

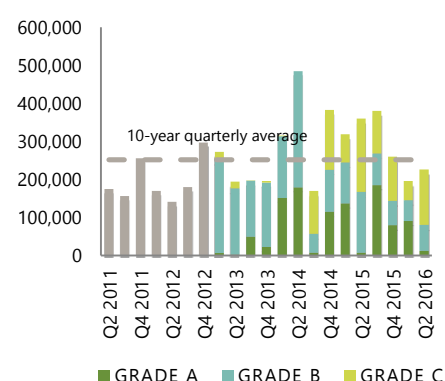
MANCHESTER OFFICES

MARKET UPDATE H1 2016

Occupier market

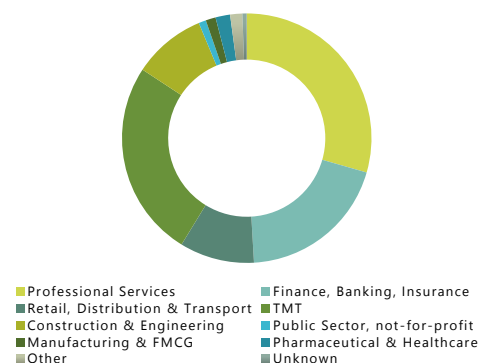
- Letting activity in Manchester during the first six months of 2016 has failed to reach the record levels witnessed in the last two years, however, has remained in line with the long term average. Total take-up reached 423,000 sq ft at the mid-year point, 38% less than recorded during the same timeframe in 2015.
- The Professional Services sector represented the most active occupier group in H1 2016 accounting for 27% of total take-up. This compares with 42% last year. The letting of 28,000 sq ft to Law firm Squire Patton Boggs at Allied London's No1 Spinningfields being the largest transaction from the sector in 2016, so far.
- The TMT sector represented 25% of take-up during H1. Notably, 39 deals have completed in 2016. This compares with 24 at the mid-point of 2015. Interestingly, all but one lease taken by a TMT occupier was for less than 10,000 sq ft of space.
- The largest transaction of H1 2016 was the 32,800 sq ft leased by Coop Bank at St Martins House. This is one of only three transactions over 20,000 sq ft in the first half of the year. This compares with seven at the same point in 2015.
- Grade A availability fell by a further 5.3% in H1 to reach 200,000 sq ft at mid-year. This is the lowest level recorded in the past six years. Significantly, given the average rate at which Grade A space is leased, current supply stands at less than 6 months.
- A total of 933,600 sq ft was under construction at the mid-year point of 2016. This represents an increase of 41% when compared with Q2 2015. Significantly, the amount of speculative space under construction has remained relatively unchanged over this period with 606,000 sq ft due to complete by the end of 2017.
- During H1, One New Bailey scheme became the latest new development in Manchester to reach practical completion. Freshfields Bruckhaus Deringer has agreed to lease 80,000 sq ft of the 125,000 sq ft development. The law firm will occupy the property from 2017.
- In H1 2016, prime rents remained at £34.00 per sq ft following an uplift of 6.3% at the end of 2015. Rents free periods have also remained unchanged at 12-18 months typical on a 10-year lease.

FIGURE 1
City centre take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H1 2016 take-up by sector



Source: Knight Frank LLP

Agent's view

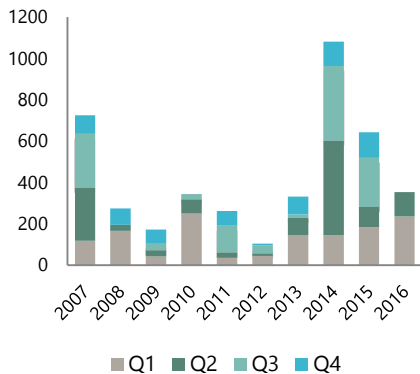
Although there has been a relatively slow start to 2016, with a number of large requirements due to complete in the second half of the year we expect 2016 will be another strong year for Manchester. With occupier demand remaining robust, further reductions to grade A supply are likely which will potentially lead to further speculative development in early 2017.



One New Bailey, 80,000 sq ft let to Freshfields Bruckhaus Deringer.

FIGURE 3

Manchester offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- Investment turnover fell by 3.5% in the first half of 2016 with office sales amounting to £347m compared to £360m in H2 2015. Nonetheless, the H1 total is the highest for Manchester since 2014 and 37% above the 10-year average for the period.
- The first half of 2016 saw 20 transactions complete, the highest number for an H1 period on record. Notably, this includes three transactions over £25m compared with just one during the same period in 2015.
- The largest transaction of H1 was the £109m sale of 3 & 4 Piccadilly Place to Ares Asset Management LLC. Acquired from Carlyle Group, the purchase of the 300,000 sq ft mixed use scheme is the first investment sale exceeding £100m in Manchester since Q3 2014.
- The purchase of the XYZ building by Union Investment RE was the second largest transaction of the period. Bought from Allied London Properties for £85m, the development is due to complete in Q3 2016 and represents the second purchase in Manchester by the investor.
- Overseas investors accounted for 60% of turnover at mid-year. This represents the highest concentration of overseas money in the city since 2008. Interestingly, the most active purchaser group in terms of deal number is UK property companies at mid-year. UK property companies represent 50% of acquisitions in Manchester with the purchase price in all cases under £ 25m.
- At mid-year, prime yields remained unchanged at 5.00%. Significantly, yield levels remain 75 basis points above the market peak of 4.25% recorded in 2007.



3 & 4 Piccadilly Place bought by Ares Asset Management

TABLE 1

Selected investment transactions in H1 2016

Date	Address	Purchaser / Vendor	Price	NIY
Q1 2016	3 & 4 Piccadilly Place	Ares Asset Management LLC / Carlyle Group	£109m	6.05
Q1 2016	XYZ building	Union Investment RE / Allied London Properties	£85m	4.80
Q2 2016	The Regent	Bupa / Peel Group	£50m	6.25
Q1 2016	Spring Gardens, 58	Rockspring / Aberdeen Asset Management	£16m	5.95

Source: Knight Frank LLP;



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