be another strong quarter for the Manchester office market. At the time of writing, Eversheds Sutherland has pre-let 45,000 sq ft at Two New Bailey Square, Swedish bank Handelsbanken is considering a new Manchester office at 101 Barbirolli Square, while Amazon has yet to fulfil its 70,000 sq ft office requirement for its first UK regional headquarters.

Figure 2: Q1 2018 Manchester Office Take-up by Type



SUPPLY

- Strong leasing activity in the last few years continues to deplete Grade A office availability in Manchester, leaving many occupiers with no choice than to seek pre-lets. Within the city core and Spinningfields there is circa 150,000 sq ft of ready to occupy supply, with a further 103,000 sq ft available in two other 'edge of city' locations. The largest space available is 70,542 sq ft at 101 Embankment, 44,307 sq ft at 3 Hardman Street and 39,728 sq ft at 3 Hardman Square.
- In terms of development pipeline, there is currently 398,786 sq ft of new Grade A office space under construction across the city core, which include 123 Deansgate, Landmark and 11 York Street, with a further 213,741 sq ft in the 'edge of city' at 8 First Street and Two new Bailey Square. The majority of these schemes will be delivered in mid-late 2019, providing for a pre-let market once the existing supply is absorbed. In the absence of available Grade A stock, occupiers will need to consider refurbished space and office accommodation in areas previously seen as fringe, such as Oxford Road, Irwell Corridor and the Ancoats area.
- Longer term, 1.2 million sq ft of new Grade A offices, in six buildings, has planning consent for demolition and new build, with at least one consented scheme expected to start construction during 2018.

RENTS

- The competitive prime office market has seen headline rents reach £35.00 psf, while £36.00 psf is the current asking rent for the remaining space at 1 Spinningfields, looking to set the next benchmark. With no new build completions due in 2018, prime rents are likely to rise further and we predict Grade A office rents will reach circa £40.00 psf by the end of the decade. In the absence of good quality Grade A stock, demand for poorer quality office accommodation also increased, putting upward pressure on secondary rents. Grade B office rents in the city centre rose by 10% year on year, currently achieving £27.00 psf.

INVESTMENTS

- Following a record £453 million transacted in the final quarter of 2017, including Schroeder Real Estate's acquisition of No.1 Spinningfields for £200 million, as well as Royal London Asset Management's purchase of 3 Hardman Square for £107 million, Q1 2018 saw a more subdued transactional levels, at £35 million. There were only five investment transactions, with the largest being the £23 million purchase of 81 Fountain Street by BlackRock UK Property.
- In the absence of medium to long term secure income, investors have been acquiring buildings with vacancy at almost prime rack rented yields, as evidenced by Royal London's recent acquisition of 3 Hardman Square at a NIY or 4.10%, moving to 5% when fully let. Prime yields in Manchester are currently the lowest in the UK regional cities, at 4.50%. As a result of continued occupational and investor demand and sustained rental growth, we believe that those yields can see further downward pressure, while capital values rise further.

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Figure 3: Manchester Office Availability by Grade

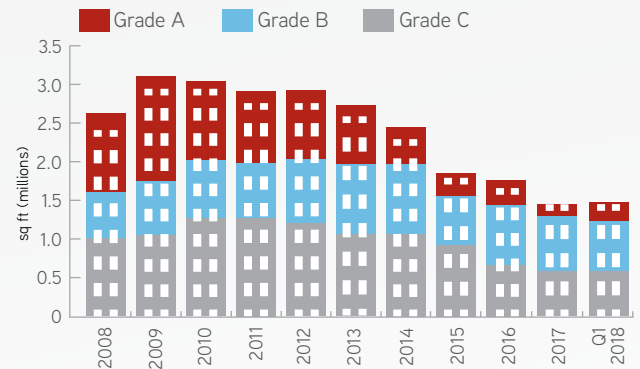


Figure 4: Manchester Office Rents & Forecasts (psf)

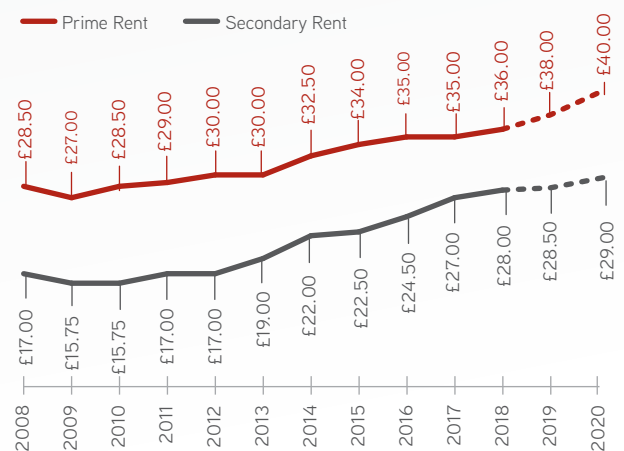
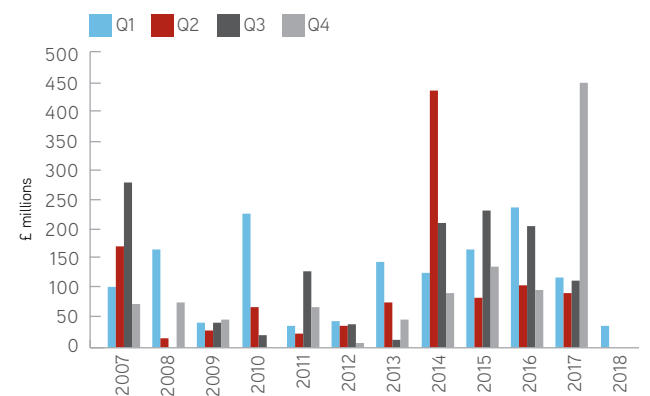


Figure 5: Manchester Office Investment Volumes



Sources: Colliers International, Property Data

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