



# **Civic Quarter Area Action Plan - Commercial Demand Analysis**

**Trafford Council**

November 2020

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**For and on behalf of Avison Young (UK) Limited**

# 1. Introduction

- 1.1 Trafford Council have appointed Avison Young to undertake a market analysis to establish the capacity for commercial (largely office) development within the Civic Quarter Area Action Plan (AAP). We understand the contents of this report are to be used to inform the AAP as part of an ambitious long term (15 years) mixed use regeneration project in terms of historic, current and projected market dynamics in the immediate Old Trafford micro market and referenced against other established commercial destinations across Greater Manchester.
- 1.2 Within this report we will provide a detailed overview of the Old Trafford marketplace in terms of scale, market appeal and potential when considered against wider supply and demand dynamics and evolving occupational trends especially in the light of Covid 19. We will take a research led evidenced based approach using established data sources and support this with reasoned informed comment on projected market requirements.
- 1.3 Whilst the Civic Quarter is intended to be a residential led regeneration project, the Council wishes to ensure that there are also sufficient employment opportunities in the area including higher quality jobs. This is important to the future sustainability of this part of the Borough and as highlighted in this report, much of this requirement could be seen as recouping and consolidating office floorspace which has been lost over recent years to other locations. The key output of this report therefore is the identification of a realistic and market informed upper limit quantum of recommended commercial floor space which would be appropriate as part of the long-term regeneration of the Civic Quarter.
- 1.4 Avison Young are one of the UK's largest commercial property consultants employing some 1600 people across 15 UK offices. The Manchester office of Avison Young transacts commercial property throughout the North West region and has a deep understanding of market dynamics and trends. Avison Young are active throughout the South and Central Manchester office marketplace.
- 1.5 This report is authored by Christopher Cheap who is Managing Director in Avison Young's Manchester office and has in excess of 20 year experience of acting on behalf of occupiers, investors and developers in the central Manchester and Salford office market and has a deep understanding of the historic and prevailing market dynamics. Christopher has been personally involved with the development and marketing of some of the most important office schemes within central Manchester and Salford and through his membership of the UK Green Building Council and British Council for Offices is experienced in identifying and reacting to future office market occupier trends.

## 2. Civic Quarter Area Action Plan Overview

- 2.1 We understand that Trafford Council (and their partners) have earmarked the Civic Quarter as part of regeneration aspirations for the North Trafford area for some time due to its strategic location and ability to act as a catalyst to bring together a series of neighbourhoods through the creation of world class public realm and the ability to leverage and build upon important and established leisure, sporting and education institutions.
- 2.2 The Civic Quarter AAP area extends to approximately 55 hectares (135 acres) sits strategically adjacent to the administrative boundaries Salford Quays and Manchester city centre. The Civic Quarter has deep historic roots and is strategically important in terms of its geographical location and accessibility. We believe the AAP has been created to harness the vision for the Civic Quarter and to create a masterplan and strategy which best serves the communities within the location and meets the aspirations of the stake holders in the long term.
- 2.3 The AAP is extensive and encompasses a number of key area wide focusses which need to be considered to ensure optimal delivery of the vision and strategic objectives. We understand that one of these focusses is the creation of mixed-use communities beyond purely residential development and that subject to compliance with relevant national and local policies the following uses will be encouraged:
- The creation of up to 80,000 sq. m (860,000 sq. ft) of new offices and other commercial floor space to support employment
  - Small scale retail uses to meet local needs
  - Ancillary food and beverage uses complimentary to new development but mindful not to dilute existing clusters
  - Hotel/Aparthotel accommodation to meet market demand
  - Other infrastructure uses or facilities that enhance the civic function of the area
- 2.4 As described in the introduction the purpose of this report is to establish whether the aspiration for the level of commercial floor space is sustainable in terms of market capacity. We will not reiterate the current planning position or specifically on other policies of the AAP (unless appropriate) as they are obviously well known. However, the comment provided is fully informed by the full AAP and supporting information.
- 2.5 The focus of this report will be on the delivery of office accommodation as the main driver of creating employment uses within mixed use communities. The nature of the built environment (both existing and proposed) does not support industrial or logistics uses with these catered for extensively at the nearby Trafford Park, a world class industrial and logistics destination. Some small-scale light industrial/creative space may be considered in strategic locations within the AAP, but this should only

be considered in tandem with existing similar uses and in line with demand and impact on communities.

