

Manchester Office Survey

Autumn 2008

The overall vacancy rate in Manchester will begin to decline from 2009, contributing to gentle upward rental growth on the best space.



First Street

- When analysing deals over 1,000 sq ft, half year take-up figures for 2008 were 432,328 sq ft, which is 29% up on the same time last year.
- Around 50% of the 185,000 sq ft requirements circling the market are public sector driven.
- Due to impressive take-up figures in the second quarter and limited development completions coming on stream in Q2, total supply has fallen by 3% and now stands at 2 m sq ft.
- The vacancy rate stands at 11.4% (up from 8.9% at the same time last year).
- Our current forecast for rents is for an average annual growth rate of 2.4% per annum over the period 2008-2012.
- The larger end of the market is holding up well. The most noteworthy being the acquisition of 50,000 sq ft by Bank of New York Mellon at Spinningfields.
- Yields in the second quarter of 2008 have continued to move out for both prime and secondary city centre offices.

Savills
Research

savills.com/research

savills

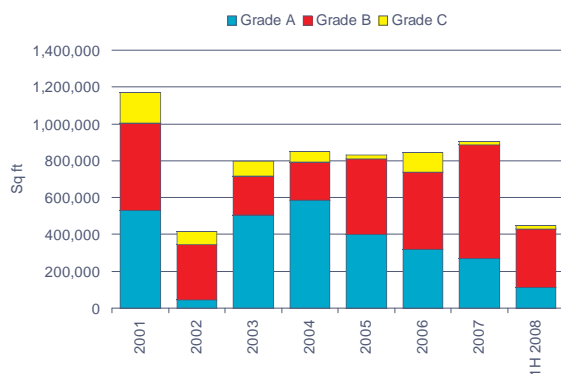
Take-up, Supply & Developments

When analysing deals over 1,000 sq ft, half year take-up figures for 2008 were 432,328 sq ft, which is 29% up on the same time last year and on trend to equal or potentially exceed the five year average.

25% of take-up to the end of the second quarter was of Grade A standard.

Take up at end of July was in excess of 530,000 sq ft, which bodes well for an excellent 2008 take up figure.

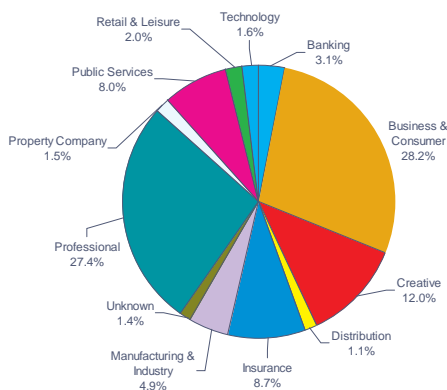
Take-up by 1H 2008 was up 29% on the previous year.



Source: Savills

Although analysis of 2008's take-up figures illustrates that 83% of the total number of transactions were for space below 10,000 sq ft, the larger end of the market is holding up. The most noteworthy deal being the acquisition of 50,000 sq ft by Bank of New York Mellon at Spinningfields. Further Grade A lettings will be announced over the next quarter with in excess of 125,000 sq ft of interest at Piccadilly Place.

Business & Consumer services sector and the Professional sector dominate take-up in 2008.



Source: Savills

The Business & Consumer Services sector and the Professional sector has dominated take-up in the first

half of 2008 taking 28% and 27% of the market respectively.

As a driver of future take-up, enquiry numbers for the first half of 2008 are 14% higher than the same period in 2007. However, while we have not experienced a slow down in the number and quality of enquiries, what has been apparent over the last couple of months has been a slow down in general decision making. This has delayed the progress from viewing to agreeing terms and instructing solicitors, which is purely down to a confidence factor. We are predicting that this trend will continue into 2009.

Currently, there is a considerable amount of activity in the Grade A market, with the Grade B refurbishment market beginning to see a slow down. Over 250,000 sq ft of new build Grade A space is in solicitors hands in eight separate transactions with a further 185,000 sq ft of Grade A requirements seriously looking in the market. In addition to this, another 400,000 sq ft of requirements are bubbling along which are likely to be 12-18 months away from becoming active. Although this will be wholly dependent on the current economic climate.

