

# CATCHING THE NEXT WAVE

# Manchester, Technology & Real Estate



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Written by: David Porter Partner Office Head Knight Frank Manchester

# CATCHING THE NEW WAVE

If one applies the long-lens of history to the development of Manchester, distinct waves of technological development have underpinned new growth spurts for the city; brought new enterprises into being and into the city and, typically, led to demand for specific types of property. The linkages between technology, growth and property are strong and can, arguably, be observed through four clear episodes or waves. First, in the late 18th Century, we saw the emergence of mechanical production and the associated development of

mills, factories and workhouses, as urban centres took economic primacy. Second, around one hundred years later, we saw the advent of scientific production methods that supported mass

consumption. Fordism and Taylorism brought further structure and systems to the production process and led to the finely tuned factory floor so characteristic of the North West during the Victorian age and beyond.

Third, and again almost a century after that wave, came the commencement of the digital age, the advent of the computer and the large-scale utilisation of offices in order to synthesise, process and disseminate information. Offices were cellular, vanilla, functional and the only workplace available to the worker.

In short order – less than 40 years on – we are now witnessing the next wave, the rise of the physical internet. The convergence of the digital and physical worlds is upon us. Physical structures – be it buildings or the 20 billion internet connected devices at work within the world – are now creating data that can be assessed and utilised for commercial purposes. From a real estate perspective this creates greater flexibility, agility and utility within the workspace. The agile workspace – which is capable of responding to the data it generates – to create a more useful, appropriate and productive space – is the next physical embodiment of the influence of technology. It is perhaps the first time in which technology has been an enabler as well as a disruptor within the workplace.

Manchester has a tremendous opportunity to catch this next wave of technological progress and extend its global influence and reputation as a tech centre. This is particularly the case if we rightfully broaden our definition of tech to extend beyond the dominant narrative which narrowly conflates tech to the IT sector. As this report shows a broader definition of tech, which is about the application of science and innovation to solve problems,

strengthens the case for Manchester as a global tech centre.

Irrespective of these definitional challenges, the clear upgrading of product and amenity within the Manchester office market is compelling to occupiers of all types and from all sectors. As we highlight in this report, the provision of an amenity rich, flexible, service orientated real estate offer will ensure that the Manchester market catches the next wave of technology and with it a range of exciting and high-growth occupiers.

# There is everything to play for!

DAVID PORTER





*Written by:* Dr Lee Elliott, Global Head of Occupier Research Knight Frank



How poor definition underplays Manchester's true strength as a tech centre

Today it is rare to read a report that does not make lengthy reference to the pervasive influence of technology on real estate market dynamics.

This is particularly true in interpretations of occupational markets, where the tech sector is viewed as the primary source of demand for office space.

## The trouble with definition

Yet, the widespread application of the term 'tech' is challenging for those of us wishing to understand the true dynamic of the occupational markets. It can confuse our interpretation of the fastest growing (sub) sectors within our markets. It can hinder our ability to identify those tech companies that are growing quickly and which represent 'ones to watch' in terms of future occupational demand.

There are four specific problems with the application of the term 'tech' to market assessments.

First, the term is often used broadly and on the simple premise that we know technology, and the companies responsible for it, when we see it. Second, conversely, the term is often used to describe what is in reality a narrow segment of the tech sector – the digital or Information Technology sectors. Tech is narrowly conflated to cover those companies that operate within the IT software, hardware or services space, when in reality there is a much broader church of sub-sectors that form part of the modern tech sector. Third, even when the analytical focus is narrowly on the digital or IT sectors there is not enough distinction between those occupiers found within the sector. The occupational needs, and indeed market impact, of tech titans such as Google, Facebook or Microsoft is very different from that of established but challenged tech companies or small, creative digital software houses.

Finally, technology has become so integral to businesses from across all sectors it is becoming increasingly difficult to distinguish between pure technology companies and those underpinned or transformed by technology. This problem will only intensify as we see increased cross-sector convergence and companies like Amazon extend their influence into sectors such as healthcare.

These definitional challenges have an impact on the clarity and veracity of market analysis. They can hugely understate the strength of a local market as a tech centre, downplay the depth of occupiers operating in 'tech' or the diverse representation of technology within market assessments. We believe that this has been the case in many recent interpretations of the Manchester market. When taking a narrow digital or IT perspective to the market for instance, Manchester sits outside of the Global 25 Innovation centres recently identified by business management consultant 2thinknow. In our view, this underplays the depth and vitality of the Manchester tech scene.



## Towards a broader definition

A more appropriate starting point for assessing the tech sector is to bring some stronger definition to the term. In this respect, technology equates to 'society's application of scientific knowledge to solve practical problems in industry or commerce'.

This definition extends our focus well beyond Information Technology to take in a further five distinct sub-categories:

## Advanced manufacturing:

Leading edge technology and innovation is applied to improve physical products and / or the production process. The products generated by advanced manufacturing characteristically have high levels of design; are technologically complex and are a marked improvement on similar existing products. The influx of technology such as CAD, high performance computing, rapid prototyping, high precision technologies and robotics also revolutionises the production process leading to better, often cheaper and more efficiently produced products.

## Advanced materials:

Advanced materials are central not only to advanced manufacturing but also to future engineering challenges. Advanced materials include semi-conductors, biomaterials, advanced fibres (such as carbon or Kevlar) and nanoengineered materials. It can also incorporate the production of so-called 'smart materials' – materials that can have one of their properties changed by an external condition such as temperature, light, pressure or electricity. Essentially, science and technology is applied to create new materials or modifications to existing materials in order to develop superior performance. In the context of Manchester, the revolutionary material Graphene is particularly worthy of mention. Graphene is a semi-metal that is the strongest material ever tested but which also efficiently conducts heat and electricity and is almost transparent. The material was rediscovered, isolated and characterised at the University of Manchester in 2004 and the city is now home to The National Graphene Institute, which seeks to drive collaboration between Graphene researchers and industry.

