
Manchester

UK Cities 2024 Insights

Your partners in property

knightfrank.com/research

Occupier

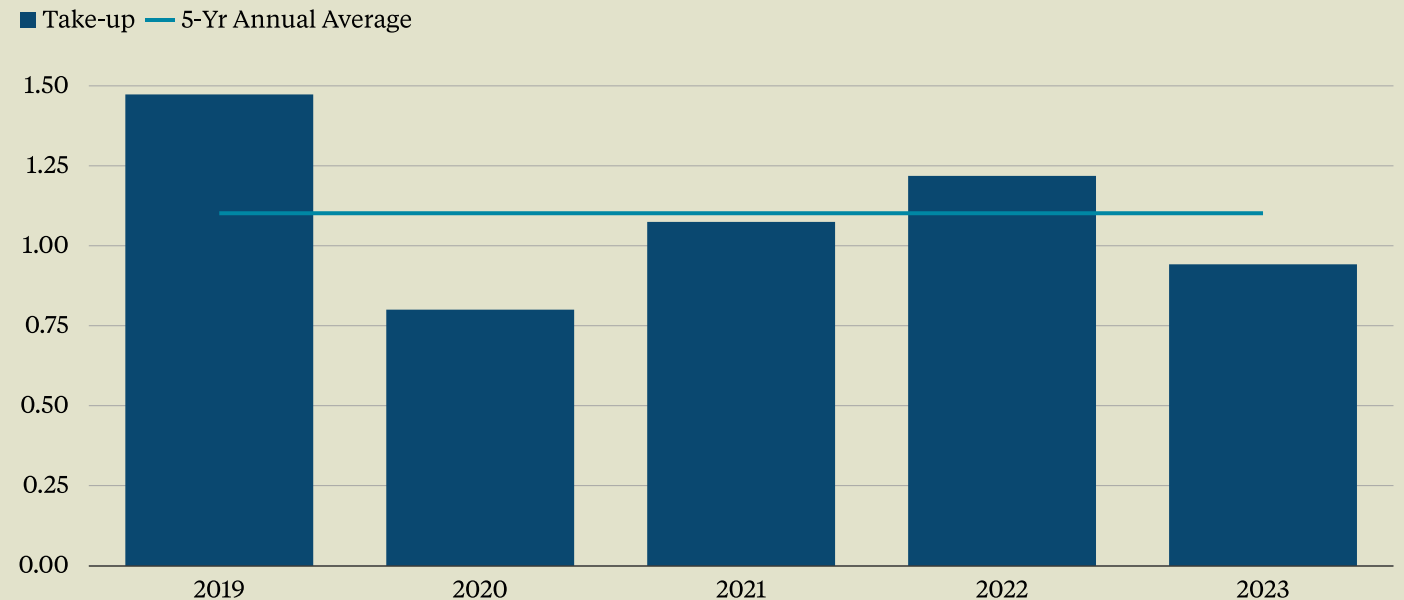
Take-up

Occupier activity improves in H2.

Key Takeaways

- Despite the second half of the year showing improvement, office take-up in Manchester fell short of the 1m sq ft mark, finishing at 942,000 sq ft. This total is 14% below the 5-year annual average.
- Although slightly less than registered in 2022, deal numbers in 2023 were above the 5-year annual average, with 221 deals completed against an average of 213.
- Significantly, only five deals above 20,000 sq ft were completed during the year.
- Average deal size in 2023 was 4,260 sq ft, the lowest since 2014.

