



MANCHESTER

EXECUTIVE SUMMARY

- Development continues to expand the city centre. Office occupiers have a considerable choice of speculative space coming to the market in 2020.
- The flexible workspace sector is particularly high profile in Manchester. We expect it to continue growing but with a change in focus towards enterprise agreements.
- There was a strong finish to 2019 in the big shed market in Manchester, and we expect this release in pent up demand to continue in 2020.
- The £350 million Metrolink Trafford Park line, a new six-stop tram line is expected to open in 2020.
- 2020 could see a significant change in local governance, with the re-election of the mayor and some potential high profile changes at Manchester City Council.

Manchester has changed dramatically over the last 20 years. A combination of private and public sector investment has resulted in the city becoming one of the most dynamic centres in Europe and one of the fastest growing cities in the U.K. Manchester has the largest financial, professional and business services industry outside London, which has doubled over the last 10 years.

Commercial and residential development continues to expand the boundaries of the city centre. Following exceptional office demand for the past five years, there is considerable construction activity. Occupiers have an extensive choice of speculative space coming to the market this year, with more than 700,000 sq ft completing in 2020. New schemes include 100 Embankment and 2 New Bailey, just outside the city core in Salford; and 1 and 2 Circle Square, the regeneration of the former BBC site at Oxford Road. Further schemes under construction have already seen high profile office commitments, such as Booking.com.

The longer term development pipeline is also active. For example Peel Media have secured a loan for phase two of MediaCityU.K.. This area of the city has grown exponentially since the BBC's decision to relocate north and the entire development is underpinned by the media and digital sectors.

The knowledge economy in Manchester is the largest of all the core cities and there is an increasing number of large tech companies locating in the city. For example Amazon is creating about 600 jobs in R&D and software development and Talk Talk relocated its national HQ from London to its existing operation at Salford Quays.

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↓	↑
Vacant Space	↓	→	↓
Construction Levels	↑↑	→	↓
Leasing Volume	→	↓	↑↑
Investment Volume (all sectors)		↑↑↑	

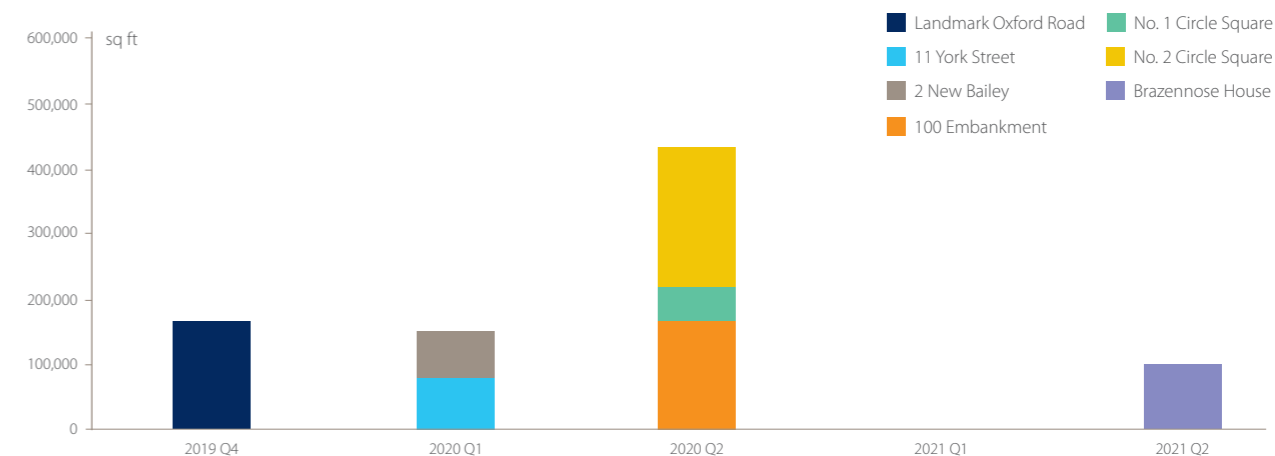
The flexible workspace sector is particularly high profile in Manchester. We expect the sector to continue growing but with a change in focus as co-working type environments reach a plateau. Enterprise agreements from more substantial businesses are expected to drive the sector and fill empty space.