There is a worry that the current economic climate will have a negative effect on the demand from corporates, however, on a positive note, the public service sector still has a strong presence in the market. Indeed, over 50% of the 185,000 sq ft requirements circling the market are Public Sector driven, with these requirements likely to have a bias towards BREEAM Excellent buildings such as 1 First Street, 1 New York Street and 3 Piccadilly Place.

The biggest change in the supply/demand dynamic in Manchester this year has been on the supply-side with the arrival of all the Q3 and Q4 speculative development completions into our availability figures. This has pushed the percentage of space that is Grade A from under 30%, where it has been throughout 2007, to 41% at the end of the second quarter 2008.

However, due to impressive take-up figures in the second quarter, total supply did fall by 3% and now stands at 2 m sq ft.

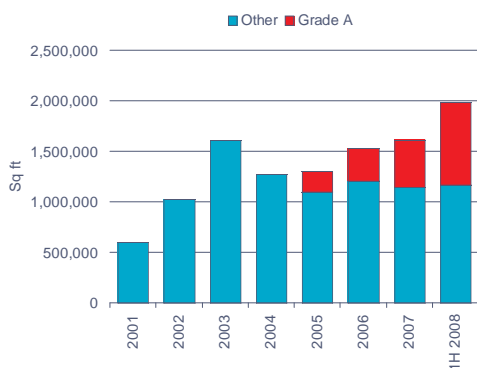
The vacancy rate stands at 11.4%, although this is up from 8.9% at the same time last year. Encouragingly, the development pipeline is set to peak in 2008, which will have a positive impact on the vacancy rate from 2009 onwards.

Indeed, with over 800,000 sq ft of requirements in the market there should be an opportunity for much of the 'new' space to be accounted for and the impact on rents will be determined by how much of this latent demand converts into lettings in the next 12 months.

Rents and investment

Although the amount of Grade A supply has increased over the last 12 months, the lack of new developments replenishing availability after 2009, will have a positive impact on the market.

Availability has risen in 2008 but the overall vacancy rate will start to decline in 2009.



Source: Savills

The top rent in 2008, to date, is £32.50 per sq ft, which shows a 2% growth on the top rent achieved in 2007. This was achieved on a 4,380 sq ft deal at the Zenith. However, more interestingly 2008 has seen a growth on institutional lettings with Baker Tilley achieving £30 per sq ft at 3 Hardman Street in the second quarter.

Despite good take up levels within the Grade A market, developers and landlords are continuing to be bullish in respect of the level of incentives offered for an institutionally acceptable letting.

2009 is likely to be an interesting year and we predict continued good levels of Grade A requirements with much of this being public sector driven.

It would be naive to think general economic conditions will not start to bite. However, with the majority of space under offer very close to signing, the occupational market is currently bearing up and in certain locations, notably Spinningfields, it is performing very well.

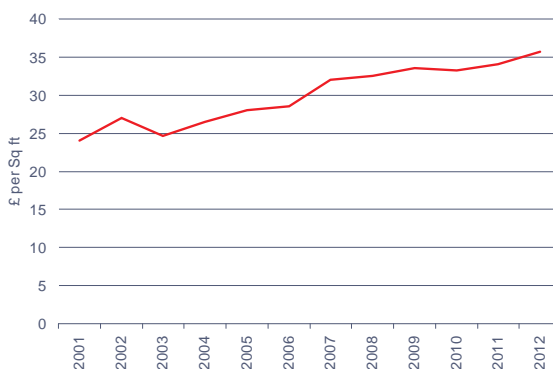
Rents being achieved around Spinningfields have historically been marginally lower than those achievable in the prime CBD. However, the gap has started to narrow with the two submarkets almost moving in tandem, with all deals currently under offer in Spinningfields, likely to achieve rents of between £28 per sq ft and £30 per sq ft.

It is interesting to note that the last big lettings in Birmingham, which has always been very comparable to Manchester, have now reached £33 per sq ft and we

see little reason why similar rents will not be seen on comparable buildings in Manchester in due course.