- 2.6 Retail, food and beverage, leisure and hotel uses will come as critical mass increases and demand supports. They should be part of the overall mix in terms of amenity, however not as large-scale drivers of employment.

### 3. Civic Quarter Market Context

#### Greater Manchester Office Market

- 3.1 Traditionally the Greater Manchester office market is clearly defined into three geographical areas – Manchester City centre, Salford Quays (and Old Trafford) and South Manchester. The first two of these are easily identifiable, however south Manchester comprises a large area from Sale in the North to Macclesfield in the South, Knutsford in Cheshire to the West and Denton to the East. Whilst there are other locations across the city region that hold office stock these are the most concentrated destinations.

Office Submarket	Manchester City Centre	Salford Quays and Old Trafford	South Manchester
Total Size All Grades (Sq. Ft)	19.2m sq. ft.	2.8m sq. ft. (Combined)	10.1m sq. ft.
Current Prime Rental Level	£38.00 per sq. ft. per annum	£22.00 per sq. ft. per annum (SQ) £16.00 per sq. ft. per annum (OT)	£25.00 per sq. ft. per annum
% prime rental increase since 2015	16%	%11 (SQ) 0% (OT)	12%
All grades office take up Q3 2020	471,000 sq. ft.	170,000 sq. ft. (SQ) 4,000 sq. ft. (OT)	178,000 sq. ft.
All grades office take up 2019	1.47m sq. ft.	267,000 sq. ft. (SQ) 25,000 sq. ft. (OT)	594,000 sq. ft.
5 year average full year annual all grades office take up	1.4m sq. ft.	327,000 sq. ft. (SQ) 41,000 sq. ft. (OT)	576,000 sq. ft.

- 3.2 Each market is interconnected but has its own characteristics and profile in terms of type and quality of office offer, market appeal and associated pricing:

Manchester City Centre	The Central Manchester office market is the most vibrant of all UK regional cities. There has been a sustained high level of consistent supply and demand since the global financial crisis over ten years ago and this has led to growth in the size of the market geographically, diversity of product in terms of specification and design and resulted in significant rental growth across both prime and
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	<p>secondary office space. The attributes that have underpinned this stellar economic performance are primarily a mobile, diverse and cost effective labour pool which is pumped prime each year by unprecedented regional levels of graduate retention, access to a range of mass transit public transport infrastructure and a strong retail, leisure and food and cultural brand.</p> <p>Unlike other UK cities the depth of the marketplace and unwillingness from Manchester City Council to dilute their office supply has seen very little conversion to residential. This is supported by even tertiary office space achieving rental levels in excess of £18 per sq. ft per annum which represents a relatively high entry level to the market. Prime rents have seen significant growth over the past 5 years with £38 per sq. ft per annum recently achieved and an anticipation that this will grow further to £40 early next year.</p> <p>There is currently some 1.4m sq. ft of office space under construction in central Manchester with a little over half of this pre-committed.</p> <p><b>Covid 19</b></p> <p>Covid 19 has impacted the market with just 20% of the five yearly quarterly average of 350,000 sq. ft seen in both the second and third quarters of 2020. This is down to the well-rehearsed reasons of occupiers physically being unable to inspect property and deferring decisions due to the general uncertainty. All indicators suggest that the central Manchester marketplace will bounce back quickly once there is a greater level of certainty. There have been too few transactions to test whether there is downward pressure on prime rental levels, however indicators show that there will be a continued flight to quality which will underpin projected growth.</p>
Salford Quays and Old Trafford	<p>Salford Quays has largely been developed on a piecemeal basis since the late 1980s when various grants were available for the regeneration of the docks following the demise of uses associated with the Ship Canal. The three main developments of the late 1980s were Exchange Quay, The Anchorage and Harbour City, each of which were intensively developed (to maximise the Enterprise Zone benefits) and located with quay side frontage. Each was sold to individual Enterprise Trusts on the basis of a 25-year rental guarantee.</p> <p>With the exception of Metro, a 72,500 sq. ft new build by HBG in 2008 and the Lighthouse, a new build joint venture by Markfield Properties and Furness Withy in 2006, the vast majority of the existing office stock in Salford Quays was developed in the 1980s and early 1990s and offers refurbished/second hand office accommodation. The specification within these earlier generation buildings is typically secondary in terms of style and specification. There has been some absorption of this secondary stock for alternative uses such as residential and hotel as demand for both is very strong at present.</p> <p>The most significant event for the marketplace since the early 1980's was the creation of Peel's 200-acre Media City which was developed following the BBC's</p>