Manchester Annual Takeup
sq ft, millions



Source: Knight Frank Research, Macrobond

Take-up by Sector

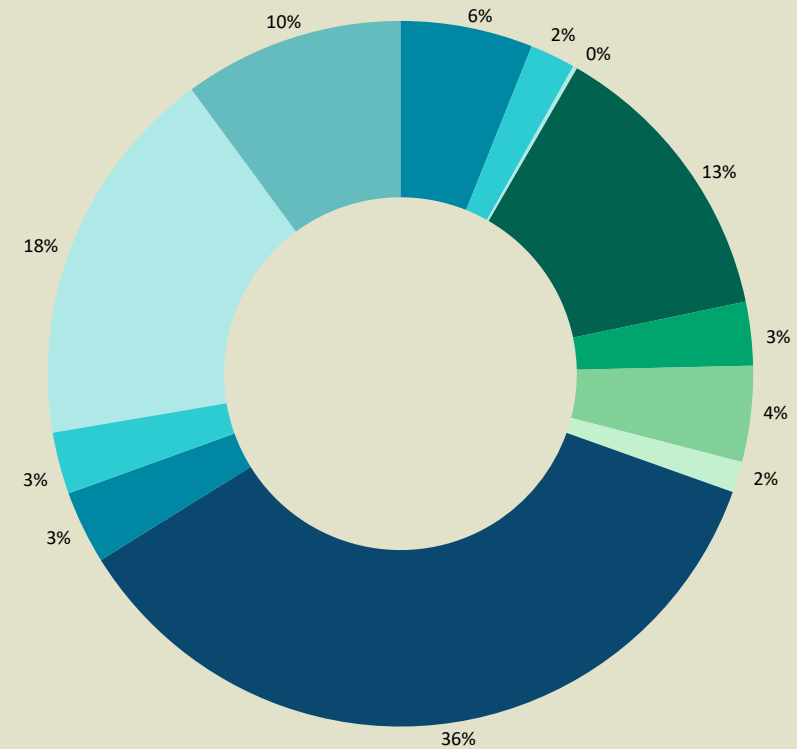
Professional Services account for one-third of take-up.

Key Takeaways

- Professional Services companies were the most active occupier group in 2023, accounting for 36% of annual take-up.
- Of the B2B sector, 68% of take-up was involving serviced office providers, who have been especially active in the market.
- However, the two largest lettings of the year were to education providers, with Arden University and University Academy 92 both taking 42,900 sq ft and 36,750 sq ft respectively.

Take-up by Sector 2023

%



Source: Knight Frank Research

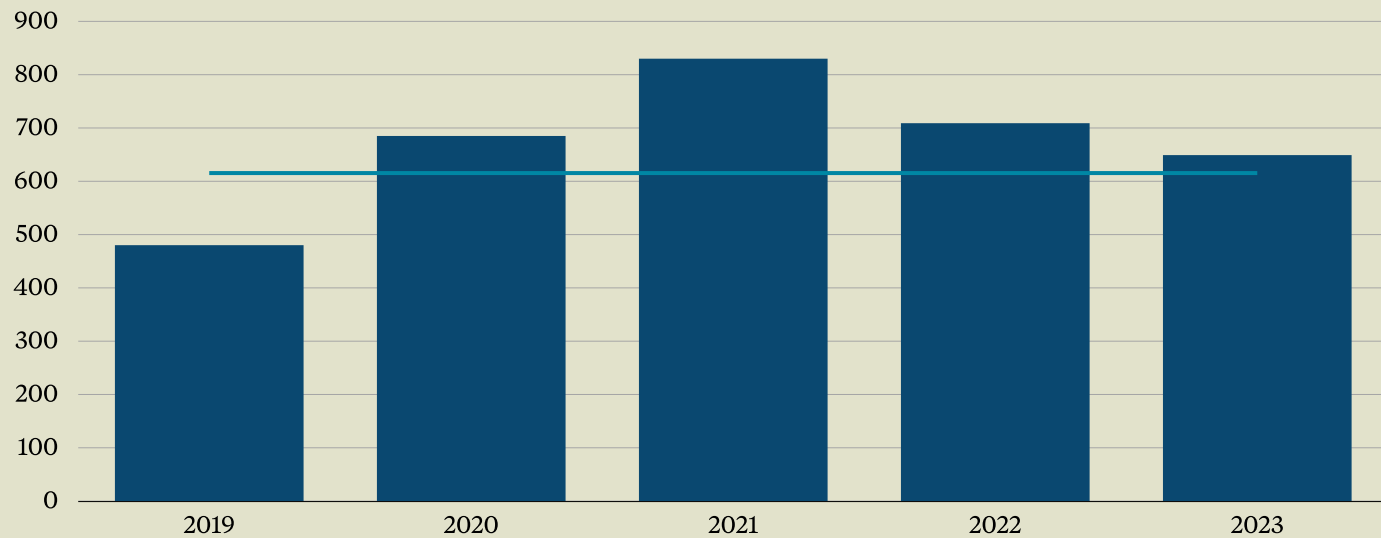
Availability

Grade A availability falls in 2023.