We expect to see both established landlords and flexible workspace operators offering a range of managed agreements to occupiers who are seeking both flexibility and cost certainty. Along with traditional leasing there will be a greater level of choice for businesses, enabling them to align business plans and property strategies more effectively. There are a number of flexible workspace operators actively looking for space in Manchester, including The Offices Group, Gilbanks and Avenue HQ.

Indications are that the magnitude of office transactions in the Manchester market will continue this year with requirements from the second phase of the government hub relocation and BT which is rumoured to have chosen New Bailey for its 200,000 sq ft requirement as part of its national consolidation programme.

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MANCHESTER SPECULATIVE OFFICE COMPLETIONS



Source: Avison Young

With prime rents at £36.50 psf and asking rents near £38 psf for the remaining space in One Spinningfields, growth is underpinned by the strength of demand and the quality of product. Optimistic landlords are of the opinion that £40 psf may be achievable in the near future. It is clear that occupiers are prepared to pay a premium for well designed, well located and sustainable office space because of the impact on recruitment and retention of staff, the costs of which far outweigh property costs.

Over the last five years the South Manchester out-of-town office market has contributed over 25% of the city's take-up. Further office stock is under construction at Airport City, Ringway which is targeted at companies seeking to establish a European HQ. The area will also cater for advanced manufacturing and logistics, with associated hotel and business facilities nearby.

In the industrial sector, big shed activity saw a strong finish to 2019 in Manchester, following a slower start to the year. We expect this release in pent up demand to continue in 2020 as occupiers can no longer hold off on property decisions and a further swathe of demand is expected once the political fog lifts. This will result in upwards pressure on land values.

In terms of the smaller and mid-box markets, new build/ refurbished units performed consistently well last year, with record rents on prime sites. We expect this to continue throughout 2020, prompting more speculative development and site acquisition.

We expect a return to form for the Manchester investment market. Political uncertainty has caused a stand-off between buyers and sellers, keeping investment volumes at a very low level. With many investments earmarked for sale in 2020, the key to stronger activity is greater confidence from a definitive political climate.

Manchester continues to deliver major infrastructure improvements. Connectivity has never been better across the city centre, with the Ordsall Chord connecting Manchester's Victoria, Oxford Road and Piccadilly stations. Significant investment has gone into and is planned across the rapid-transit Metrolink system, with a focus on enhancing movement both to and within the city centre. The £350 million Metrolink Trafford Park line, a new six-stop tram line is expected to open in 2020, with a business case being developed in relation to the 'Western Loop' extension to the Manchester Airport line.

The £1 billion expansion of Manchester airport is expected to complete in 2020. It will double the size of Terminal 2, improve facilities, boost capacity at the airport to 35 million passengers, (up from 28 million currently) and increase the number of routes operating in and out of the airport.

Whilst HS2 trains are not expected to pull into Manchester until 2032 at the earliest, we are already seeing development projects being progressed and investment decisions being made in anticipation.

On the political front, 2020 could see a significant change in local governance in Manchester, with the re-election of the mayor and some potential high profile changes at Manchester City Council.