## Energy & environmental sciences:

An overlooked aspect of the tech sector is that which applies new technology to support energy generation and protect our natural environment. Energy security is a growing geo-political concern, while sustainability and environmental conservation are high on the corporate and social agenda. The application of technology to support the growth of green tech or more efficient and sustainable energy sources is paramount and of national and international concern. Manchester and the wider North West region has a long-standing tradition in the realms of nuclear energy, environmental engineering and a growing cluster of 'living labs' to test and trial new low carbon innovations.

## Life sciences:

This sector sees the commercial development of those branches of science that involve the scientific study of organisms, including human beings. It is science that is being revolutionised by the application of technology. While biology remains the centrepiece of the life sciences, technological advances in molecular biology and biotechnology have brought a range of specialisms to the sector. The life sciences seek to improve the quality and standard of life and have applications in health, agriculture, medicine and the pharmaceutical and food science industries. The sector is set for even greater utilisation of technology. For example, much R&D work within the sector is moving from the lab to the computer; the advent of wearable tech is bringing better diagnostics; and the rise of bio-computers, which use systems of biologically derived molecules, such as DNA and protein, to perform computational calculations involving storing, retrieving, and processing data.

# 5

## Media, marketing & entertainment:

Although perhaps lacking the hard scientific precision of other sub-sectors, the media sector has been utterly transformed by technology. Digital disruption is breaking down the traditional barriers between content creation, distribution and consumption. Digital platforms, such as Google, Facebook and Netflix are dominant and are winning market share from traditional broadcasters, publishers and advertising agencies. Digital platforms generate extensive information on their consumers and will use this to their competitive advantage and become the main digital distribution channels for original and advertising content. A competitive future in the sector will see digital platforms continue to challenge the old guard of media and content production. All players in the sector will have technology at their core – and as such represent a vital component of the tech community.



*Written by:* Darren Mansfield, Associate Knicht Frank

# MANCHESTER AS A TECH CENTRE



Using a narrow IT definition of tech still positions Manchester as a significant tech market. Indeed, analysing take-up within the Manchester market over the last five years (2013-17) shows that there were some 144 leasing transactions from occupiers within the IT & Telecoms sector.

These deals accounted for more than 770,000 sq ft of office space – that is a volume of space greater than total 2017 take-up across all sectors in 6 of the 10 regional centres that Knight Frank monitor. Notable transactions include: Amazon, Bet 365, Booking.com and Jaguar Land Rover

There are other indicators pointing to Manchester as being an important digital centre. Recent research from Tech Nation, for example, maintains that there are in excess of 30,000 digital jobs within the Manchester economy – which on generous space allocations of 1:8 is the equivalent to some 2.5 million sq ft of office space. These firms have a turnover of some £3.2bn – so they are significant contributors to the local and regional economy. The research also shows that Manchester has a vibrant digital eco-system which led to the birth of more than 450 new digital businesses in 2016. When those businesses are formed they have great growth prospects.

In fact, a third of Tech Nation's Northern Tech 100 – that is the fastest growing tech companies in the North of England – are based in Manchester and have an average growth rate of 49% per annum. If one analyses the Manchester based companies found within the list, it is quickly apparent how they are impacting on the real estate market.

Four of the companies found on the list have recently let or acquired a total of 80,000 sq ft with a further 17,500 sq ft in legals at the time of writing. We are also aware of active requirements totalling around 100,000 sq ft from companies within the list Yet it is not just small and medium sized, fast growth tech companies that are taking root in Manchester. The big tech titans are – albeit later than many in the market would like – starting to see opportunity in Manchester. Microsoft, for example, have recently taken 100 seats within Bruntwood's Neo Building while both Amazon and Alphabet have a small presence in the city.

This is impressive and testament to the pro-business environment of the city, its ability to nurture and support idea generation and the highly skilled workforce upon which high growth firms can depend. Yet the story for Manchester is even more compelling than most reports would suggest, if our broader definition of tech is applied. Over the same 5 year period there were 406 leasing transactions from companies across the 5 sub-sectors noted over-page. They absorbed 1.4 million sq ft of office space over this time.

This is perhaps not surprising when one considers the credentials of Manchester as a tech sector, as shown opposite.



Source: MIDAS

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By adopting the broader definition of tech – to encompass the five component parts of advanced manufacturing, advanced materials, energy & environmental sciences, life sciences, and marketing and media - we can see a more significant and sustained impact from the 'tech' sector on the Manchester economy and real estate market.



- Broader tech definition accounts for 406 leasing deals absorbing 1.4 million sq ft of office space over five years (2013-17)
- IT & Telecoms & Media, Marketing & Entertainment dominate but deals across all sub-sectors
- Clear upward trend in deal volume year on year





Written by: Jennifer Townsend, Associate Knight Frank

> ckhaus Deringer, One New Bailey



# IMITATION AMIDST DISRUPTION

## How technology is forcing traditional occupiers to change their real estate needs

A sizeable part of Manchester's occupational market sits below the waterline of the tech iceberg. More traditional but no less influential occupier groups – such as lawyers, accountants, retail banks, insurers – are themselves being radically disrupted by the application of technology. They are forced to turn to tech talent to transform their business and retain competitiveness. They are pitched into a fierce battle for that tech talent. Most notably, it is forcing these traditional occupiers to heed lessons from the tech sector in their use of real estate as a mechanism to attract and retain that talent.

Knight Frank recently identified those trends shaping the mid-term futures of these traditional industry sectors as part of its ongoing occupier research programme. Drawing upon that work, this article explores how technology is challenging the operations and real estate requirements of two specific sectors – legal services and retail banking.

## The Legal Services Sector

The strength of response to the disruptive forces of technology will distinguish the future winners and losers in the legal services sector. Rapid advances in technology will see process driven work, historically undertaken by associates for higher margins, being automated and commoditised. Agile, tech-savvy and client focused new entrants will take increasing market share in this space, hitting the profitability of traditional law firms if they fail to adapt.