Manchester Grade A Supply

sq ft, 000s

■ Grade A Availability — 5-yr Average



Source: Knight Frank Research, Macrobond

Key Takeaways

- The availability of Grade A space fell by 8% during 2023 to 650,000 sq ft. This total is 5% above the long-term average.
- This equates to a grade A vacancy rate of 3.55% in the city centre.

Development

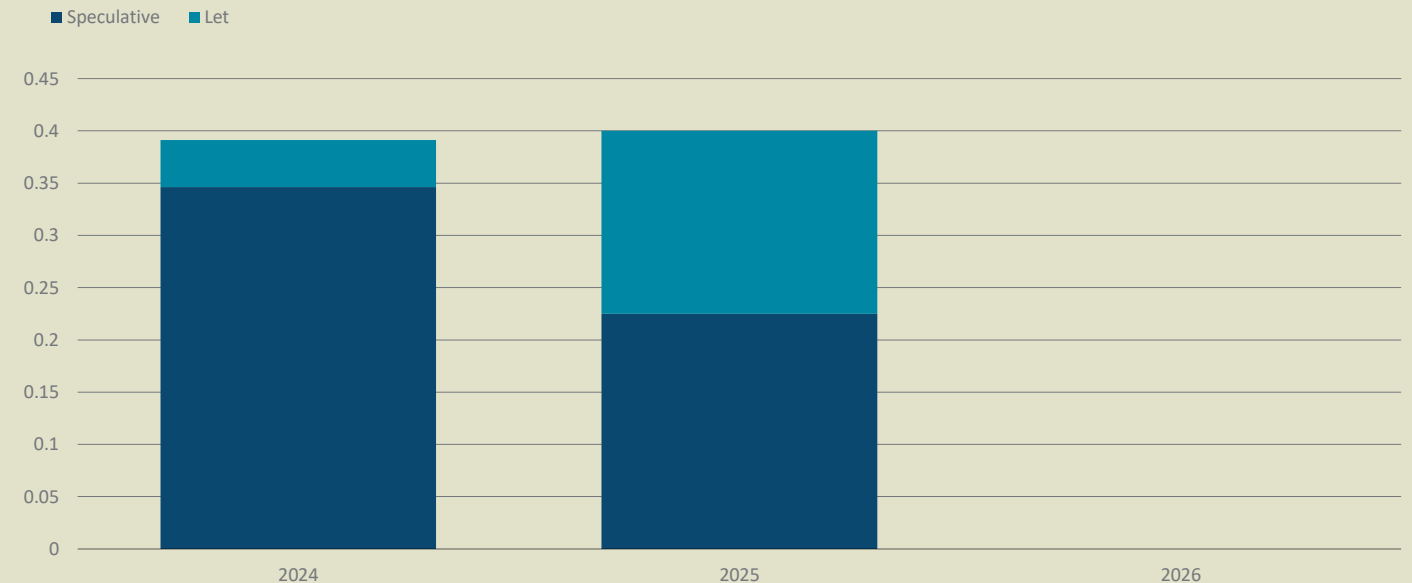
Development is active, but spaces will be taken quickly.

Key Takeaways

- In terms of future supply, the development pipeline in Manchester is significant, with 871,000 sq ft due to complete over the next 48 months.
- Of this, 571,000 sq ft is speculative, albeit most of this space is likely to let ahead of practical completion.

Development Pipeline (U/C)

