

Research Report
Jones Lang LaSalle Incorporated

Manchester Residential Market

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Manchester

Potato Wharf, Castlefield

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Manchester Residential Market

The epicentre of the industrial revolution is enjoying a residential revolution. The UK's second city is the northern focal point of the increasing trend towards urbanisation, with a rapidly rising population drawn in by attractive house prices and a rich cultural and sporting history.

Why Manchester?

Manchester has grown from a small town to the UK's undisputed second city. This growth was initially spurred by the industrial revolution, which saw Victorian-era Britain at the forefront of global manufacturing and innovation, with cities leading the way. Manchester has been dubbed 'the world's first industrial city', and at the centre of this was Castlefield, now an Urban Heritage Park. Manchester has remained a focal point of business and industry, and has also become a hub of cultural and sporting excellence.

The city has long had a strong connection with music, with The Smiths and Joy Division among the country's preeminent artists during the 1970's. This boomed during the 1990's with the 'Madchester' movement, led by bands such as Oasis, The Stone Roses and The Happy Mondays, receiving global recognition. Manchester remains at the forefront of the global music scene, with a number of major venues including the Manchester Arena and the O2 Apollo, as well as the large sports stadiums, regularly hosting international artists. There are also many theatres and museums, showcasing the city's rich cultural offering.

Manchester is home to a number of professional football clubs, including two of the world's biggest in Manchester City and Manchester United – who were listed by Forbes as the most valuable football club in the world in 2017. Manchester hosted the 2002 Commonwealth Games, with the velodrome continuing as home to the National Cycling Centre and Team GB's record-setting track cycling team. Old Trafford cricket ground, home of Lancashire CCC, regularly stages international matches, and there are a number of professional rugby clubs located in the area.

Modern industry thrives in Manchester too. MediaCity UK has become the country's centre of broadcast media, and it is the UK's largest financial and professional services centre outside London. Bank of New York Mellon has set up one of three global hubs in Manchester, while all of the 'Big 4' professional services firms (PwC, Deloitte, EY, and KPMG) have a strong presence. The Co-operative Group is headquartered in Manchester and is anchoring the city's largest development scheme, NOMA, with the company's new headquarters One Angel Square as its centrepiece. Clusters have developed around these major occupiers, further strengthening the local economy. Manchester is the lynchpin of the UK Government's proposed 'Northern Powerhouse' project, which aims to stimulate further commercial growth with a number of key infrastructure and development projects, including HS2.

Figure 1: Key events in Manchester’s recent history



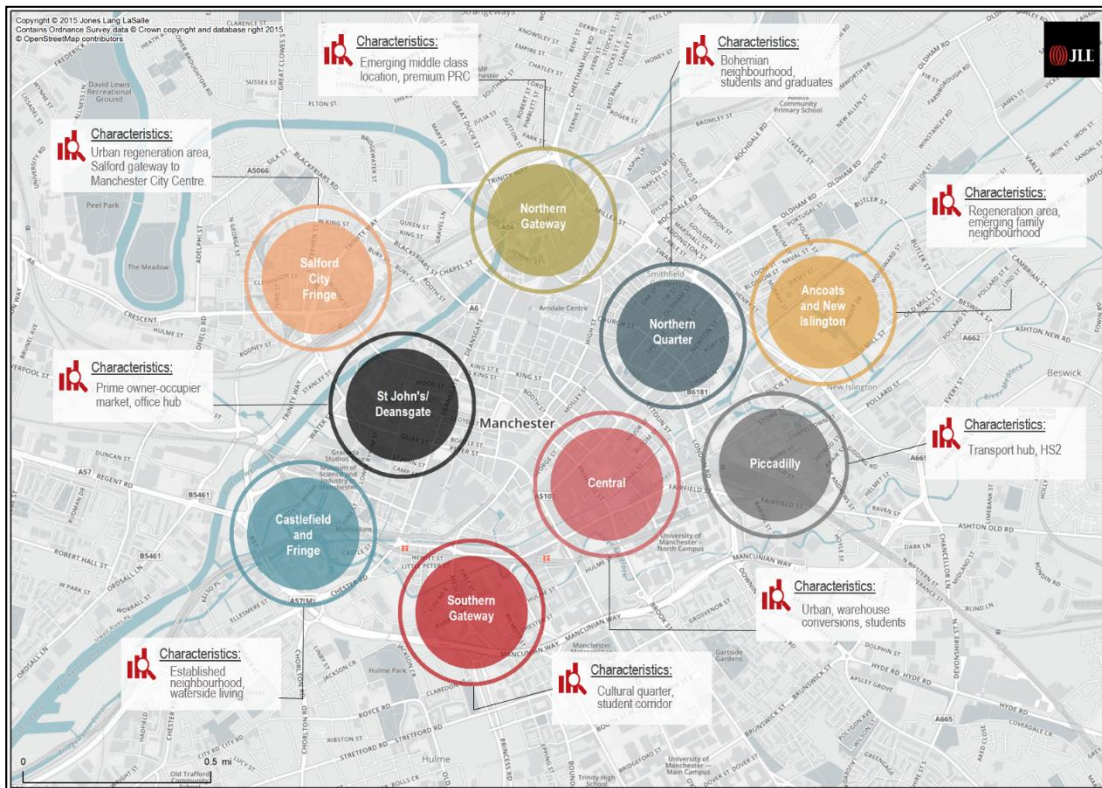
In addition to Manchester’s industrial and cultural heritage, the city benefits from excellent transport links and retail provision. There are also four universities with a high student population and international appeal. As a result, Manchester has performed very strongly in economic and demographic terms in recent years, with significant increases in population, employment and output.

