

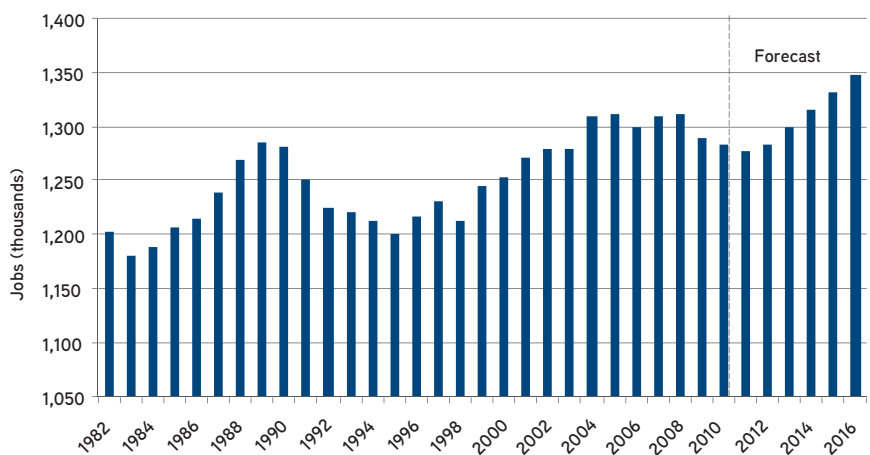


Key facts

- Greater Manchester, the key contributor to both GDP and employment growth in the North west region, is set to see significant upward increases in output and employment levels over the next five years.
- New Greater Manchester accounts for over 39% of total jobs in the North West region and employee numbers are forecast to grow by 79,000 between 2011-2016, with financial services employment set to see 10% uplift over the next five years. Increased activity from SMEs and potential call centre relocations are anticipated to help drive demand for office space.
- In 2010, Manchester accounted for over one third of office deals in the North West region, reinforcing its commercial importance.
- While Grade A office stock has increased markedly over the past five years, growing demand for quality product in core locations will help to encourage refurbishment and recycling of existing stock.

“From 2012 onwards, city centre occupiers will find it increasingly difficult to secure top quality space in the established CBD areas. Non-core locations, such as Central Park, Salford Quays and Manchester Airport (Enterprise Zone), could offer expanding companies, as well as new entrants into the North West market, the opportunity to locate within easy reach of the CBD at competitive prices.”

FIGURE 1: GREATER MANCHESTER HISTORIC/FORECAST EMPLOYMENT GROWTH 1982-2016



Source: Colliers International

Office stock and supply

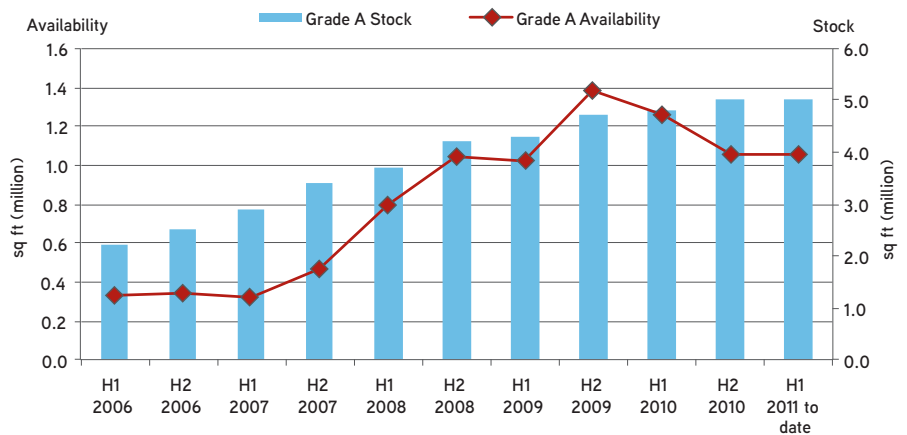
- Manchester Grade A stock has more than doubled over the past five years with a number of major standalone developments as well as additions to established commercial hubs such as Spinningfields (see Figure 2). Central Manchester now has 5 million sq ft of top quality office product. Grade A availability peaked at the end of 2009, close to 1.4 million sq ft. Since then, availability has fallen by 24% but remains above 1 million sq ft.

- Nevertheless, top quality space is beginning to be absorbed steadily and, with no significant new development completions scheduled for the remainder of 2011 and 2012, vacancy rates will continue to track downwards. The only scheme under construction in central Manchester is The Co-operative Group's new 325,000 sq ft, 15-storey bespoke headquarters, on its 20 acre NOMA quarter. The aim is to transform the land holding into an £800 million mixed-use development providing 4 million sq ft of office, retail, residential and leisure space.

