

# MANCHESTER | OFFICES

## Q3 2017

### TAKE-UP

- > The Manchester office market has demonstrated buoyant demand in the third quarter with 447,809 sq ft transacted in 79 deals, including nine deals over 10,000 sq ft. Q3 2017 take-up surpassed Q3 2016 by 68% and the Q3 long term average by 51%, while the average deal size was 5,665 sq ft. When added to the first two quarters, the tally for the year so far amounts to 938,645 sq ft, putting the market on track to match the previous year's total of 1.3 million sq ft.
- > The largest letting in Q3 was 77,449 sq ft to the Department for Work & Pensions at Deutsche Asset Management's Two St Peter's Square. Other key transactions include the Parliamentary Health Service Ombudsman securing 32,000 sq ft at Hermes' Citygate and PwC committing to an extra 25,197 sq ft at Allied London's No. 1 Spinningfields, which has recently been sold to Schroders. The law firm Clyde & Co also took the total of 69,000 sq ft space at the Royal Exchange at circa £23.00 psf, demonstrating that the city's rents are pushing on for both Grade A and more secondary offices.
- > Following the opening of its first UK office outside London at No.1 Spinningfields earlier this year, flexible workspace operator WeWork added 44,000 sq ft of office space at One St Peter's Square. The trend towards flexible working has seen serviced office providers taking up to a fifth of space in Manchester in the first three quarters. Property developer Allied London also launched its own co-working brand, All Work & Social, that will provide office space alongside social amenities. It will operate alongside WeWork at No. 1 Spinningfields.
- > Media & tech occupiers remained active in the Manchester office market, where they were involved in 48 deals in first nine months of the year, an equivalent of 22% of all deals. There are signs of media & tech pushing into the business district from the Northern Quarter, Salford and Media City. New developments, such as the speculative new build XYZ Building or Bruntwood's Neo scheme, have attracted media and tech tenants and achieved rents up to £30.00 psf.
- > There are still a number of impending larger transactions in the pipeline, which suggests that 2017 will be another positive year for the city centre office market. Live requirements include Eversheds Sutherland seeking circa 45,000 sq ft space and Amazon looking for 70,000 sq ft of office space for its first UK regional headquarters to add to its portfolio of warehouses. However, the shortage of new Grade A available stock before 2019 means that some occupiers will have to consider good quality refurbished space in the meantime.

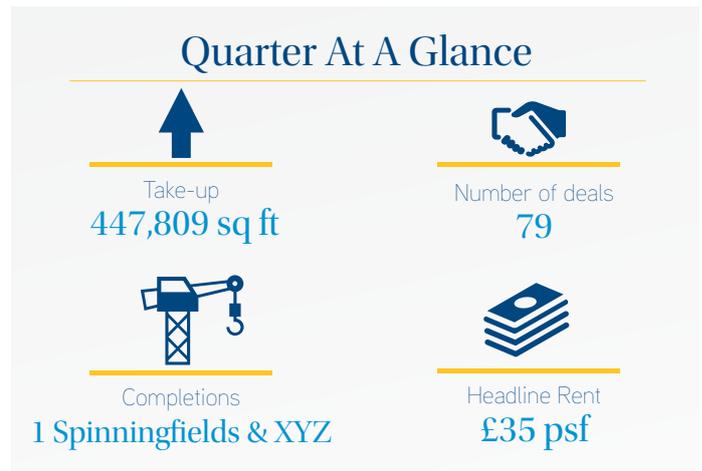


Figure 1: Manchester Office Take-up by Quarter

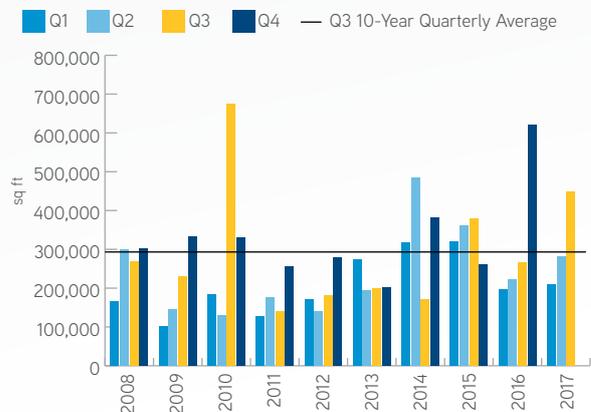
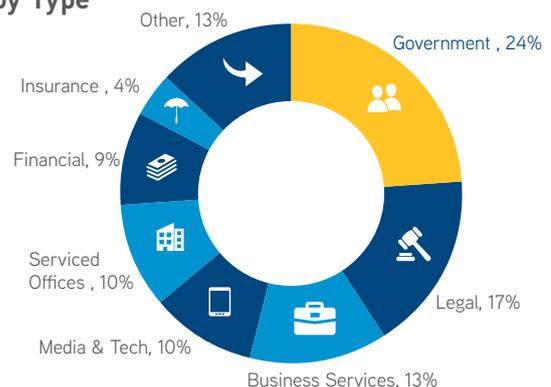