Housing market outperformance has followed, with sales prices and rental values rising markedly. JLL forecast this trend to continue, with average house prices expected to increase by 28.2% in 2017-21, the highest forecast for any city in the UK. Rental values are forecast to rise 20.5% in the same period.

Why Castlefield?

Manchester was a hotbed of heavy manufacturing in the 1800s, with a number of mills and factories supported by the city's extensive canal network, the hub of which was Castlefield. Many of the historic buildings remain, as do the waterways, and Castlefield continues to be a thriving quarter of the modern city centre, with a rapidly developing residential market built around relaxed waterside living.

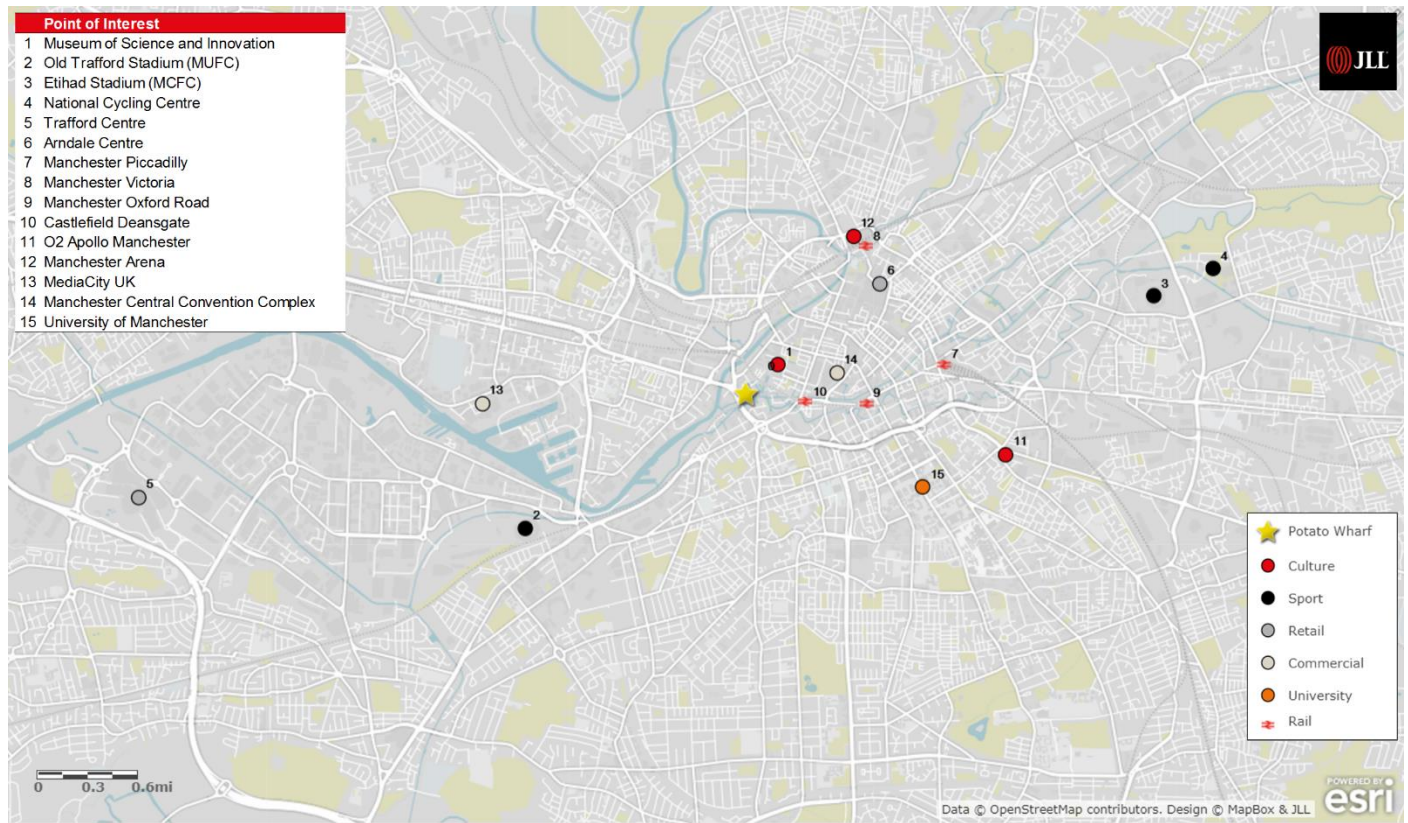
Figure 2: Manchester City Centre – residential submarkets