- Given the shortage of schemes on site, there may be considerable scope for landlords to refurbish or reconfigure existing stock. The Co-operative Group's existing buildings, which will be vacated in mid-2012, include the CWS Building (95,000 sq ft) and New Century House (71,000 sq ft) and are prime examples of such opportunities to refurbish or reconfigure stock. Property companies such as Bruntwood have specialised in bringing forward similar refurbishment opportunities. Of the city centre schemes currently in the pipeline, Argent's 1 St Peter's Square (275,000 sq ft) coupled with Ask Developments/Network Rail's Greengate scheme (346,000 sq ft) appear closest to potential starts.

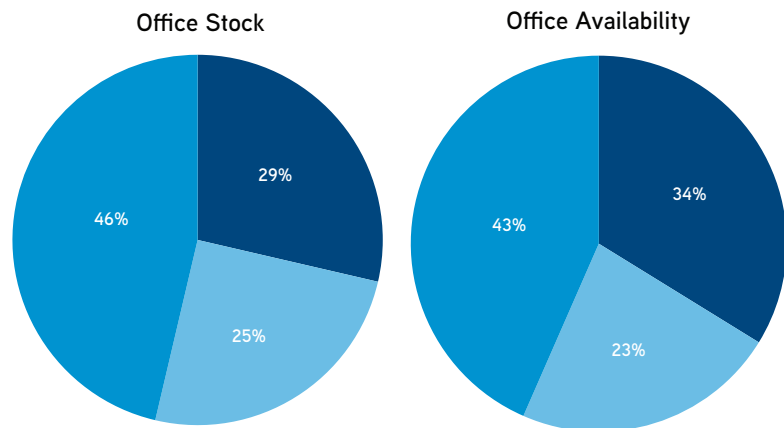
- Second-hand Grade A space, such as the former Halliwell's space at 3 Hardman square (171,000 sq ft), has helped to provide an option for those seeking 20,000 sq ft plus floorplates in the city centre. In addition, good quality second-hand space will come back to the market during 2012. The best example is Ask Developments' 1 First Street, currently occupied by Manchester City Council on a lease until late 2012 when the town hall redevelopment will be completed.