decision to relocate north in 2004. Media City has seen development in two phases. The 36-acre (15 ha) first phase was completed in 2011, with the second phase comprising speculative office space and ITV studios being developed over the past five years with sites available for further development and growth. Metrolink was extended to Media City with the opening of the Media City tram stop in 2010 - further stops at Anchorage and Exchange Quay have been fundamental to the reemergence of Salford Quays as a viable destination for footloose office occupiers who wish to take advantage of the accessibility and discounted pricing to central Manchester.

Media City has reflected the highest rental levels in the marketplace within excess of £20 per sq. ft per annum achieved on a regular basis across the scheme. The tone for more traditional Salford Quays offices stock ranges from £16 to £19 per sq. ft per annum. There is little new speculative development proposed in the market in the short term; however, there are consented sites available on a pre-let basis and a relatively healthy supply of refurbished space.

Due to its geographical proximity and relatively small scale the Old Trafford office market is viewed in tandem with Salford Quays. Old Trafford emerged as an office destination over the last three decades with the local authority seeking to replicate and leverage the economic success of its neighbour. With the construction of a number of high rise office developments on or close to the A56 (main arterial route from central to south Manchester) and major headquarters style buildings occupied by Centrica (British Gas), Greater Manchester Police and Kellogg's the location has always been seen as a strategically important but has not hit the heady heights of rental growth seen in Manchester city centre or to a lesser extent Salford Quays. Headline rents have remained static for a number of years largely due to the nature of the space and the lack of any new development.

Recent deals reflect rents of between £8 and £16 per sq. ft per annum in locations such as Lancastrian Office Centre or Trafford House. There remains some obvious appeal in terms of the geographical location, access to Trafford Bar Metrolink station and the cost effectiveness of the space, however analysis shows a diminishing level of take up in recent years.

The market has suffered more than any other Greater Manchester office destination in terms of loss of stock to residential conversion (much of this due to permitted development rights facilitating conversion without the need for planning permission) which to an extent explains the slowing of demand levels and the shrinkage of the market as a whole. There currently remains a reasonable amount of void relative the size of the market.

### **Covid 19**

In the short to medium term de-centralised office market may see some upturn



	<p>in appeal due to the lack of reliance on mass transit public transport infrastructure and ability to secure cost effective space on flexible terms. ‘Near working’ is a real dynamic as the swathes of people currently working from home enjoy the work life balance that a lack of commute to a city centre brings.</p> <p>These dynamics caused by Covid, to an extent were happening anyway and we do not see any major change in the supply and demand dynamic as a result of the pandemic beyond short term fluctuations. This said we will continue to see limited speculative development without public sector intervention or as part of a clustering model.</p>
South Manchester	<p>The South Manchester office marketplace comprises a geographical area from the Southern fringes of Manchester City Centre in the North to Macclesfield in the South, Knutsford in Cheshire to the West and Denton to the East. This broad and diverse area comprises a range of office space across a spectrum of rents and specifications. The market specifics are as follows:</p> <p>The established office locations within the marketplace are the larger South Manchester satellite towns of Stockport, Wilmslow, Cheadle, Altrincham, Didsbury and Sale. In addition, business park locations close to Manchester airport also see significant leasing activity. Whilst these are the established office markets there is sporadic piece-meal development across the entire geographical area.</p> <p>The traditional attributes of the south Manchester office market comprise, Discounted rental levels to central Manchester, Higher levels of car parking compared to central Manchester, Good levels of accessibility via road, rail and air infrastructure, Proximity to Manchester International airport and access to large residential areas and associated labour pool.</p> <p>Prior to the global financial crisis these core drivers saw the market grow well beyond simply churning indigenous movers moreover attracting significant levels of footloose occupiers who had a choice of North West or even UK wide destinations. This increased level of demand saw significant development of and investment in office space across the marketplace but most predominantly in the established destinations described above.</p> <p>However, the South Manchester market suffered more than most during the economic downturn and afterwards as downward pressure on rents in Manchester city centre significantly reduced the competitive advantage and resulted in a falloff in general demand from those sectors which had historically driven the market (technology, tele-communications and service) which saw office take up plateau at lower levels with a lack of larger transactions.</p> <p>The market has recovered relatively well and rents in some strategic locations</p>