One such example is ConvergeTS who provide cloud services specifically for law firms and have recently been named as one of the 50 fastest growing companies in Greater Manchester. Incumbents can get ahead of the curve, but only if they move fast, invest in and fully embrace technology. Far from being a threat to activity, we believe the advent and adoption of new wave technology such as automation and AI will generate, rather than remove, headcount within law firms. In our view these technologies drive business productivity and efficiency rather than a dramatic reduction of staffing levels (and hence office space needs). These new technologies will drive a near-term scenario where humans work alongside machines in perfect harmony. In this situation, current processes within law firms are re-engineered and potentially relocated but people are not removed from the process altogether.

In fact there is strong evidence that the adoption of these technologies is creating opportunities for upskilling within law firms. Freshfields Bruckhaus Deringer, who already have a legal services innovation team amongst its near 800 people based in Manchester, have recently teamed up with the University of Manchester's Law School and Al firm Neota Logic to offer a course on legal technology. It has also previously collaborated with the University of Manchester to increase awareness of digital technology among future lawyers and innovators.

The disruption being experienced in the legal services sector will also continue to generate a raft of new market entrants or challenger organisations. We believe that this innovative activity is less spatially fixed to central London and has the potential to take root in cities such as Manchester. As witnessed with the growth of fin-tech and challenger banks, the regional markets are attractive on the basis of cost, talent and lower barriers of entry for innovative start-ups.

Finally, the Big Four accountancy practices – all of whom are committed to growing the strength and scale of their legal services businesses – are significant occupiers within the UK cities and may seek to develop their legal capabilities within or alongside existing regional operations. So over a five year horizon, we remain confident that a legal services sector – transformed by technology – will have a deep presence within the Manchester market.

## The Retail Banking Sector

The UK Retail Banking sector is under siege. The economic environment continues to bring uncertainty; regulatory requirements are evolving; customers are demanding greater personalisation combined with excellent customer service; and at the same time technological innovation is challenging traditional business and delivery models while ushering in a set of challenging competitors.

To remain relevant and robust in this new operating environment, retail banks must continue to innovate in both products and processes; implement a marked cultural change; drive an unstinting focus on cost and efficiency gains; and develop an operational model that nurtures innovation, responds to regulatory impacts, is technologically advanced and highlycustomer centric. No small undertaking! Accordingly, retail banks must rethink their real estate. Branch networks will obviously need to be further rationalised, despite the sensitivities that such moves bring. They will also be significantly redesigned – with both Nationwide and Lloyds Bank showcasing new branch concepts in Manchester in recent months.

Back office functions must be positioned as being more pivotal to a successful banking operation than they have perhaps been to date. Manchester is home to the IT teams of larger banks such as Lloyds, Barclays and the Co-operative Bank. Given the importance of data management to create personalised banking products these IT functions will become more central to the success of the banks than ever before – making the very term 'back-office' redundant in the process.

Head office functions meanwhile will need to be reviewed in terms of cost, regulatory compliance and may be subject to relocation. Barclays for example are actively seeking to consolidate staff into a sizeable Northern campus to create cost and operational efficiencies. Significantly, as the fortunes of retail banks become more dependent upon innovation and technological delivery, they will need to access and accommodate tech and creative talent, and this will force change in both location and working environment.

# Classifying the tech sector by company

Retail banks are embarking on a renewed drive to innovate. There is a particular focus on banks looking

outside their walls, collaborating and sharing data with a broader range of partners. What is more, banks are recognising that real estate has a key role to play in nurturing an innovative culture. We are increasingly seeing retail banks take cutting-edge space in cool, tech dominated markets or sub-markets around the world.

Some retail banks believe that the best way to protect market share is to have maximum influence and scale. They have established large centres of excellence for innovation that are the epicentre of future value creation. These buildings will house internal teams and external partners, facilitating co-creation. In addition, they will be open to the public, firmly anchored in urban locations, featuring customer-centric space such as experience centres and social areas. Sourcing and securing the best tech and creative talent will be essential and therefore a core part of location, design and fit-out decisions.

Other retail banks may feel it better to separate innovation, preferring instead to fragment in order to capitalise on niche markets and accelerate ideas. In this model, innovation is nurtured outside of the existing real estate portfolio, and is housed within smaller scale alternative workplaces such as accelerators, incubators and co-working spaces. Location will be determined by where the talent, expertise and partners are, with a greater reliance on fluid project teams.

Despite clear concerns in respect of data security, some banks will seek to offer space within their own buildings that can be accessed by technology startups and skills as a means of stimulating and internalising innovation. This approach may support the re-use of vacant space within the existing portfolio of retail banks.

Whatever approach the banks adopt, the new, cool and exciting world of retail banking deserves a cool and exciting real estate product. Innovation will not be supercharged in dull, open plan office space. Successful ideas will be created and nurtured in inspirational, agile space where people and stakeholders are drawn together.

# What does this mean for Manchester?

The transformation of traditional occupier groups on the basis of digital transformation is a huge opportunity for Manchester. Specifically, the opportunity is to position the city away from a backoffice processing function and towards a business critical technology heavy function drawing upon tech talent residing in the city and its surrounds. As retail banks and law firms seize their opportunity to restructure, they will further gravitate towards high-quality, centrally located and flexible office spaces. Amid disruption from tech they will further adopt those occupational strategies displayed by tech companies over recent years.





Written by: Rob Taylor, Partner Knight Frank Manchester

# BEYOND OFFICES: HOW TECH IS TRANSFORMING THE INDUSTRIAL MARKET

# A complex interaction of technology, changing consumer and supplier behaviours together with an ever more challenging operating environment is recasting occupational demand in the industrial sector.

In response, the supply side of industrial property must reset in terms of specification, location and the capacity to better accommodate a mix of human and technological resources on a flexible basis.

## Technology & Industrial Property

The emergence of new wave technologies will both disrupt and enhance the operations of industrial occupiers and the efficiency of supply chains. It is, however, easy to be swept away with the visions of a tech-led industrial utopia that is in such market contrast to the current reality. Whilst the potential of automation, robotics, augmented reality and the internet of things are alluring, the reality is that the adoption of such technologies will not be as universal, seamless or rapid as many visions of the future often maintain.