sq ft, millions



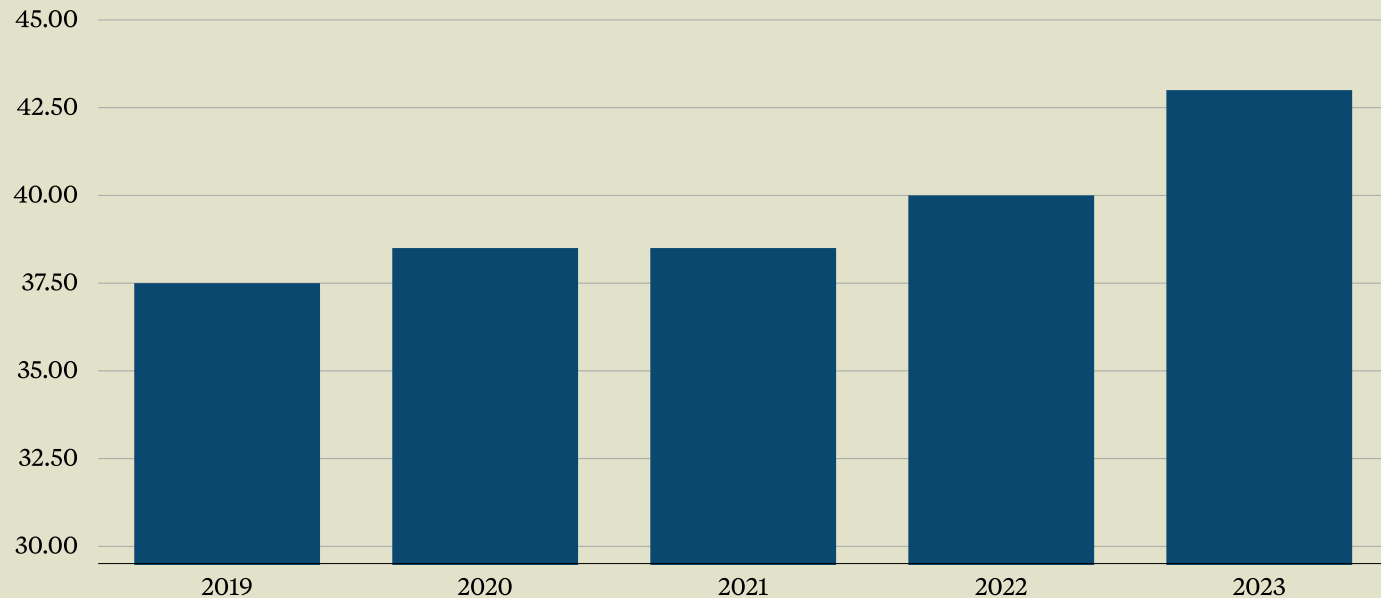
Source: Knight Frank Research

Prime Rent

Rents continue to rise in 2023.

Manchester Prime Rent

£ per sq ft



Source: Knight Frank Research, Macrobond

Key Takeaways

- In 2023, prime rents increased by 8% to reach £43.00 per sq ft.
- Considered over a five-year period, prime rents in Manchester have increased by a compound annual growth rate of 5%. This is the highest increase of the major regional cities.
- Forecasts indicate a further rise in 2024 to £44.00 per sq ft by year-end.



Market Sentiment

- Although take-up was 14% down on the 5-year average, several larger occupier requirements are expected to be finalised this year. We therefore anticipate a strong start to 2024 with take-up above the long-term average.
- As we continue to see a month-on-month increase in the number of employees returning to the workplace, the 'office first' approach to hybrid working will keep demand buoyant.



Future Demand

- Professional Services remained the most active sector in 2023 - a trend expected to continue. We expect an upturn in demand from TMT occupiers in 2024. Education is expected to remain active, building on Manchester's strong international reputation and large student population.
- Serviced office providers are also active and accounted for the highest representation for 5 years.



Trending

- The greenest buildings and those offering the best-in-class communal lounge, terrace, and wellness facilities will continue to drive demand as occupiers continue to become more ESG-focused.
- Pre-letting activity and leasing during construction is having a greater impact on the market. This will support the viability of some development schemes moving forward.



Rents, Incentives etc

- The 'flight to quality' and strong demand from larger occupiers in the backdrop of limited supply will continue to drive rents to record levels.
- Incentives have remained stable at 12 months on a 5-year term certain and 24 months on a 10-year term certain.