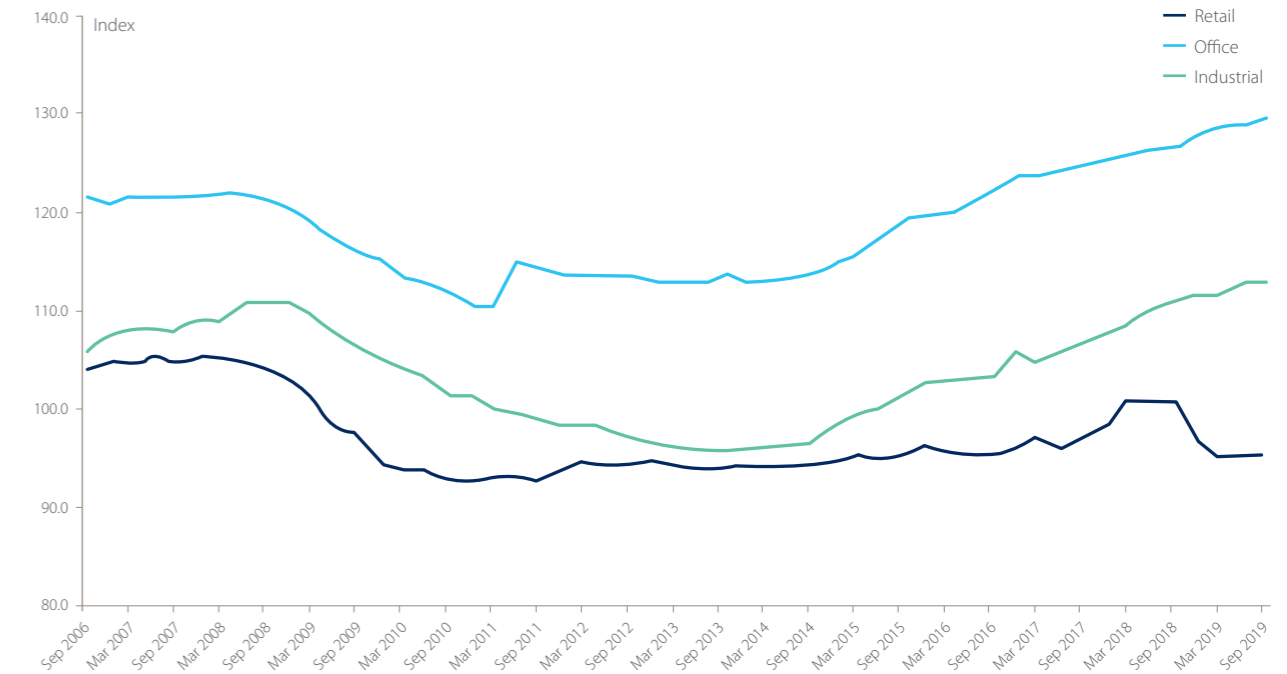
This has increasing significance as devolved powers from Westminster are expected to increase as the Council leads the next phase of Manchester's development.

Over many years Manchester has established a reputation for putting into place the right frameworks for and then delivering, change; something which is stamped through the DNA of the city.

Even in the context of economic uncertainty it is clear that Manchester continues to be a place where investors want to be active and the city is recognised globally as a growing centre. Perhaps more crucially it is somewhere that is passionate about place and puts people at the heart of its agenda.

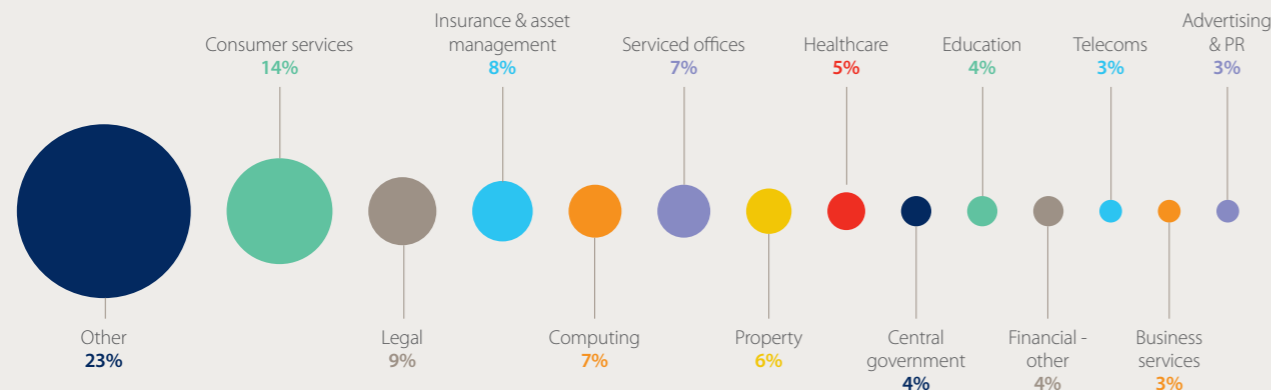
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MANCHESTER RENTAL GROWTH BY SECTOR



Source: MSCI

MANCHESTER OFFICE DEMAND BY SECTOR - DEALS >5,000 SQ FT (2014 - 19)



Source: Avison Young

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