This is not to suggest that technology will have no direct impact on industrial property. Rather, our view is that new technologies will emerge unevenly across the market – serving to bring competitive advantage to those who are able to make the necessary investments and have the required levels of digital fitness. We anticipate that autonomous or driverless vehicles and drone delivery will be key developments that industrial occupiers and Landlords alike will need to respond to over the medium term.

We believe in a future where automation and robotics are an integral part of the industrial landscape and the operations of industrial occupiers. We witness at first hand the power of such technology in driving the operations of some of the tech titans occupying and utilising industrial space. Notable in this respect is Amazon – who have been the dominant industrial occupier in the UK over recent years. Amazon have revolutionised industrial property with heavy utilisation of robotics. Their unit at The Airport is replete with picking robots that operate 24/7 to service the rapid delivery promise that is central to the Amazon offer.

FFF

There has been a rapid adoption of automated racking systems in a number of facilities throughout the North West, particularly amongst retailers. New Look who have their main Distribution hub in Newcastle-under-Lyme, have adopted a fully automated picking system for online orders including garment-hanging facilities. Manufacturers such as Jaguar Land Rover and their supply chain including Adient and Plastic Omnium are also reliant on automated technology throughout their facilities. As demand continues from manufacturers across the North West, this trend is set to continue.

We understand that technology is bringing dramatic change to the effectiveness of supply chains. We do not however foresee a future where such rapid utilisation is universal. Just like in the office sector, competitive advantage will come to those able to apply leading-edge technology. For the remainder, the application of technology will be a little more prosaic but no less significant. For example, the greater use of data and analytics to drive efficiency or enhance customer experience will be less capital intensive but arguably as powerful as the adoption of robotics and automation for many industrial occupiers.

# Implications for future industrial product

Real estate product ultimately needs to reflect the requirements of the end-user. Although difficult to draw generalisations in the nature of future industrial real estate product given the extent of change, some characteristics will surely become more dominant.

The next phase of the industrial property cycle will be one where bespoke product will come further to the fore. As a variety of technology determines operational effectiveness there will be a greater divergence of occupier requirements that will be difficult to satisfy speculatively.

As industrial real estate becomes a source of strategic and competitive advantage, occupiers will be prepared to work in partnership with the Landlords and developers and make longer-term commitments to product that both suits their operational requirements and has the required levels of future proofing. In this respect, the next phase of the cycle will be one where industrial product shows a greater variation in physical design. It will be an age in which multi-user, multi-level and mixed-use product will become more commonplace as technology, land constraints and collaborative operational models influence specification and design. Industrial product will also be characterised by greater levels of security. The physical security of plant and inventory has always been a key consideration, but with operations underpinned by large volumes of data and analytics, cyber security will be a concern with occupiers keen to mitigate reputational risk through disruption.

Finally, specification will continue to bring greater consideration to both environmental management and impact. For example, Knight Frank have recently acquired a facility for Movianto, a pharmaceutical distributor. The facility will be reliant on HVAC and temperature control given the sensitivity of the product being stored. It is critical the facility does not fluctuate in ambient conditions and can keep goods at the right temperature and in the right condition. Any fluctuation has the potential to write-off millions of pounds worth of stock.

In mitigating environmental impact, industrial real estate will become more self-sufficient via the greater use of solar panels and waste processing facilities – particularly as environmental technologies become less cost prohibitive. In this respect, there will be an obvious interface between the energy and environmental sciences component of the tech sector and industrial real estate.

The Hut Group, Omega, Warrington

# HOUSING TECH TALENT IN MANCHESTER

# Tech workers in Manchester highly value the amenities on offer in the city, as well as the quality of life

The cost of living is also a key factor, leading Manchester to out-score other tech hubs such as London, Cambridge and Oxford on this measure, according to a recent survey by TechNation. In terms of 'liveability', the highly-regarded Economist Intelligence Unit annual global city rankings put Manchester in 35th place, the top UK city by some margin.

When it comes to the cost of living - housing is a key factor. This is a topical issue as housing affordability becomes a more pressing issue in many markets across the country.

For this reason, the relative affordability of housing is a factor that companies and start-ups are taking into consideration when deciding where to locate their headquarters or offices – alongside the access to graduate talent from universities near the town or city.

Manchester is well-placed when it comes to young talent, given the number of UK-leading universities within the city. This is reflected in the fact that more than half of UK-domiciled students who graduated from universities in the Greater Manchester area in 2014/15 stayed in the city to start their first job, according to an analysis of the most recent HESA data by the Centre for Cities. This is a higher graduate retention rate than any other city apart from London.

# But how does the city compare when it comes to housing costs ?

One measure of affordability is the house price to income ratio for first-time buyers. In the North West, the average first-time buyer pays 3.5 times their annual salary for their first home, according to Nationwide. This compares to 9.4 in London. However, many young workers don't buy a home straight after leaving university. Instead, they choose the flexibility of the rental sector.

The demand to live in the city centre spurred dramatic growth in the rental sector in this area. By 2011, nearly two-thirds of households in Manchester city centre were in the private rental sector (PRS).

The slowdown in residential development in Manchester after the financial crisis in 2007/08 initially weighed on the delivery of new homes, creating a shortfall in flats and homes across all tenures.

This picture is now changing, with a larger number of residential units now under construction in the city – some 12,000 - for sale and for rental. In fact, Manchester is seeing the highest level of institutional investment into the private rented sector after London, creating purpose-built rental accommodation. The location and spec of much of this stock will appeal to young professionals.

In order to identify the priorities of these tenants when choosing somewhere to live, Knight Frank have undertaken one of the largest surveys of its kind, analysing responses from some 10,000 tenants living in PRS across the country.

The Tenant Survey shows that among under-25s living in rental accommodation in the North West, nearly two-thirds expect to be living in the private rented sector in three years' time, underlining the demand in this sector.



Affordability is the key concern for tenants, followed by location with the size of the property coming in third place in terms of priorities.