Castlefield is adjacent to St. John's / Deansgate, which is considered to be Manchester's prime residential market due to its proximity to the CBD.

Castlefield is located conveniently for many of Manchester's cultural, sporting and commercial hotspots, with the nearby Museum of Science and Industry in particular celebrating the area's industrial heritage. Castlefield is well served by Deansgate station, with 2 trains per hour to Manchester Oxford Road (2 minute duration) and 3 trains per hour to Manchester Piccadilly (6 minute duration), with fast onward connections to the rest of the country. The Deansgate / Castlefield metrolink stop sees a frequent service, linking the area to the wider Manchester network.

Figure 3: Potato Wharf development with key local hotspots

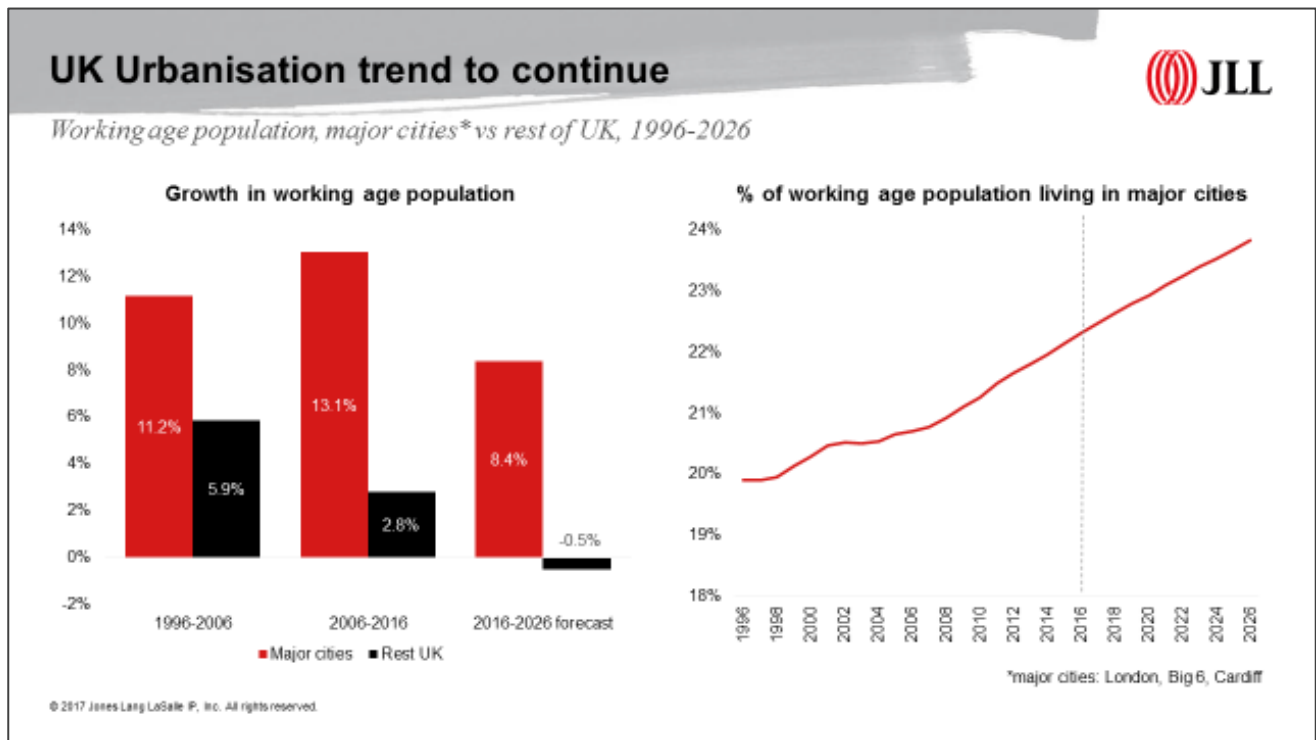


The proposed Highline development in Castlefield will see a New York-style raised park, as well as a number of independent shops, hotels, workspaces and television studios. The 1830's warehouse at the Museum of Science and Industry will be transformed into a major exhibition space, with the elevated walkway created around it. There will also be cultural and performance space.

