RESEARCH & FORECASTING UK

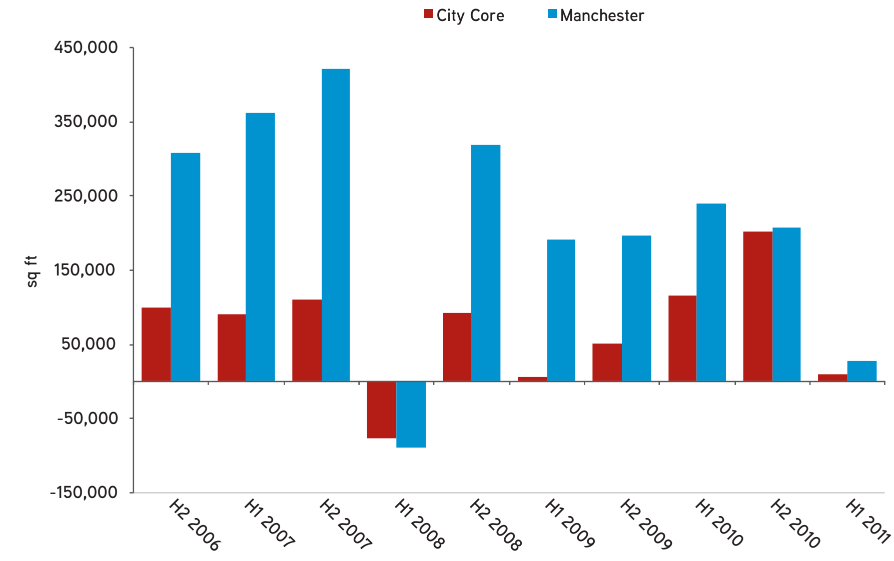
CENTRAL MANCHESTER OFFICES

MANCHESTER	
ABSORPTION	↑
AVAILABILITY	↓
TAKE-UP	↓
RENTS	→
CITY CORE	
ABSORPTION	↓
AVAILABILITY	↓
TAKE-UP	↓
RENTS	→
PICCADILLY	
ABSORPTION	↑
AVAILABILITY	↓
TAKE-UP	↓
RENTS	→
CASTLEFIELD	
ABSORPTION	↑
AVAILABILITY	↓
TAKE-UP	↓
RENTS	→
NORTHERN QUARTER	
ABSORPTION	↓
AVAILABILITY	↑
TAKE-UP	↑
RENTS	→

Overview

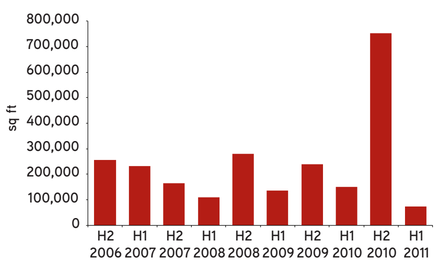
- Net stock absorption of office space in Manchester has continued to increase in H1 2011 (**see Figure 1**). Occupation levels increased by 147,492 sq ft across all size bands meaning that total absorption of office space over the past two years has reached an impressive 527,996 sq ft. 83.1% of office space in Manchester's CBD is now occupied. This is the highest level of occupation for two years but is still below the recent high of 88.3% experienced just prior to the onset of the recent economic downturn.
- Half year take-up, at just over 300,000 sq ft, was substantially down on the previous six months, largely due to the lack of any deals in excess of 50,000 sq ft. While Grade A product continues to attract occupiers, the largest share of take-up was Grade C space, accounting for just under 43% of all transactions. Grade A product comprised just 25% of total take-up (**see Figure 2**). We anticipate much stronger activity in H2 2011.
- Regardless, Grade A absorption continued its positive trend, as it has done for the past six half year periods in succession. However, there is still over 1 million sq ft of Grade A space available in Manchester, with seven floors offering in excess of 20,000 sq ft and a further 24 offering units of 10-20,000 sq ft. There remains a healthy level of available Grade A product, suggesting that occupiers still have a number of options for space in the city centre. In addition, Grade A investment purchases of the Zenith Building and Ship Canal House demonstrate renewed investor confidence.
- Prime headline rents remain at £28.00 psf, with that level reinforced by recent Grade A transactions. Rent-free periods remain at circa 24 months per 10-year term certain.