Average residential rents have risen relatively strongly over the last five years, with average asking rents for one and two-bedroom in central Manchester rising 20% over the last five years, according to Knight Frank analysis. This compares to a 5% rise in achieved rents for all properties across the wider North West region, according to ONS data.



An emerging market of highly - professionally managed rental property, along with additional new homes for sale, both in the centre of the city and in the Greater Manchester area, will enhance Manchester's attraction to companies who are increasingly factoring in the opportunities and offering for their talent beyond the office.







**Written by:** Dr Lee Elliott, Global Head of Occupier Research Knight Frank



## Winning strategies in the battle for tech occupiers

Bill Benton lives and breathes tech. Not only is he an accomplished producer of digital movies in his spare time, but he spends his working hours letting space to some of the household names in digital technology. Over a 20-year career, Bill has leased more than 6 million sq ft to tech companies in Silicon Valley. Who better, therefore, to provide insights on the art of attracting tech tenants?

Lee Elliott (LE): Bill, welcome to Manchester. You have just flown in from the undeniable hotbed of tech, Silicon Valley, where you have operated for more than 20 years. What changes have you seen over that time in tech occupiers and their real estate needs?

Bill Benton (BB): I would say that the definition of what a large tech tenant actually is has significantly changed. Going into this cycle a 100,000 sq ft tenant was a big deal in San Francisco but today there might be 30 different 100,000 sq ft occupiers that are active in the market and looking for space. - now all of a sudden 300,000 sq ft and 400,000 sq ft tech occupiers are becoming somewhat normal.

LE: Let us turn to the art of attracting tech tenants into available office space. What influence does the physical design of the product have on the occupier's decision-making process?

BB: High ceilings, side core, phenomenal access to public transportation and local amenities are all of critical importance and high on the checklist of the tech occupier. The building also has to be on the side of town where the talent lives. The built out office space also has to typically, abide by the 80/20 rule. That is, 80 per cent open space and 20 per cent with hard walls. There is also a need to provide insanely cool break areas and drop down areas where people are able to collaborate and be productive without being chained to their desks. In that respect, if 1 have learnt one thing to pass onto Landlords who are trying to attract tech tenants it is simply spare no expense on the fit-out of the space, but be clear about what you need to provide and retain absolute control over the fit-out process.

## LE: That point about the side core, why is that so important?

BB: The tech community is all about collaboration. They are all in benching style space and the whole idea behind being in benching is that everyone can see everyone else. So if you put in a large centre core to house elevators and services, you are removing the very thing that the tenant is most wanting to achieve – line of sight and the ability to collaborate fully across the floor. A side core building removes the problem. Obviously, it pushes all the elevator works and services to the side and means that when you come out of the elevator you can see the whole company, you can feel the buzz; you can feel the energy and you can drive through the space the collaboration necessary to support the growth and development of tech tenants.

LE: I know that you do cross-market work and you have toured European markets with your tech clients in the hunt for space. What would you say is the greatest difference in the viewing process in Europe compared to your home market?

BB: In the United States, we typically see secondgeneration space, reusable space or, in the heart of tech markets, new office space being speculatively built-out. When we tour internationally with our clients we are constantly being shown Cat A space which has a couple of problems.

First, it makes all the space we view look the same. There is no differentiation and it is hard for the prospective tenant to visualise how the space is going to look, feel and work. It is very hard for the Landlord's product to stand out because we are essentially viewing a range of identical cold boxes! Secondly, and crucially, these fast growing tech clients do not necessarily have the real estate departments, the bandwidth or the time to be involved in massive build-outs on the other side of the planet. So the value of seeing something that is built-out is that it will stand-out above everything else and, so long as the space is in the right location, put it at the top of every list.

## LE: Where do you think Landlords most often take a wrong turn when seeking tech occupiers?

BB: In my experience, it is when Landlords give over control of the fit-out to the tenant. What then happens is that you have space which is too bespoke to the occupier, has design features which do not typically transfer over to the next tenant and thus create both expense (for either occupier or Landlord) and increase the risk of downtime and expensive voids (for the Landlord). Retain control of the fit-out, make the fit-out of the very highest quality but keep it simple and focused on fundamental needs rather than flashy design statements that have no functional value.

#### LE: We often hear concerns from Landlords about the costs of delivering some of the things that you have noted as success factors. Are they justified?

BB: Absolutely not! In fact, they are not even paying attention to the value that they could be generating! Anybody can run a model. It is not that complicated. The key component of the model is that you buildout great space. When you do, what you have to understand is that you won't have any downtime. In fact, you will have competition for the space, which means that you won't have to give away free rent because you will have at least two competing offers. That competition also means that you can certainly assume a higher rental rate. Finally, and more importantly, when that initial term is over – whether the tenant renews or moves out – you are right back in the same boat again. No downtime. No free rent.

So long as you buy into the fact that you must create a commodity that everybody wants then the model is self-explanatory and works! When we model a 20,000 sq ft office, the return on investment (ROI) when building it out with a high end build-out versus not building it out at all was 6% over 10 years and 18% over 15 years. So yes, investment is required to ensure success but it has significant payback.

#### LE – Bill thanks for your insight. In closing, you have had 20 years in such a tech-rich market. What do you see emerging out of the Valley over the next 5 years that either excites or worries you?

BB – I think that the craziest (and most exciting) thing is that we do not see a slow-down on the horizon. Typically, when you get this deep into a cycle you are, as we say in the States, in the ninth innings of the baseball game.

But I heard a great comment from a Venture Capitalist friend of mine who was putting a different spin on a popular Baseball analogy commonly used to describe how deep into an economic cycle we are – so this might not translate to everyone – but he said forget this 'we are in the ninth innings stuff. I feel we are in the sixth innings of this game and now the major sluggers are coming into bat!' Which is crazy. What he is saying is that we are only in the middle of the game and we are about to go to the top of the line-up. The real concern in these trends in the Bay Area is the lack of product and housing, which is making it so expensive to live. If there is a risk in the Bay Area it is that it collapses under the weight of its own success. The optimism is that we will keep building product because the companies are getting bigger and bigger and bigger. In terms of exciting and emerging technologies, we see a tonne of activity. Some of the big movers right now are the driverless car companies. There must be 15 different driverless car companies in the Bay Area, and 3 or 4 of them in San Francisco are all occupying significant amounts of space.

