RESEARCH

MANCHESTER OFFICES

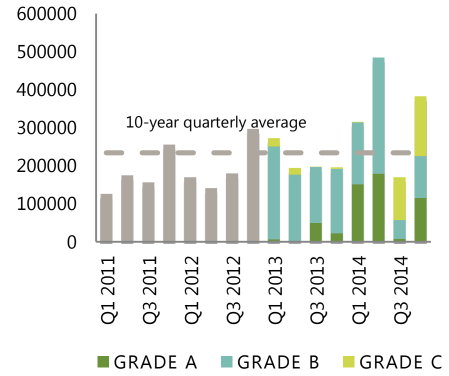
MARKET UPDATE **H2 2014**

Occupier market

- Following an improvement in market conditions, the occupier market fared very well in 2014.Take-up activity rose to 1.35m sq ft, up 57% on 2013 and closely in line with levels experienced in 2010, which saw a record 1.4m sq ft of take-up.
- 2014 also witnessed a dramatic upturn in the demand for Grade A office space, with a third of take-up involving newly-built or refurbished offices. It is a stark contrast from 2013, which saw leasing deals largely comprise Grade B and Grade C offices.
- Buoyant activity continued through to H2, where take-up amounted to 553,000 sq ft. While this was a 31% decrease on H1, it turned out to be the highest take-up in the second half of the year since 2010.
- This was due to strong take-up in Q4 (383,000 sq ft), which was more than double the level in Q3.
- In what is becoming a growing trend, the Professional Services sector was the most active, accounting for half of H2 take-up. Other active sectors included Technology, Media and Telecommunications (TMT) and Finance / Banking, which accounted for 11% and 8% respectively of the H2 total.
- Significant deals in H2 involved the DLA's 44,000 sq ft lease at One St Peter's Square. This development offers 268,000 sq ft of office space, of which 40% is already let.
- Demand is expected to remain strong in 2015, with companies such as PWC, Ernst & Young, Shoosmiths and Gazprom all actively pursuing new office space. Following the deals which saw Trader Media Group and Ford Credit move to Manchester, it is evident that organisations are looking at 'northshoring' some of its business functions in an attempt to streamline costs.
- With a number of schemes currently under construction and poised to provide a further 600,000 sq ft to the market, the availability of Grade A offices is expected to increase. The developments underway include Two St Peter's Square (161,000 sq ft), Cotton Building (146,000), 101 Embankment (167,000 sq ft) and One New Bailey (124,000), which are all scheduled to be released in the summer of 2016.
- While they are currently stable, prime office headline rents are forecast to rise in 2015 from £32 per sq ft to £33 per sq ft.

FIGURE 1

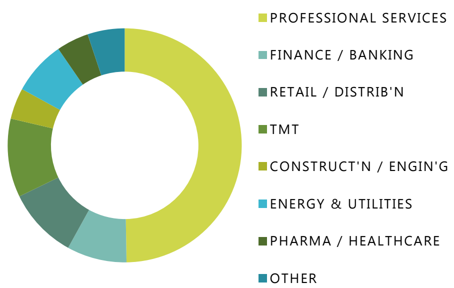
City centre take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2

H2 2014 take-up by sector



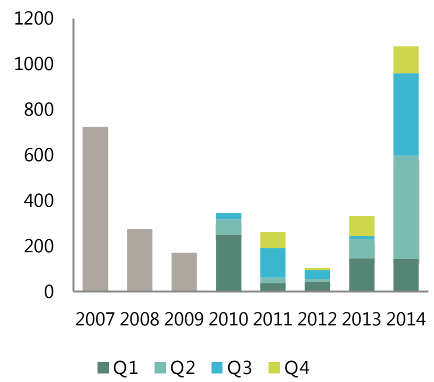
Source: Knight Frank LLP

Agent's view

The UK's improving economic outlook as well as Manchester's strong take-up in 2014 gives further evidence that the market is on the upward trend. However, in the medium term, the fact that a number if developments are due to complete next year means that the market is unlikely to experience severe shortages, even though occupier demand is robust. While the market awaits the completion of speculative developments in 2016, prime office headline rents are likely to increase in response to the lack of availability of Grade A space over the course of this year.

In Q3, Stripes Solicitors leased 5,000 sq ft at No.1 Marsden Street.

FIGURE 3
Manchester offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

Investment market

- Investment volumes in Manchester reached new heights during an exceptional 2014, which saw office investment rise to £1.08bn. To put this into context, the level of investment in 2014 equalled the combined total return between 2010-2013.
- This milestone affirms Manchester's position as one of the most attractive investment destinations for institutions and property companies seeking viable alternatives to London and the South East.
- This also marks the first time a regional city that is covered in our analysis, has reached £1bn of office investment in a calendar year. Unsurprisingly, Manchester also completed the highest number of investment transactions (36) out of the major regional office markets.
- Although investment volumes in H2 (£480m) fell by 20% on H1, this was still greater than the total investment in Manchester for 2012 and 2013 combined.
- This was largely due to a flurry of activity in the third quarter, which accounted for 75% of investment volumes in H2. The quarter saw NFU Mutual Insurance purchase Chancery Place from Alanis Capital & IBRC for £57m (reflecting a 5.05% NIY) and Legal & General Property acquire 1 Piccadilly Gardens from Europa Capital Partners for £75m (reflecting a 5.64% NIY).
- The prime office yield stands at c.5.25%, its lowest since Q4 2007, reflecting the strong investor demand for office stock.

In December 2014, St James Place PF purchased 4 Hardman Square from GLL Estate Partners for £31.02m

TABLE 1
Selected investment transactions in H2 2014

Date	Address	Purchaser / Vendor	Price	NIY
Dec 14	Hardman Square,4	St James's Place PF / GLL Real Estate Partners	£31.02m	4.95%
Dec 14	King Street, 61	Ardstone UK, ROF	£19.5m	7.02%
Nov 14	Oxford Street, Peter House	Rockspring UK Value Fund	£23.73m	6.00%
Sep 14	Chancery Place, Brown Street	NFU Mutual Insurance / Alanis Capital & IBRC	£57m	5.05%
Jul 14	1 Piccadilly Gardens	Legal & General Property / Europa Capital	£75m	5.64%

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

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