like Didsbury Tech Park and Towers Business Park have grown to mid-twenties as a headline. The general tone remains a little below this, but it does illustrate the full potential in strategic locations where clusters are prevalent. Whilst there has been some significant pre-lettings at Airport City and Stockport Exchange which may act as a catalyst for further development there has been limited speculative new offices built in south Manchester without significant public sector intervention or a significant percentage of pre-commitment since the economic downturn and none at all outside of town centres or established sub-markets.

There has also been a gravitation of occupiers towards the more established office sub-markets or destinations that have established clusters due to the level of amenity and infrastructure in place but when considering regional activity Manchester city centre has seen the greatest level of demand and transactional commitment. Alderley Park and Airport City are good examples of this.

### **Covid 19**

To a slightly greater extent the comments above relating to Salford Quays and Old Trafford apply in the South Manchester marketplace also. The satellite towns that make up the core of the market may well see some greater activity and for the first time in the last ten to fifteen years for two quarters in a row (Q2 and Q3 2020) take up in south Manchester has exceeded central Manchester. We believe this will be a short-term dynamic.

## 4. Civic Quarter Specifics

- 4.1 Having provided an overview of the Greater Manchester office markets and their current status obviously the comment and positioning of Old Trafford (independently of Salford Quays) is most pertinent when considering the specifics around the Civic Quarter AAP.
- 4.2 The current quality of office space in the AAP area is relatively poor compared to other destinations. The market appeal is predicated on quickly available, cost effective, small scale offices suites that are managed and presented reasonably well and available on flexible terms. This dynamic has been the same for most of the last ten years and whilst there are some good landlords operating in the market and to an extent the dynamic fullfills a market function it does not support the full economic growth aspirations of the Council for this part of Trafford.



**Trafford House**



**Lancastrian Office Centre**



**701 Chester Road**

- 4.3 As established earlier within the report the Old Trafford market has seen a diminishing level of office take up over recent years with very limited rental growth and no new development.

Year	Take up (Sq Ft)	Number of Transactions
2020 (To Q3)	3,881	4
2019	25,022	11
2018	52,670	17
2017	20,832	10
2016	31,797	14
2015	76,672	16

- 4.4 It is estimated that over the last ten years Old Trafford has lost almost a million square feet of commercial space to residential conversion solely due to office rental returns being significantly outstripped by residential values. None of the other Greater Manchester office markets has seen this level of conversion. This does still leave a critical mass of office space but it is absolutely clear that the location and more importantly the type of office space available is not speaking effectively to the market even at significantly discounted rental levels to other established office destinations.
- 4.5 Whilst this historic and prevailing performance is an important reference point the lack of change in new? supply over the last decade makes it difficult to assess the true market appeal because demand in a modern context has not been tested in the same way it has been in a location like Stockport

where public sector intervention has delivered new office space, the market has reacted positively and rental levels in excess of £20 per sq ft per annum have been achieved.