Looking further ahead, we expect that the overall vacancy rate in Manchester will begin to decline from 2009. This, combined with the low levels of Grade A stock in the City Centre, will contribute to gentle upward rental growth on the best space. Our current forecast for such rents is for an average annual growth rate of 2.4% per annum over the period 2008-2012.

2008 has seen a headline rent of £32.50 achieved at the Zenith.



Source: Savills

Investment

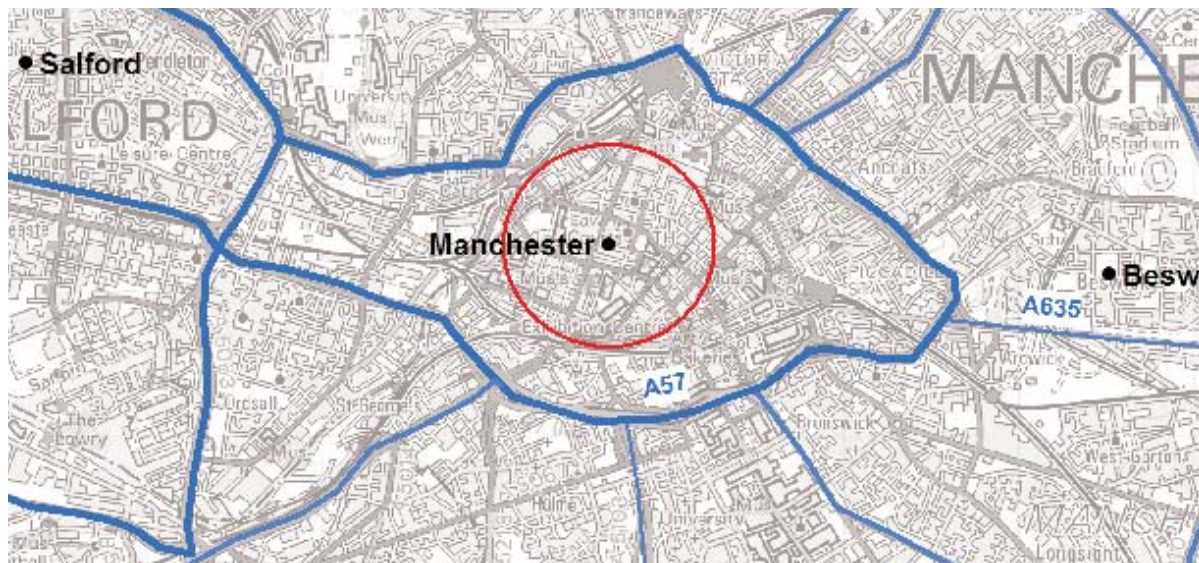
Yields in the second quarter of 2008 have continued to move out for both prime and secondary City Centre offices.

At present, we believe prime equivalent yields in the City Centre are at 6.25%, which we estimate has shown a softening of 50 basis points over the second quarter 2008.

Prime yields are not predicted to soften any further, however we expect further yield softening of secondary properties over the next 3/6 months.

Over the last 6 months, there has been a steady increase in the amount of investors and equity targeting commercial property assets. However, much of this money is unlikely to be spent until pricing shows stronger signs of stabilising and debt availability improves. Until this happens, or more distressed assets enter the market, we expect investment turnover to remain low.

Map and Contact information



Red circle indicates area covered.

Key

Please note: we monitor space over 1,000 sq ft.

Grade A - New developments (including speculative schemes reaching practical completion within the next 6-months.

Grade B - Space previously occupied, completed or refurbished in the last 10 years.

Grade C - Space previously occupied, completed or refurbished later than 10 years.

For further information please contact



Patrick Joynson
Leasing
0161 277 7216
pjoynson@savills.com



James Evans
Leasing
0161 277 7238
jevans@savills.com



Peter Mallinder
Investment
0161 277 7211
pmallinder@savills.com



Oliver Foster
Investment
0161 277 7212
ofoster@savills.com



Clare Burke
Research
020 7409 8791
cburke@savills.com

This document is for general informative purposes only. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The report and all its contents are strictly copyright and reproduction of the whole or part of it in any form is prohibited without prior written permission from Savills.

© Savills Commercial Ltd August 2008

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 180 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East

Savills
Research

savills.com/research

savills