Cruze Automation, which is part of General Motors, just took out another 300,000 sq ft in a deal where Newmark Knight Frank represented the Landlord. This company took over 150,000 sq ft in the market just last year! So the driverless car companies are taking a lot of space in our market. Bio-tech and life sciences are still growing significantly and we also have companies linked to the Internet of Things growing too. Big data is growing. The social media guys are still growing.

Some of the challenges are that the big guys are buying out the little guys before the little guys have a chance to scale. This is a trend that stifles innovation and while enriching founders does not allow the rank and file of the company to participate in the upside.

I remain optimistic. There is no sign of Silicon Valley losing its ability to create, nurture and grow new technologies, that has to be good, not just for the Valley, but for tech markets around the world.

Bill Benton, Executive Managing Director







Written by: Mark Bamber, Partner Knight Frank Manchester

# THE NEW FRONTIERS OF SPACE

Windmill Green, Manchester

## It's office space Jim, but not as we know it.

The workplace – under both the enabling and disruptive influence of technology – is changing with greater pace and frequency than at any other time in its history.

The rise of activity based working (ABW) and the more recent phenomenon of co-working have been the two most notable changes occurring during the past five years with both being heavily championed by tech occupiers.

The explosion of co-working has been nothing short of remarkable. In just 8 years the number of co-working facilities globally has risen by 3000% to just short of 19,000 centres today, whilst the number of people actually working out of those facilities has risen by over 8000% over the same period and is estimated to be just short of 1.7 million people.

Although the influence of ABW has been more gradual, it is no less significant in impact and is rapidly becoming the default approach of occupiers seeking to drive a transformation in the design, density and utilisation of the space they occupy and a cultural shift in the way staff work and interact within that space. The concept of less personal space, and the sharing of common spaces that ABW promotes, has revolutionised the way in which the modern workplace functions and has also been a key underpinning of the co-working offer.

Tech sector occupiers have been at the forefront of the challenge to how commercial space is occupied and utilised. They have phased out cellular offices in favour of agile, flexible workspaces that encourage collaboration and are tech enabled.

Driven by the growing importance of flexibility, both employees and employers, major corporates and latterly Landlords are increasingly embracing these new working practices. As such, the co-working offering is no longer confined to smallscale start-ups, with large corporate entities increasingly seeking a co-working or flexible solution in order to scale-up or down at any point in time, and to benefit from spaces and experiences that support the all-important attraction and retention of talent.

## The future of space

Humans are naturally gregarious and crave company. The innovation imperative central to modern business is dependent upon tapping into these human qualities and driving collaboration, knowledge sharing and problem solving. Shared flexible workspaces and co-working offer that sense of community and belonging. They allow for collaboration and connectivity, promoting interaction and leading to accelerated serendipity. These positives mean that people will continue to come together to connect and collaborate through work rather than isolate themselves. The 1980s predictions that technology would fuel home working and the total dispersal of the workforce away from office environments has proven wildly misplaced. While the aesthetic look and function of the future workspace continues to evolve, the office will still very much be part of business life.

The growing market influence of co-working, the ongoing war for talent, the appetite for more collaborative and social workspaces, and the high importance and impact of technology will drive further structural change in occupational markets.

#### I here are 6 elements of this change worth highlighting >:

### 1 Densification will become the norm

Examine a range of modern workspaces and there is one thing that is apparent, personal dedicated workspace is under attack, while collaborative and hot-desking space is becoming more commonplace. From an occupiers standpoint this is allowing a compression of space requirements (and in a theory a reduction in costs – though that may represent flawed economics). Designing new office buildings to accommodate one person to every 10 sq m is becoming outdated with most high-quality new developments now designed to accommodate at a ratio of 1.8 sq m. Indeed, there is a case for pushing the envelope even further to accommodate at 1.6 sq m and align with prevailing workplace strategies. Such trends clearly have the potential to reduce the quantum of occupier space requirements, either at point of relocation or in the event of expansion.



#### Flexibility will be a priority

The pace of change in modern business means that flexibility to permit growth or contraction at short-notice is essential. This increasingly jars with the orthodoxy of UK real estate markets where Landlords have typically demanded longer-term leases in order to preserve the value of their assets. The gap created between demand and supply is the space in which co-working has risen – offering space that supports business change in a way that more institutional product seemingly cannot. This is a one-way dynamic. Going forwards Landlords will need to find ways of offering flexibility, possibly at a premium, without diluting assetvalue. They may operate flexible space themselves, through management agreements or joint ventures but they will absolutely need to provide it if they are to maintain appeal to occupiers.

#### Space as an incubator and accelerator of innovation

The office is no longer a place of containment or space in which workers are located for the purpose of email processing and administration. Instead, offices will serve increasingly as places where brilliant minds can come together to communicate, collaborate and innovate. As such, the office is positioned – either implicitly or explicitly – as an innovation lab, hub, a business accelerator or incubator. As business success is predicated on the ability to generate and commercialise new ideas the office has itself become more fundamentally linked to corporate competitiveness. This will continue to drive new concepts in the use and design of office space. In the context of innovation labs, and with reference to our broader definition of the tech sector, it is worth noting that so much of life sciences R&D occurs on a computer rather than within a specialised lab. Just one further way in which the office is becoming an innovation lab.



#### A new wave of technology in the workplace

As this report has illustrated next wave technologies such as AI and robotics will bring fundamental changes to work processes, business structures and indeed real estate needs. This disruptive aspect of technology does create new and different demand in the occupational markets. Yet there is also a more enabling application of technology emerging. The onset of the internet of things, with sensors placed into physical products and generating big data have the potential to create more effective, more productive and better-utilised workspaces. This technology will ensure that buildings are well managed and serviced and that workers using the space are able to interact with the building to create personalised spaces and minimise downtime. The rise of so-called smart buildings, and indeed smart cities, has the potential to radically improve the physical design of buildings and the user experience within them – all of which has benefits to both office occupier and investor alike.