4.6 It is obvious that there are some significant dynamics that have impacted the recent market performance in the Old Trafford sub market:

- No new speculative development to support rental growth or improve market appeal
- The success of the central Manchester market diluting the appeal of other sub-regional destinations
- Limited development leading to a leakage of skills to more established markets
- The migration of major occupiers such as Kelloggs, Centrica or Greater Manchester Police to alternative locations
- The shrinkage of the market through residential conversion
- A lack of a cohesive market brand or presentation of clustering opportunities
- The evolving experiential demands of modern office occupiers with a gravitation towards locations that deliver a diverse range of amenity

4.7 Equally we can take sufficient evidence from performance elsewhere to identify some significant attributes that could underpin future success in the location as a commercial destination:

- The vision of stakeholders and the support for the AAP
- Geographical proximity to an ever expanding central Manchester market place
- Ability to deliver modern fit for purpose office space at a discount to central Manchester
- Ability to leverage off the sporting brands and emerging educational clustering
- Access to mass transit public transport infrastructure
- Access to a broad and diverse labour pool within walking distance
- Enhanced housing offer to broaden the diversity of the labour pool
- Ability to build upon a platform of amenity and grow in line with demand

4.8 In our opinion there is clearly potential in the location to entirely reposition the overall offer successfully in a commercial context, however the question of capacity and delivery remains in terms

of how much space the market can take in line with the life of the AAP and the private sector appetite to fund such development without public sector intervention.

- 4.9 The Regulation 18 version AAP included an aspiration of delivering some 80,000 sq m (860,000 sq ft) of office space over a 15 year period which would effectively mean the provision of some 53,000 sq ft per annum over this period – this is an ambitious scale when set against market performance elsewhere in locations where clustering has helped to drive demand. Obviously there is the potential to identify a significant pre-letting to underpin this level of ambition similar to Media City UK but without this as a catalyst it has to be seen as being over and above the capacity of the AAP area.
- 4.10 The ‘Kelloggs’ site represents a natural commercial heart to the development and in line with other uses and well designed public realm would be a viable first phase of development. We believe that via intelligent masterplanning up to 50,000 sq m (540,000 sq ft) of development could be supported in market terms across the AAP. We believe that the destination has the potential to appeal to both large scale headquarters style occupiers seeking larger more efficient floorplates and smaller business (5,000 sq ft plus) therefore the design of any proposed buildings would need to be flexible enough to react to a wide range of demand.
- 4.11 The recent commitment by British Telecom at New Bailey in Salford has illustrated that major organisations remain fully engaged with large scale office occupation and despite this requirement reducing from 250,000 sq ft to 175,000 sq ft post Covid 19 it does show that the trend of ‘hub’ occupation that we have seen in the UK over the last five years will continue. We are aware of a number of major public and private sector institutions who are actively considering the Greater Manchester region for major hub requirements. The nature of these occupiers are largely service sector and have key requirements in terms of access to a broad diverse and cost effective labour pool, an efficient workspace that performs and allows them to impose their own personality onto, an experiential working environment that supports recruitment and retention of people and a relatively low whole life cost.
- 4.12 We believe that a first phase of commercial development within the Civic Quarter would be able to deliver on these requirements and dialogue could take place on a pre-let basis due to relatively long lead in times for such significant moves. For requirements below this level it becomes more important to consider speculative construction to illustrate sufficient confidence in the reemergence of the destination in a commercial context. The public sector appetite to fund speculative development in the location as part of a wider scheme would need exploring but history tells us this may be difficult without pre-commitment or via public sector intervention in terms of a wrapper lease or other similar vehicles.

## 5. Future Trends

5.1 There has been a distinct dynamic change in how occupiers see their office space with it being more than just a vehicle for a particular business to fulfill its function. There are a series of trends to office demand and design that reflect this and those developers, investors or landlords that have best embraced these have seen leasing success;

- Technology, media and design companies are increasingly prepared to take prime space at higher rents. This, along with developments in how technology is used in construction has driven a workplace design revolution which has disrupted traditional office specifications.
- Traditionally conservative sectors such as professional and financial services and Government agencies are also using office relocations to drive culture change in the way they occupy office space and all office developers have reacted to this when making design or specification decisions.
- Businesses place their people centrally to property decisions and amenity, design and impact upon well being are largely considered more important than micro geography or cost.
- Car parking remains important to occupiers in decentralised locations, however proximity to diverse mass transit public transport infrastructure and access to high quality showers and bicycle storage within the building remains critical to asset performance.
- The strength, quality and diversity of fibre connectivity is a key consideration for office occupiers from all sectors.
- Whilst there is a trend towards greater flexibility in terms of lease length committed, with the average UK all grades lease length in 2019 being approximately 4.35 years, occupiers taking 10,000 sq ft plus are still prepared to commit to leases of 5 years and above to take advantage of market incentives and to account efficiently for the cost of fit-out.
- Creating a sense of place and community is critical to the performance of decentralised office development. How schemes interact with public realm, local amenity and housing is fundamental to ensuring long term appeal at the best possible financial return.

