



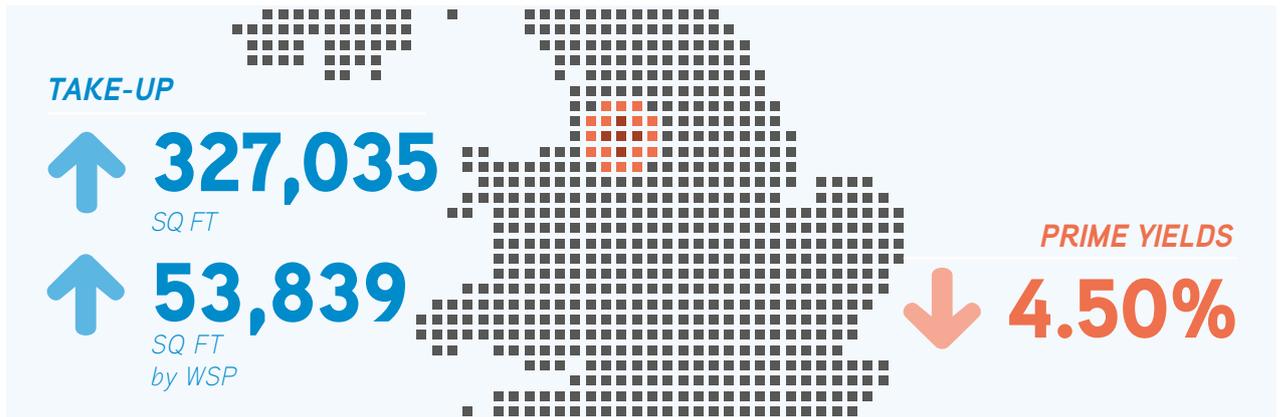
UNITED KINGDOM

MANCHESTER

OFFICES

QUARTER 2 | 2018





TAKE-UP

Following a record first quarter take-up, the Manchester office market saw 327,035 sq ft in 76 deals transacted in Q2 2018, taking the total for the year's first half to 769,118 sq ft. This is significantly higher than the same period in 2017, when Q2 take-up totalled 283,000 sq ft and 487,000 sq ft in H1 2017 (see Figure 1).

The largest transaction so far this year has been WSP confirming 54,000 sq ft at Ask's No8 First Street. Other stand-out deals include a 39,934 sq ft letting to Handelsbanken at AEW's 101 Barbirolli Square and 34,507 sq ft at Epsilon Real Estate Partners' Aeroworks, taken by travel company On The Beach.

There are a number of impending larger requirements, suggesting 2018 will be another strong year for take-up in the Manchester office market.

It has been reported that a local call centre is to pre-let circa 200,000 sq ft at St Johns Camp, while Hermes Investment Management is expected to announce a number of lettings of refurbished buildings in and around Sadlers Yard at its NOMA scheme.

Co-working, one of the fastest growing parts of the Manchester office market, and accounting for up to 500,000 sq ft in the city centre, is set to grow further. Schroder Real Estate Investment Management has submitted plans to create a bespoke co-working space at the City Tower, overlooking Piccadilly Gardens. The move comes as WeWork considers a third Manchester outlet in addition to its new co-working centres at Spinningfields and St Peter's Square.