FIGURE 2: CENTRAL MANCHESTER GRADE A STOCK VS GRADE A AVAILABILITY 2006-2011



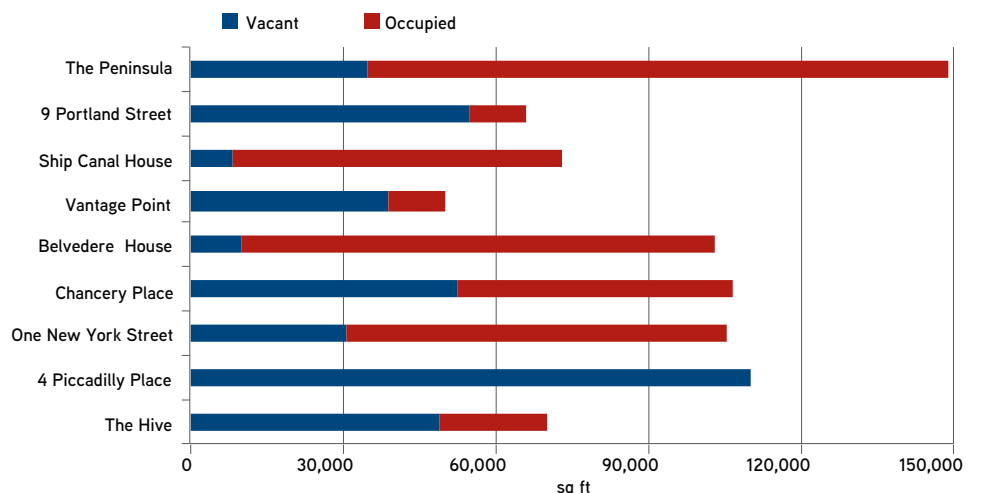
Source: Colliers International

FIGURE 3: CENTRAL MANCHESTER OFFICE STOCK VS AVAILABILITY MAY 2011



Source: Colliers International

FIGURE 4: CENTRAL MANCHESTER OFFICE COMPLETIONS 2009-2010



Source: Colliers International

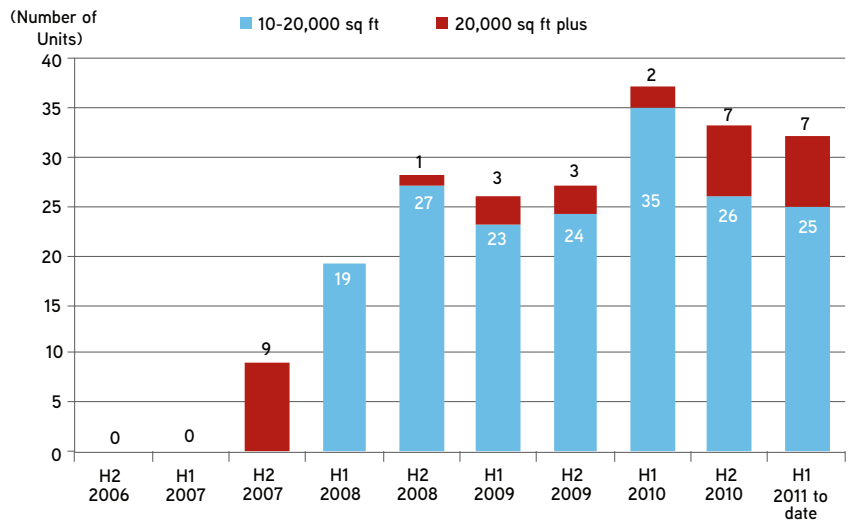
- Occupiers still have a healthy choice of Grade A product within the city centre. In terms of major schemes completed since the start of 2009, 833,000 sq ft (just over 50%) has secured tenants (see Figure 4).

- There are still a healthy number of 10,000 sq ft plus floorplates available (see Figure 5). Manchester still has good availability of Grade A product in larger size bands that will satisfy any major new requirements seeking space in the CBD.

Demand

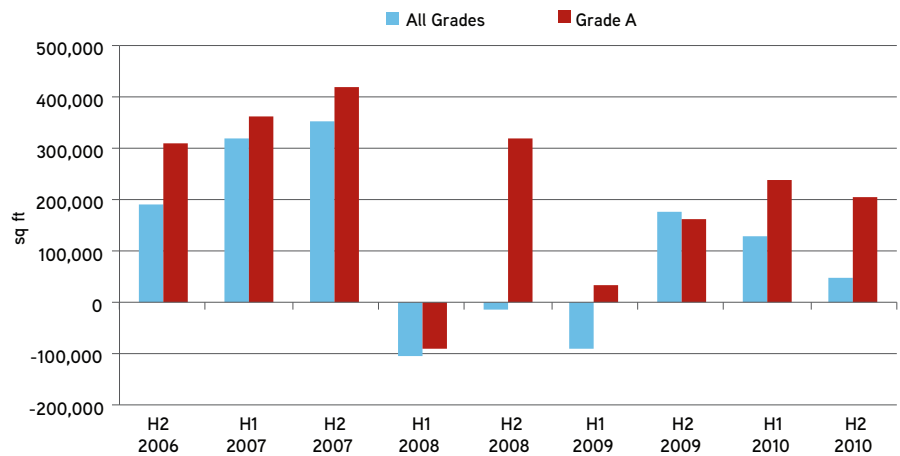
- In 2008, Manchester accounted for just 28% of all deals in the North West. In 2009, however, that figure rose to 31% and increased again in 2010 to 36%, more than one third of all transactions in the North West. Despite a modest downturn in demand year on year in Manchester itself, the city continues to be the prime driver of regional growth.
- Absorption of office space in Manchester is being driven by Grade A product and remains at healthy levels (see Figure 6).
- While demand has fallen year on year for office space, Manchester transaction levels have remained stable. However, the healthy take-up of Grade A product within the city is unlikely to be sustained. The shortage of new product coming to market in 2011-2012 will act as a drag on new demand. We expect to see incentive packages reduce and an uplift in Grade A net-effective rents from mid-2012 onwards as vacancy falls.
- Although Grade A availability has fallen by 20% over the past 12 months, it still remains in excess of 1 million sq ft compared to a figure of 320,000 sq ft in June 2007 – there is no room for complacency. Occupiers will need to be more innovative with their occupational strategies as competition for space heats up.
- From 2012 onwards, city centre occupiers will find it increasingly difficult to secure top quality space in the established CBD areas. However, given the excellent infrastructure and accessibility between the core and non-core locations, Manchester is very well placed to allow occupiers to adapt. Non-core locations, such as Central Park and Manchester Airport, could offer expanding companies, as well as new entrants into the North West market, the opportunity to locate within easy reach of the CBD at competitive prices.
- **Figure 7** shows the healthy demand for Grade A units throughout the second half of 2010. While in 2011 to date Grade A take-up has been modest, mirroring the demand curve in 2010, we anticipate an upturn in transactional activity in H2 2011.