5.2 This isn't an exhaustive list as the workspace world is always evolving as occupiers constantly expect more of the built environment and how it supports their people and their business. We are too early into the current pandemic situation to truly understand the long term dynamic changes to the workspace market, however our initial view is that Covid 19 will not bring anything new to the arena it will simply accelerate trends that to a lesser or greater degree were happening anyway. Investment in technology platforms has seen agile working become more prevalent in recent years this has now come to the fore as government guidance promotes working from home where appropriate – this is undoubtedly a temporary dynamic but it has increased the pace in delivering workspaces that support hybrid working in a more effective way through the creation of collaboration spaces.

- 5.3 On this basis going forwards we believe that office occupiers will review their requirements downwards in terms of size based on how many people may need it at anyone time, however they will not want to dilute the quality of that space and the experiential nature of using it. Maintaining this underpins the ability to achieve higher rental values and necessitates investment in fit-out etc. therefore we do not see an ultimate focus on cost going forwards. Clearly a damaged economic climate may see this a little in the short term, however the vast majority of businesses will take a long term view as the economy recovers.
- 5.4 Lease flexibility and workspace being taken from third party flexible providers was in play prior to the current situation, however the apparent fragility that has been exposed by the pandemic has again seen this accelerate and we anticipate occupiers of all types and sizes looking at how they draw their real estate needs down and over what period. This will be a seminal moment for the flexible workspace arena as we move away from the headline grabbing world of co-working to the delivery of real estate as a service with a premium being paid for it. All long term development and leasing strategies need to incorporate how flexibility will be provided.
- 5.5 The design of office space will need to reflect the needs of the occupier far more carefully going forwards with attention to detail around touch points, shared services and spaces and air movement/filtration. Wellbeing and sustainability will be critical to development in the future and for the first time in several development cycles there will be the opportunity to illustrate to occupiers the tangible benefits of buying into strategies in these areas and therefore aspiration returns can be sought. The nature and scale of the AAP offers the opportunity to bring forwards commercial space in line with these evolving trends.

## 6. Conclusions

- 6.1 The wider Old Trafford office market has been in significant decline over the last 5 years with limited take up and significant shrinkage due to almost one million square feet of commercial space taken out, most of which has been lost to residential conversion. There has been no rental growth over this period and no new development at all. Other more established office markets across Greater Manchester have seen high levels of performance over the same period and significant rental growth.
- 6.2 Whilst the historic and prevailing performance of the Old Trafford sub-market is an important reference point the lack of change in supply over the last decade makes it difficult to assess the true market appeal because demand in a modern context has not been tested in the same way it has been elsewhere and occupational expectations have changed so dramatically.
- 6.3 The AAP area has the attributes in terms of geographical location, connectivity and ultimately the vision and ambition of the stakeholders to support significant commercial development but the scale of the location and the continued market performance elsewhere provide a ceiling to this which is below the 80,000 sq. m (860,000 sq. ft) of commercial space originally proposed within the AAP at the Regulation 18 stage.
- 6.4 We believe that this aspiration should be revised to nearer 50,000 sq. m (540,000 sq. ft) as more manageable amount reflective of market demand and appetite. We believe there will be demand from a range of occupiers in terms of size and nature and there is the potential for a significant pre-letting for major occupiers, however speculative construction will be required to attract smaller occupiers due to the need to re-establish the location in commercial terms and shorter lead in times.
- 6.5 The evolution of the location in terms of all uses will support the increased delivery of commercial space as greater critical mass is reached and opportunities to leverage off the existing sporting, educational and leisure anchors increases.
- 6.6 Broad and diverse amenity and public realm will be required to underpin commercial performance. Covid 19 has accelerated a series of dynamics within the workplace arena and will combine to create a seminal moment in office occupation. Offices will continue to be critical to a business's function, however a number of aspects of how we approach the workspace arena will need to change when considering commercial development going forwards



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