FIGURE 1: MANCHESTER GRADE A NET STOCK ABSORPTION



Source: Colliers International

FIGURE 2: MANCHESTER GRADE A TAKE-UP

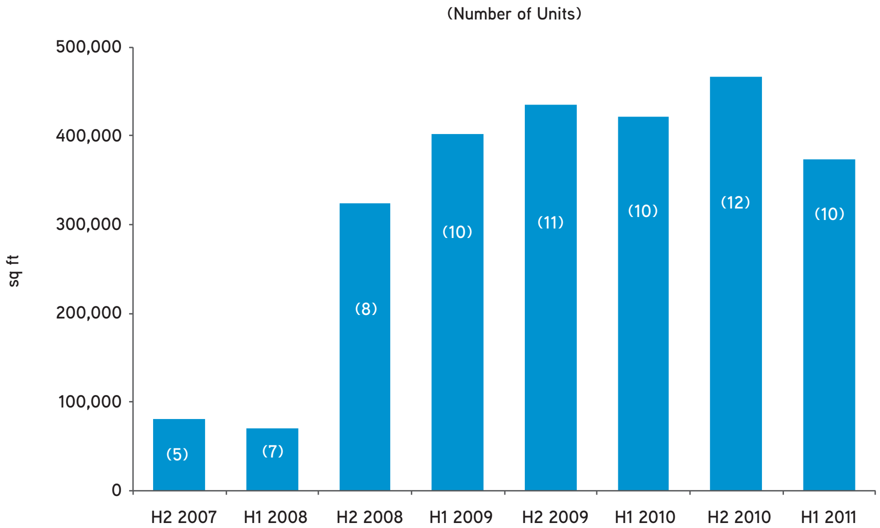


Source: Colliers International

Occupier markets

- Occupier confidence in the Manchester market has been confirmed with Aegis's announcement that it intends to sign for 36,000 sq ft at City Tower. Aegis looked at five other cities before selecting Manchester. Lloyds is reviewing its search for 200,000 sq ft and Pannones is considering a variety of new and second-hand options for its 80,000 sq ft search. Despite Grade A vacancy still being 20%, we expect a further round of pre-letting activity, with KPMG (70,000 sq ft) shortlisting potential schemes. A substantial pre-let at a scheme such as Argent's St Peter's Square would be sufficient to trigger construction. The largest deal of H1 2011 was Linder Myers' purchase of 55 Spring Gardens, which will activate a number of relocations from within the building, such as Friends Life, Brook Street Bureau and Reed Health.

FIGURE 6: MANCHESTER CITY CORE GRADE A AVAILABILITY – UNITS OVER 50,000 SQ FT



Source: Colliers International

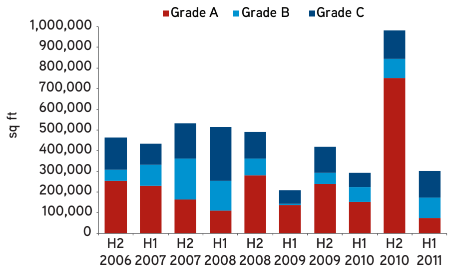
- **Figure 6** shows the sharp fall in Grade A availability over the past 12 months. While there remain a healthy number of 10,000 sq ft plus floorplates in the CBD, availability of larger, self-contained 50,000 sq ft plus units has fallen by 40% over the past 18 months.

FIGURE 7: MANCHESTER OFFICES – KEY SUBMARKETS

	Availability (sq ft)	NSA (sq ft)	Take-up (sq ft)	Take-up (sq ft)
Submarket	H1 2011	H1 2011	H2 2010	H1 2011
Piccadilly	1,009,731	126,986	146,330	94,004
City Core	1,112,638	4,122	265,799	125,111
Castlefield / Salford	655,138	21,626	161,800	65,479
Northern Quarter	170,363	-26,330	81,485	13,975
City Total	**2,949,624**	**147,492**	**983,414**	**301,143**

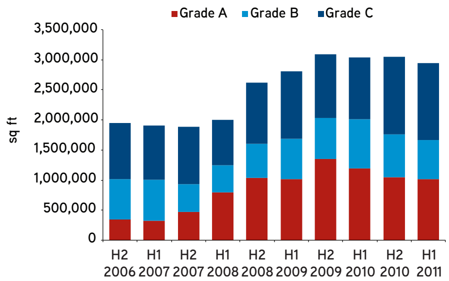
Source: Colliers International

FIGURE 3: MANCHESTER TAKE-UP BY GRADE



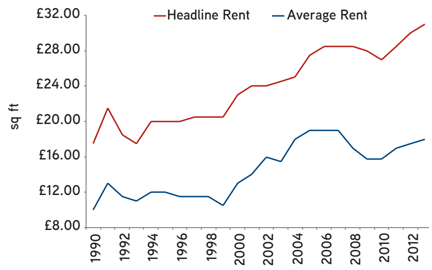
Source: Colliers International

FIGURE 4: MANCHESTER AVAILABILITY BY GRADE



Source: Colliers International

FIGURE 5: MANCHESTER RENTS AND FORECASTS



Source: Colliers International

OFFICES – MANCHESTER

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