Figure 2: Q3 2017 Manchester Office Take-up by Type



## SUPPLY

- > The third quarter saw the completion of the now fully let XYZ Building (159,012 sq ft), 1 Spinningfields (341,900 sq ft) and the refurbishment of 11 Portland Street (76,038 sq ft). There is currently 484,031 sq ft of new Grade A accommodation under construction and 1.2 million sq ft with planning consent. The schemes to have started in 2017 were Landmark, 125 Deansgate and 11 York Street, while two other office schemes, 100 Embankment and Two New Bailey Square, are expected to get underway in the coming months.
- > Despite delivery of Grade A space, strong leasing activity in the last few years has depleted Grade A office availability in Manchester. The city core presently has only 98,111 sq ft of modern 'ready to occupy' Grade A office space available, namely 25,436 sq ft at 1 New Bailey, as well as 72,675 sq ft in 40 Spring Gardens, 3 Hardman Street and 3 Hardman Square. The two largest available single floor plate and contiguous office suites are 22,095 sq ft at 3 Hardman Square and 22,985 sq ft over two floors at 40 Spring Gardens.

## RENTS

- > The competitive prime market has seen headline rents level off at £35.00 psf, but with no new build completions due in 2018, prime rents are set to grow, with Grade A offices expected to 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 has also increased, putting upward pressure on secondary rents. As a result, Grade B office rents in the city centre rose by 10% year-on-year, currently standing at £27.00 psf.

## INVESTMENTS

- > Prime office yields in Manchester have peaked at 4.75%. We anticipate that this level will be maintained for the foreseeable future due to a continued shortage of Grade A office space. Following a strong 2016, dominated by overseas investment, 2017 has seen continued broad investor demand, as well as the emergence of local authorities as active purchasers, as evidenced by Essex County Council's acquisition of 201 Deansgate. The largest deals of the year have been M&G's acquisition of 101 Embankment for £105 million, reflecting a net initial yield of 5.30% and Schroders' acquisition of Allied London's No. 1 Spinningfields, for £200 million, reflecting a net initial yield of 5.00%.

Figure 3: Manchester Availability by Grade

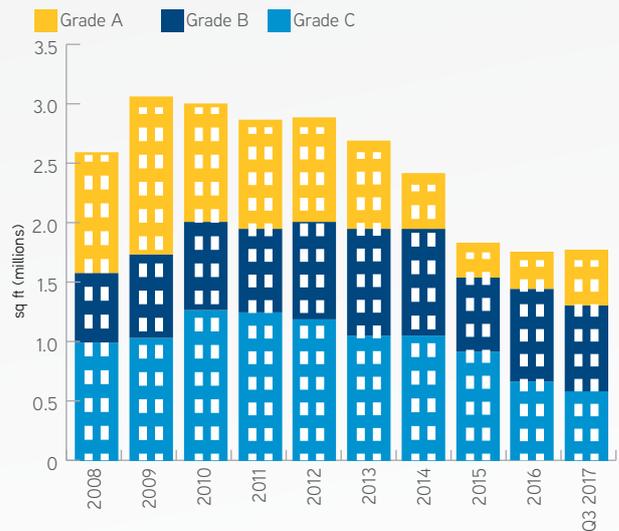
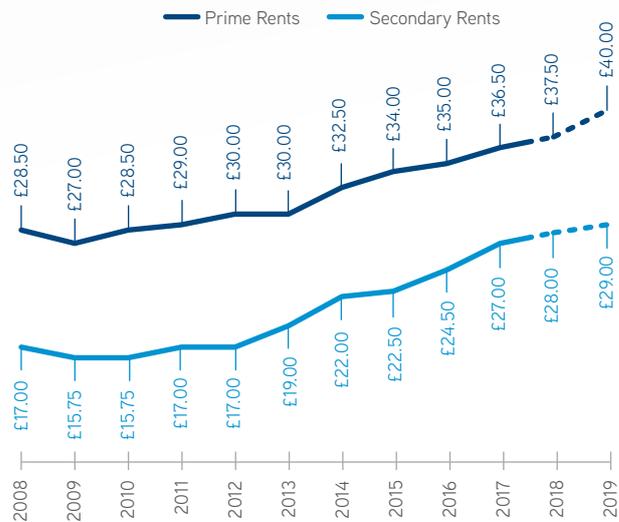


Figure 4: Manchester Office Rents & Forecasts (psf)



All charts sourced by Colliers International

### FOR MORE INFORMATION

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