### 5 Health and well-being

Well-being is one of the fastest growing global trends in office design. Research has shown that spaces that nurture rich and deeply meaningful experiences and practices open people up and allows them to show up more fully at work, and in life. Companies benefit from higher productivity levels from staff, reduced absenteeism, increased employee engagement and attraction and retention of staff through the increased amenity offering. Taking care of employees is of course a central part of talent management strategies and the way in which real estate supports this endeavour is of strategic importance. Over the medium term, look out for health care facilities and spaces such as Zen and Yoga rooms becoming part of the amenity mix sought by office occupiers. Similarly, educational facilities will become central to providing staff with personal development opportunities, particularly at a time of acute skill shortages and a need for more flexible, short-term forms of learning throughout an employee's career.





#### 6 Service and customer experience will be as important as physical design

The supply side has developed a strong understanding of physical design and the qualities that make a first-class office building. In the last ten years there have been enormous strides in blending the mix of uses within developments, thus creating a sense of place, vibrancy and energy both within and immediately outside the office building. Schemes such as Spinningfields epitomise this trend. Going forward the differentiation and ultimate success of an office building will need to extend beyond physical design. It will centre upon not just the provision of amenities but the servicing of space to create high-quality, trouble-free experiences for the occupier. Office users want an experience that supports their work, not one which diminishes from it. In this respect, we fully expect to see greater learnings and best practices deployed from the hospitality sector and into the Manchester office market.



Written by: Darren Mansfield, Associate Knight Frank London





NO.	Address	Total Size sq ft	Developer
1	Windmill Green 24 Mount Street, M2 5PD	80,000	Fore Partnership
2	No8 First Street, M1 5DD	170,000	Patrizia/GMPVF
3	Hanover Buildings, NOMA	110,000	MEPC/Hermes
4	125 Deansgate, M3 2LH	118,039	Worthington Properties
5	2 New Bailey	190,000	English Cities Fund
6	The Landmark, Oxford Road	178,801	Barings/Castlebrooke Investments
7	11 York Street	80,219	Kier/Aviva
8	2 & 4 The Green, Circle Square (former BBC site)	400,000	Bruntwood
9	Brazennose House	90,000	M&G/Marshalls CDP
10	100 Embankment	170,000	Ask Real Estate/ Tristan Capital/

# FUTURE SUPPLY PIPELINE - THE CHANGING FACE OF MANCHESTER

## **Building a future**

Large-scale development and regeneration projects are now a feature of many of the UK regional cities, but it's the re-invention journey of Manchester that is perhaps considered as a blueprint.

Manchester's lead in promoting a strong economic platform post-industrial decline, a pursuit quickened in Manchester by the devastating IRA bomb of 1996, has brought sustained private and public investment. The past three decades has seen this combination deliver wholesale changes to infrastructure, public amenity and crucially its commercial heart. Manchester can now boast of having the largest amount of commercial space of any UK city outside of central London.

The sustained growth of technology focussed activities and technology biased occupiers has, and continues to support the case for this new development. Fundamentally, innovation through technology is changing working practices meaning that modern space is seeing greater demand as traditional occupiers implement new ways of working. This increase has coincided with the rapid growth of technology firms themselves, with new products seemingly brought to market at an ever increasing pace. It is no coincidence that, in 2017, occupier activity that falls under the 'Tech' umbrella accounted for 28% of take-up.

Manchester's development community has embraced the shift and strived toward creating new, amenity rich, flexible and innovative spaces. Central Manchester office stock levels have increased by 10% to 16m sq ft during the past decade. Significantly, over 1.5m sq ft of office development has been completed in just the past 36 months alone, a total greater than the preceding five years combined. Recent completions in Manchester such as the XYZ Building, formerly the Cotton Buildings, are demonstrative of this change in occupier. The Allied London scheme provided shell and core accommodation, unheard of Manchester before this, allowing occupiers the ability to tailor their own specification/fit out, and control the look and feel of the accommodation.

Similarly, No1 Spinningfields, completed in 2017, boasts a Platinum Wired rating amongst a long list of amenity. This attribute is a direct invitation to technology based firms. Co-working provider We Work has since become a long term tenant.



Future development in Manchester remains very much attuned to the changing tide of occupier demand. At the time of writing (Aug 2018), work had commenced on 1.6m sq ft of office development schemes, with completion scheduled over the next three years. Circle Square, the joint venture between Bruntwood and Select Property Group, perhaps best illustrates both Manchester's journey to date and evidences a 'joined up' future direction. The scheme is the redevelopment of the former BBC site, indication of Manchester's on-going regeneration programme underpinning future economic prosperity. Delivered over the next 10 years, the 2.3m sq ft Circle Square masterplan has place-making and technological advances at its foundation. Incorporating commercial, residential and public spaces, its aim is to create a cohesive link between

people, places and experiences. This, in essence, is the lifestyle offer much in demand and demonstrates an urban renaissance typifying how people want to live, work and socialise.

Alan Turing, a famous Manchester son and one of the founders of modern computing famously once said: *We can only see a short distance ahead, but we can see plenty there that needs to be done.* 

The quote was made with advances in computing in mind, but perhaps perfectly describes the opportunities and challenges of city planning teams and developers today. Manchester surely epitomises a successful approach in its regeneration and reinvention. It also reminds us that the work will never quite be finished.

U/C	Total Size sq ft
2018	360,000
2019	567,100
2020	660,000
Grand Total	1.6m sq ft



Written by: David Porter Partner Office Head Knight Frank Manchester

# NEW WAVE PROPERTY REQUIREMENTS

Given the pace of change occurring within the tech sector it is always somewhat dangerous (and difficult) to address the question of 'what's next?' What is clear is that the next wave of technological innovation – the rise of the physical internet – brings real estate even further into consideration both as a source of data and information, but also as a place whereby ideas can be generated, nurtured and commercialised.