FIGURE 5: CENTRAL MANCHESTER OFFICE AVAILABILITY BY FLOORPLATE SIZE



Source: Colliers International

FIGURE 6: CENTRAL MANCHESTER NET STOCK ABSORPTION BY GRADE



Source: Colliers International

FIGURE 7: CENTRAL MANCHESTER OFFICE DEALS: GRADING BREAKDOWN (NUMBER OF UNITS)

Grading	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Total 2010	Q1 2011
A	18	12	25	26	81	9
B	15	15	16	16	62	11
C	25	12	26	28	91	19
Total	58	39	67	70	234	39

Source: Colliers International

Summary

- The economic outlook for Greater Manchester is good. Forecast employment growth will confirm Manchester as the key driver of office demand in the North West.
- A shortage of pipeline ready schemes will impact upon supply from mid-2012 onwards. Fortune is set to favour bold developers and innovative landlords but the reality is that availability of funding will dictate development activity. Sites may be ready to go, but there is little or no finance in place to commence construction.
- Grade A availability provides a good choice for occupiers at present, including 10-20,000 sq ft floorplates sizes, but absorption remains positive and vacancy will reduce steadily over the next 18 months.
- Refurbishment/recycling of older stock may provide short term solutions for property companies and occupiers alike, as well as providing a more sustainable option, as opposed to demolition and comprehensive redevelopment from scratch.
- Occupiers will need to find increasingly creative and innovative solutions for their space requirements from late 2012 onwards.
- Expect outer core locations and schemes to benefit from CBD space shortages from second half of 2012 onwards.

512 offices in 61 countries on 6 continents

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Canada: 39
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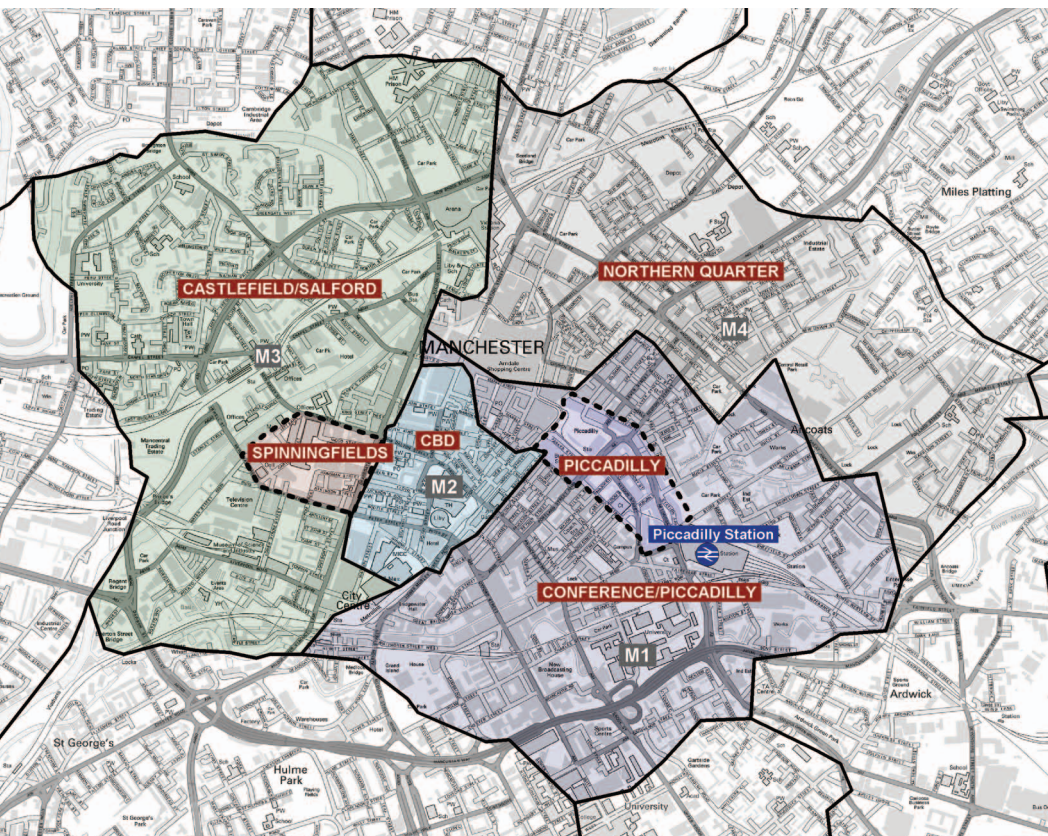
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