FIGURE 1: MANCHESTER OFFICE TAKE-UP
 By Quarter

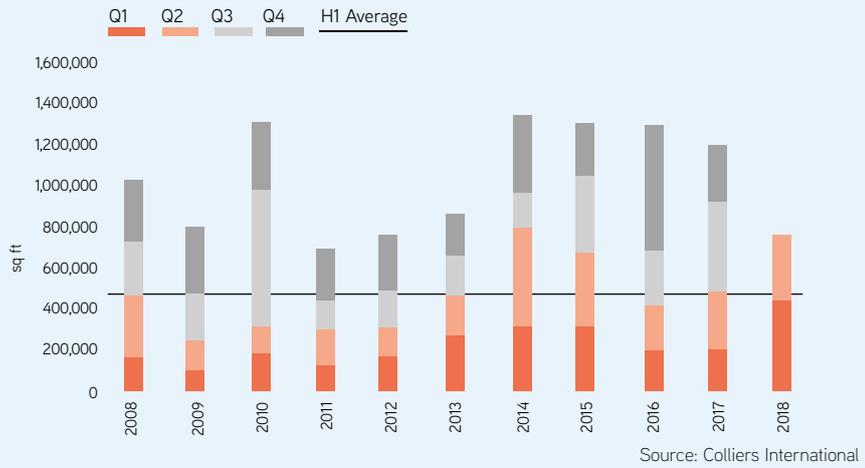


FIGURE 2: Q2 2018 TAKE-UP
 By Business Type

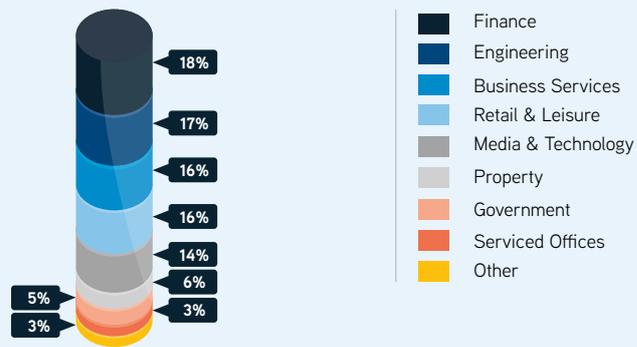
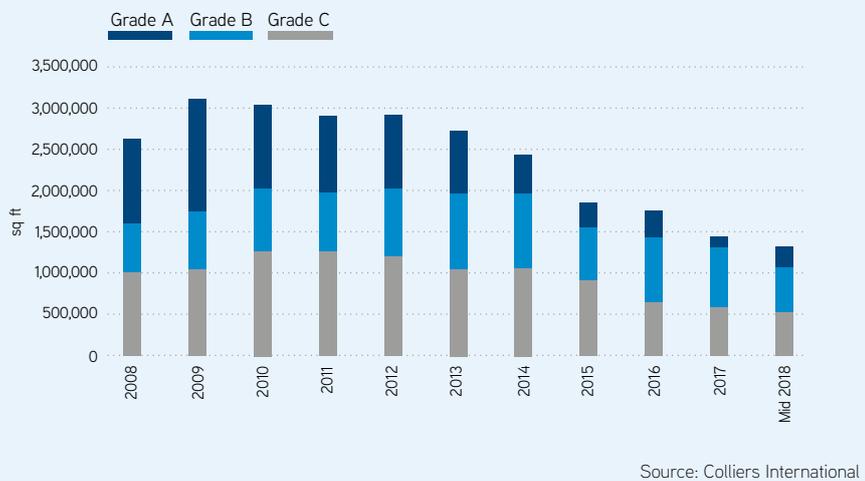


FIGURE 3: MANCHESTER OFFICE AVAILABILITY
 By Grade



SUPPLY

Strong leasing activity in the last few years continues to deplete Grade A office availability in Manchester, leaving many occupiers with no choice other than to seek pre-lets. Across the whole city centre there is currently a total of 210,000 sq ft of 'ready to occupy' modern Grade A office space, available in just seven buildings (see Figure 3).

The largest available space is 70,542 sq ft at 101 Embankment, 39,728 sq ft at 3 Hardman Square and 28,729 sq ft at 1 Spinningfields.

In terms of development pipeline, there is currently less than 400,000 sq ft of new Grade A office space under construction across the city core, which includes 123 Deansgate, Landmark and 11 York Street,

and, with further office development at the 'edge of city' Two New Bailey Square. The majority of these schemes will be delivered in 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 two consented schemes expected to start construction during 2018.

RENTS

The competitive prime office market has seen headline rents reach £35 psf, while £36 psf is the current asking rent for the remaining space at 1 Spinningfields, looking to set the next benchmark (see Figure 4). 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 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 psf.

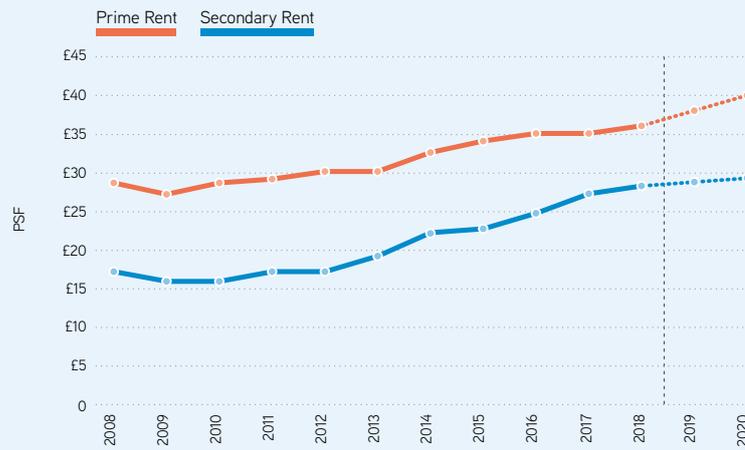
INVESTMENT

Following a record £453 million transacted in the final quarter of 2017, H1 2018 saw more subdued transactional levels at £115 million (see Figure 5).

The largest transaction in the second quarter was the £31.5 million purchase of the Zenith Building by Bet365 at a net initial yield of 5.25%. The other large transaction was a £20.5m sale of Manchester Green to Squarestone Growth.

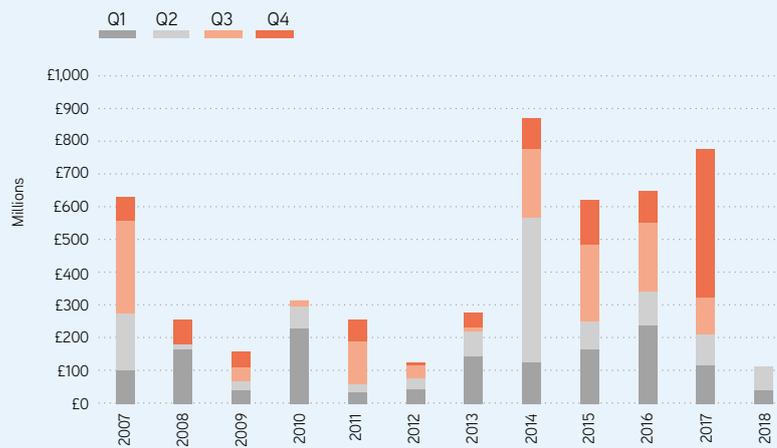
In the absence of medium to long term secure income, investors have been acquiring buildings with vacancy at almost prime rack rented yields, as evidenced by Royal London's recent acquisition of 3 Hardman Square at a net initial yield of 4.10%, moving to 5% when fully let. Prime yields in Manchester are currently the lowest of 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.

FIGURE 4: MANCHESTER OFFICE RENTS & FORECASTS (2008-2020)



Source: Colliers International

FIGURE 5: MANCHESTER OFFICE INVESTMENT VOLUMES (2007-2018)



Source: Property Data / Colliers International



With H1 2018 Manchester take-up significantly higher than the same period last year, we expect the 2018 total to comfortably exceed the long term average



FOR MORE INFORMATION

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