Investment

Investment Market

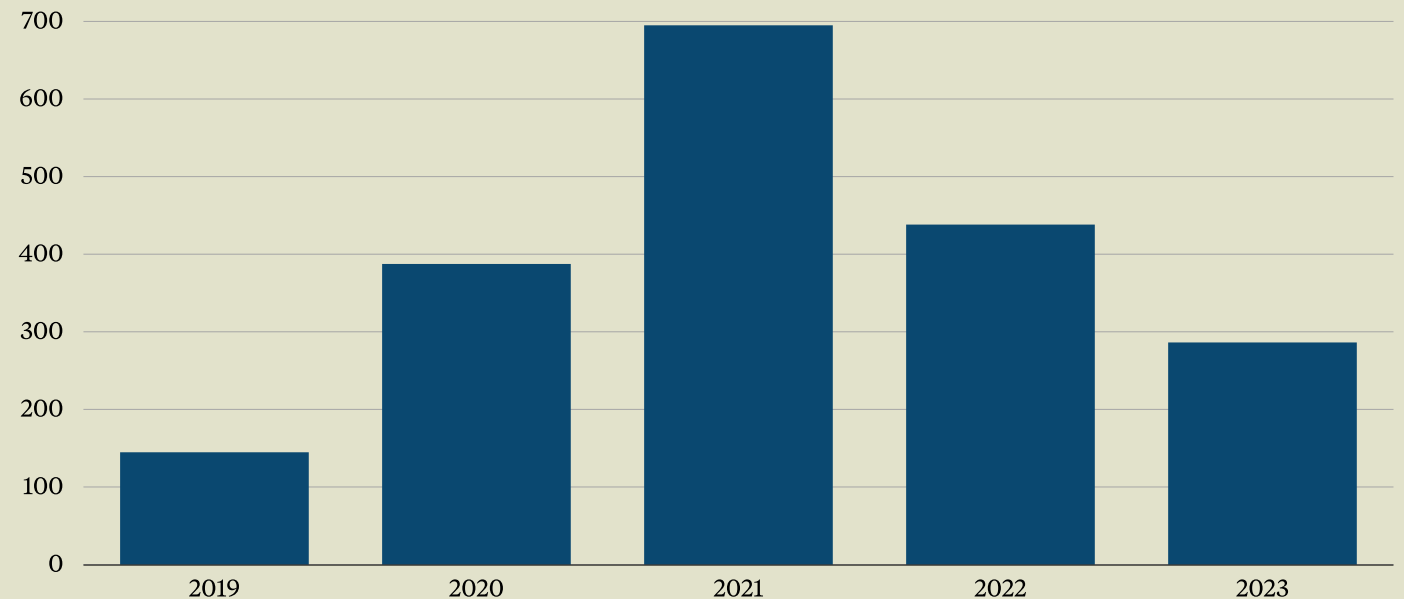
Manchester recorded the highest investment volume of the UK Cities.

Key Takeaways

- Although investor activity laboured across the UK in 2023, total investment volumes in Manchester reached £286.3m. This was the highest total for any major UK regional city.
- The largest transaction to complete in 2023 was the sale of One Angel Square to Menomadin Group for £137.5m. The building is under a single FRI lease to The Co-Op for 25 years, with the deal expiring in February 2038. The deal was the largest to transact across the regional cities in 2023.
- Overseas money accounted for 70% of investment turnover during the year.

Manchester Annual Investment

£m



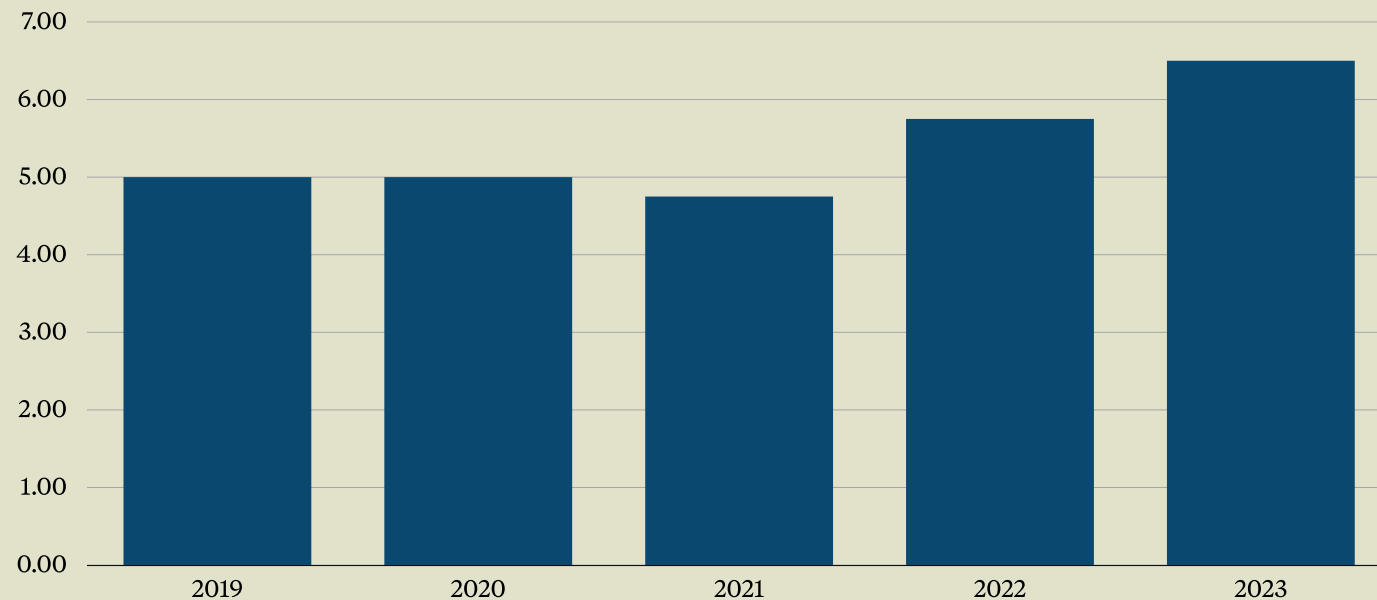
Source: Knight Frank Research, Macrobond