It is also clear that the rise of the physical internet and its potential applications serve to underline the need for the fuller definition of the tech sector as outlined within this report. The emergence of new growth sub-sectors such as neuro-technology, regenerative medicine and synthetic agriculture, for example, all point to a greater intermeshing of science and technology. The rise of computational science and R&D will mean that organisations from these sub-sectors could well be the next generation of office occupiers.

We should also not forget that the third wave of technological innovation – the digital age – is far from finished. As digital transformation continues to restructure a broad spectrum of organisations, their business models, processes and talent requirements, there will be a move towards a real estate requirement that closely imitates those of the tech sector. Furthermore, the growth and investment plans of the existing tech titans will also ensure that the influence of the sector will cross over into other mainstream sectors.

As Amazon and the like invest in the healthcare and insurance sectors, for example, we will see space solutions that were not so long ago regarded as the exclusive domain of a few select, fast-growth tech companies becoming a reality for the many.

In this sense, we can see the near term future as one whereby the influence of tech occupiers extends across the entire market and that the characteristics displayed by those tech occupiers become further entrenched and representation of the market as a whole. From a real estate market perspective, we anticipate the next wave to have the 4 following implications;



# Incubate to accumulate

While all with an interest in the growth and development of the city are keen to see a huge inward investment from the tech-sector, the reality is that such projects are few, and far, between. The growth of Manchester as a tech-centre of global repute is contingent upon creating real estate that supports and nurtures tech occupiers through an often steep growth trajectory. Space needs to grow with the occupier.

This will place further emphasis on the flexibility of the lease structure, but more fundamentally requires the provision of an array of property types and unit sizes to support tech companies at the various points in their development. Manchester must incubate, accommodate and facilitate the growth of tech occupiers – drawn from all aspects of the sector. It is the key to raising the standing of the city as a tech centre

### The further rise of the corporate innovation lab

Given the disruptive impact of technology on all sectors, it is important to recognise the growth of the corporate innovation lab. Occupiers of all types are taking or re-purposing office space in order to brainstorm and generate new ideas around their future business proposition and go-to-market strategy.

We have witnessed organisations as diverse as John Lewis, Diageo, Telefonica, the BBC, Jaguar Land Rover and Microsoft (Ventures) establishing innovation labs as part of their business structure. These are often located away from the corporate 'mother-ship', in the heart of tech clusters, fuelled by tech and creative talent, and using space that, from a design perspective, is a million miles away from traditional corporate space. We anticipate seeing more of these labs established in cities that present the right culture, talent and real estate. This presents an opportunity for Manchester.



### Second wave activity from the tech titans

Those companies who have been at the heart of the Digital technology wave and have grown to dominate the sector – Amazon, Alphabet, Google, Microsoft, Twitter, Facebook, LinkedIn – are broadening their scope in a number of ways. They are investing in and disrupting other industry sectors, such as healthcare; they are investing heavily in those companies at the forefront of next wave technology; they are bringing new depth to their 'traditional' product offering and they will increasingly collaborate with others to extend their reach. The sale of this activity is such that these companies will inevitable have to extend their footprint. For example, the amazing growth trajectory of Amazon has seen them out-grow their HQ in Seattle and has led to a competitive process whereby cities from across North America have responded to an RFP with the aim of becoming the site for the firms HQ2.

In Manchester, Amazon are (at the time of writing) reported to be in advanced discussions with WeWork to create a partnership to occupier upwards of 70,000 sq ft presence in Manchester – possibly as a shortterm option whilst considering a longer-term commitment to the city. As other tech titans extend and grow their businesses they too will seek to build a presence outside of London. Once again, opportunity looms for Manchester

# Flexibility, service & collaboration

That tie-up between Amazon and WeWork points to a further implication for the market. The advance of tech occupiers – and the imitation of others occupiers seeking to capture tech talent – is creating a structural change in the real estate market in terms of the buildings being sought, the basis on which they are let, and the occupiers expectation of what the 'landlord' should be providing to them as 'customers'. The fast pace of growth makes traditional lease structures difficult for tech occupiers. They demand the ability to scale (or downsize) and to enter and exit space quickly. They are prepared to pay a premium for the ability to more closely align real estate occupation with business planning horizons and trajectories.

Alongside this has emerged a growing expectation for effective, well-designed space that enables collaboration. Interestingly in the context of the physical internet, co-working providers are increasingly using sensors and apps to obtain a better understanding of how occupiers engage with the space. They are using this data and insight to design better, more effective spaces that have increased appeal to the customer.

Finally, linked to this customer appeal is a strong focus on service and amenity – whether it is the provision of concierge, print room, on-demand IT help-desk or food and beverage provision. The co-working providers, in particular, are realising that the occupiers principle concern is not property but their people. As such, they are creating working environments that seek to enhance the employee experience and thus support the occupier in its attraction and retention of talent.

This distinction between real estate as a product and real estate as a business service is the basis of the structural change occurring in the market. Investors and developers must respond to it if they are to create buildings that are attractive not just to tech occupiers, but businesses of all types. It is ultimately the key to capturing the next wave of occupiers.



# **INDUSTRIAL STATISTICS\***



8.00 7.00 6.00 5.00 E per sq ft 4.00 3.00 2.00 1.00 0.00 2016 2008 2009 2010 2011 2012 2013 2014 2015 2017 Rent: 20k - 50k sq ft (£/sq ft)

Rent: 70k sa ft plus (£/sa ft)

Rent: <20k sa ft (£/sa ft) —</p>

## Prime Rent - Industrial (£ per sq ft)





Industrial Investment Volumes (£m)





Industrial Occupier Take Up (sq ft)



# OFFICE STATISTICS



Prime Rent - Offices (£ per sq ft) 40.00 34.00 34.00 32.00 32.00 32.00 30.00 35.00 30.00 29.50 28.50 28.00 Q O Q C C 30.00 Q С 25.00 the set of the s 15.00 10.00 5.00 0.00 -2009 2008 2010 2012 2013 2015 2010 2011 2014 2011

Office Investment by Purchaser (2017)



Office Investment Volumes (£m)





Office Take Up





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