RESEARCH

MANCHESTER OFFICES

MARKET UPDATE **H1 2015**

Occupier market

- Market sentiment remained positive as H1 2015 saw take-up reach 679,000 sq ft, representing a 23% rise on H2 2014. A total of 153 transactions were completed, averaging at 4,435 sq ft.
- The latest take-up data suggests that Manchester will exceed 1 million sq ft, a milestone which was previously achieved in 2014 (1.35 million sq ft) and 2010 (1.4 million sq ft).
- Manchester also recorded the highest H1 take-up among all the other regional cities, edging Birmingham, which saw take-up reach 650,000 sq ft.
- H1 saw a number of deals within the city-centre involve units above 40,000 sq ft. This included two of the largest accountancy firms in the world – PricewaterhouseCoopers (PwC) and Ernst & Young (EY). PwC secured 49,406 sq ft at No.1 Spinningfields, currently under-construction and due to be completed by 2016, while EY took 41628 sq ft at Two St Peter's Square.
- Firms in the Professional Services sector were among the most active occupiers in H1, accounting for 48% of total take-up. Other key sectors included organisations in 'Finance, Banking and Insurance' and 'Retail, Distribution and Transport' which accounted for 15% and 14% of the total respectively.
- The number of active requirements fell to its lowest since Q3 2011. However, with take-up in Q2 posting a 13% rise on Q1, it remains to be seen if a slowdown in take-up occurs in 2015, as market momentum appears to continue for the rest of the year.
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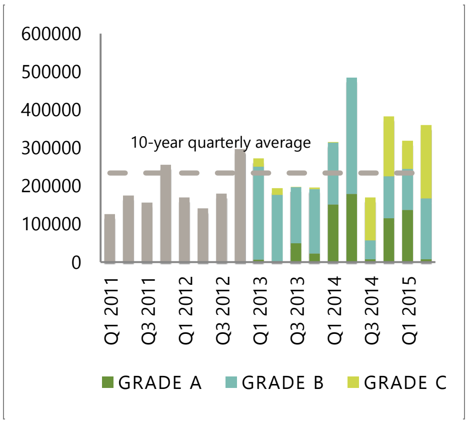
- With a number of speculative developments currently under construction, the market will be boosted by new Grade A office space over the next 12-18 months. This will help increase capacity, which has suffered due to the decline in development post financial crisis.
- Prime office rents are expected to rise to £33 per sq ft by the end of 2015, and are forecast to continue to rise as a number of new office developments near completion.

FIGURE 1

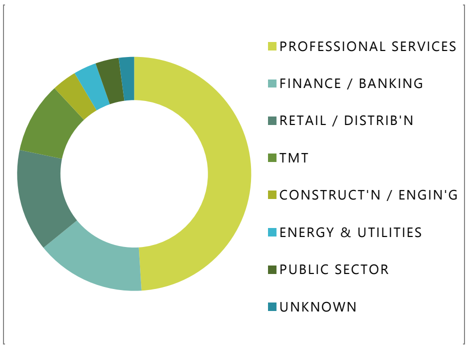
City centre take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2

H1 2015 take-up by sector



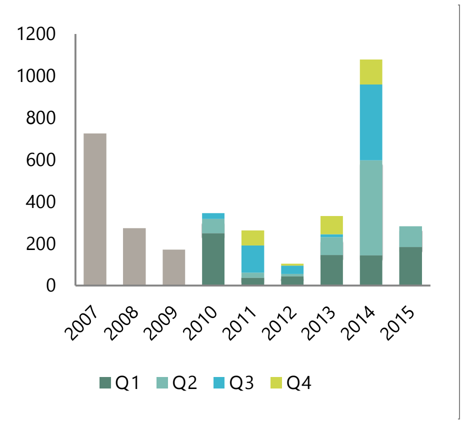
Source: Knight Frank LLP

Agent's view

The market is currently experiencing buoyant levels of activity, and we could see another year of over 1 million sq ft of take-up. While the number of active requirements has fallen, levels of take-up are expected to remain robust. Many of the current schemes under construction have good levels of interest and should see lettings prior to completion. This could trigger further development in 2016 and 2017.

In Q1 2015, PwC secured 49,406 sq ft at No. 1 Spinningfields.

FIGURE 3
Manchester offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- Investment volumes in H1 2015 reached £282.4m, down 41% on H2 2014, and down 53% on H1 2014.
- However, the market was characterised by a number of low to medium-priced assets up for sale and limited prime stock, which ultimately had a significant impact on total investment volumes.
- H1 recorded the highest number of deals over a six month period since 2004, a strong sign that investors are willing to purchase good quality assets in Manchester.
- Prime office yields hardened by 25bps in Q1 2015 to 5.00% and remained unchanged in Q2 2015. This market is likely to experience a further decline in the next 6-12 months as economic fundamentals continue to improve.
- The largest deal in H1 2015 occurred in Q1 and involved the purchase of 3 Hardman Square by M&G Property Portfolio for £91.73m, reflecting a net initial yield of 5.79%.
- Another key deal in the city saw the purchase of 7 Norfolk by Deutsche Asset & Wealth for £16.78m, reflecting a net initial yield of 6.62%.
- The second half of the year is expected to show an improvement in investment volumes, with a number of office developments already attracting high levels of interest from investors. One of these schemes is One St Peters Square, which is under offer to DEKA for circa £130m.
- While investment activity appears to have slowed compared with last year, Manchester is likely to have another year which sees inward office investment exceed other major regional centres.

In March 2015, Deutsche Asset & Wealth purchased this scheme at 7 Norfolk Street for £16.8m.

TABLE 1
Selected investment transactions in H1 2015

Date	Address	Purchaser / Vendor	Price	NIY
Jun 15	John Dalton Street	Tesco Pension Fund / The Crown Estate	£17.2m	n/a
Mar 15	Lever Street, 47-51	Kames Capital / Argent Real Estate	£16.75m	7.25%
Mar 15	7 Norfolk Street	Deutsche Asset & Wealth / M&G Real Estate	£16.78m	6.62%
Jan 15	19 Spring Gardens	Credit Suisse / Karlin Real Estate	£13.2m	6.00%
Jan 15	3 Hardman Square	M&G Property Portfolio / CS Euroreal	£91.73m	5.79%

Source: Knight Frank LLP; **Note**: *Knight Frank acquired these buildings

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