Investment Pricing and Outlook

Yields soften by 75bps.

Manchester Prime Yield

%



Source: Knight Frank Research, Macrobond

Key Takeaways

- Prime yields in Manchester moved out by 75bps to 6.50% in 2023, reflecting the weakened risk appetite of investors. At this level, prime yields are 175bps above the pre-Covid market.
- Out-of-town yields stood at 7.75% at year-end, depending on the age and quality of the asset.

Investment View



Market Sentiment

- Many investors remain “off” offices.
- The outlook feels positive given the last interest rate decision and the current downward direction of inflation.
- Some pricing discovery is being accepted.



Who's Buying, Who's Selling

- Core plus investors are looking at core and value add investors are looking at core plus.
- Traditional property companies are active, with overseas buyer interest growing.
- Limited institutional appetite.



Opportunities

- Investing in the main regional cities at yields in the 6's presents value.
- Core plus with strong credentials presents an opportunity.
- Development is a challenge given build costs and yield levels – this is constraining supply which presents opportunity and will drive rental growth.
- The absence of significant investor competition also presents an interesting buyer-side opportunity.



Pricing

- Prime office yields have moved out by 100bps on average over the past 12 months.
- Yields are set to improve slightly in 2024.
- Alternative uses considered for obsolete assets.

Questions?

David Porter

Manchester Commercial, Office Head

david.porter@knightfrank.com

+44 7979 530435

Matt Stretton

Manchester Commercial, Partner

matt.stretton@knightfrank.com

+44 7734 078 148

Craig Barton

Manchester Commercial, Partner

craig.barton@knightfrank.com

+44 7747 008 460

Matt Shufflebottom

Manchester Commercial, Partner

matt.shufflebottom@knightfrank.com

+44 7814 215 258

Mark Bamber

Manchester Commercial, Partner

mark.bamber@knightfrank.com

+44 7776 763317

Darren Mansfield

Commercial Research, Partner

darren.mansfield@knightfrank.com

+44 7469 667 194

Your partners in property



knightfrank.com/uk-cities

Important notices

© Knight Frank LLP 2024. This document has been provided for general information only and must not be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this document, Knight Frank LLP does not owe a duty of care to any person in respect of the contents of this document, and does not accept any responsibility or liability whatsoever for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. The content of this document does not necessarily represent the views of Knight Frank LLP in relation to any particular properties or projects. This document must not be amended in any way, whether to change its content, to remove this notice or any Knight Frank LLP insignia, or otherwise. Reproduction of this document in whole or in part is not permitted without the prior written approval of Knight Frank LLP to the form and content within which it appears.

Knight Frank LLP is a limited liability partnership registered in England and Wales with registered number OC305934. Our registered office is at 55 Baker Street, London W1U 8AN. We use the term 'partner' to refer to a member of Knight Frank LLP, or an employee or consultant. A list of members' names of Knight Frank LLP may be inspected at our registered office.

Your partners in property