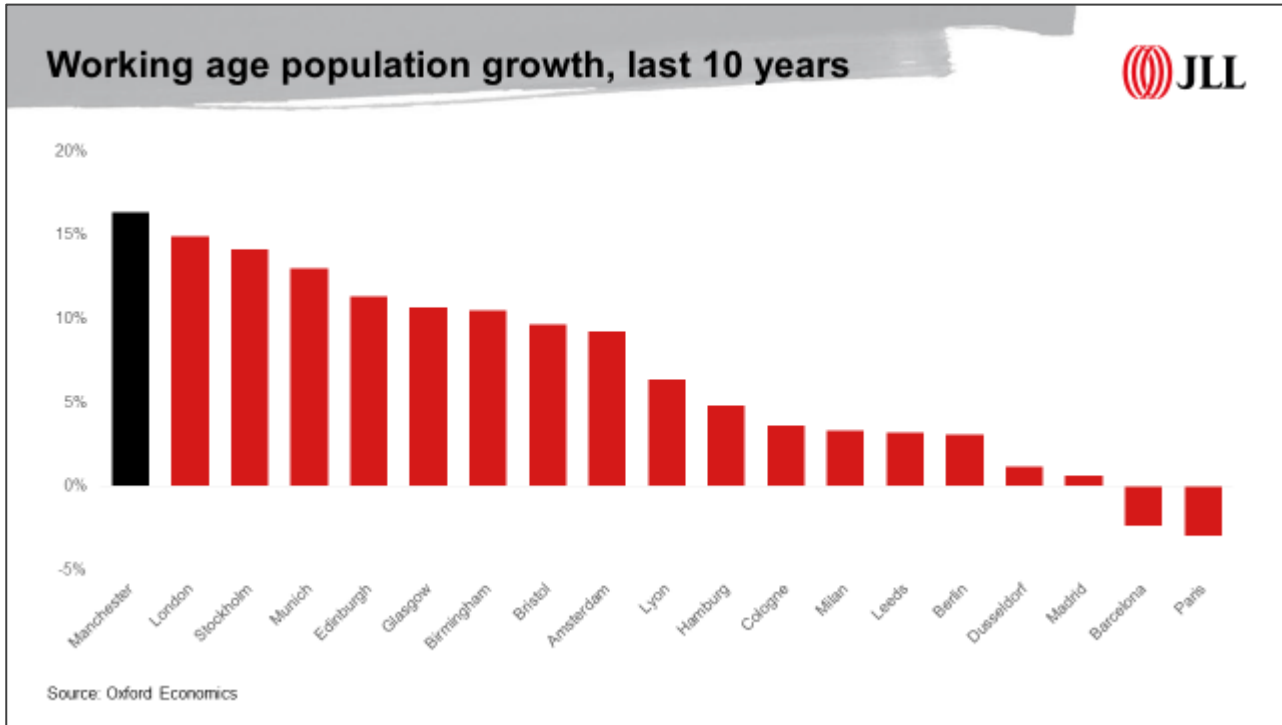
Urbanisation & Growth

In addition to Manchester's cultural appeal, there are significant demographic trends, which will continue to support sustained growth.

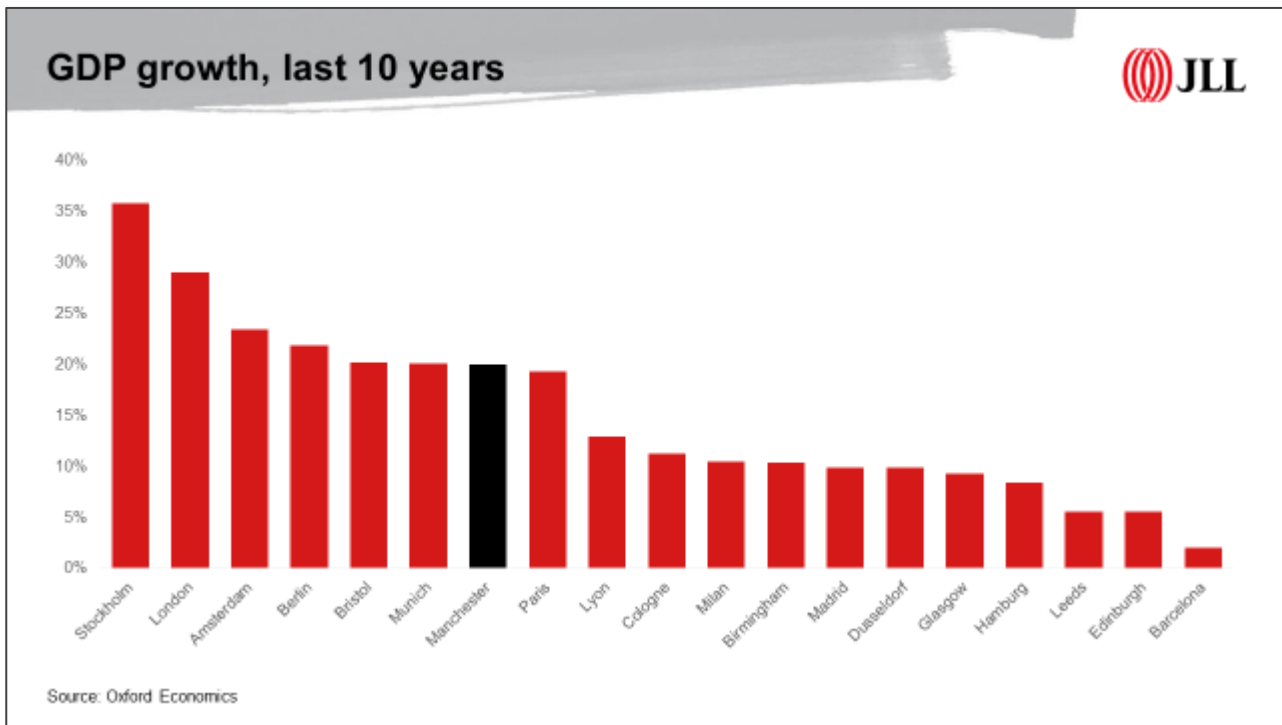
Across the UK there is an ongoing pattern of urbanisation, as an increasing proportion of the population move to urban areas, with major cities growing at a fast pace. Manchester is the dominant urban area in the north of England, and as such is at the forefront of this trend.



In fact, when compared to other major cities in the UK and Europe, Manchester has seen the highest levels of growth in working age population over the last 10 years.

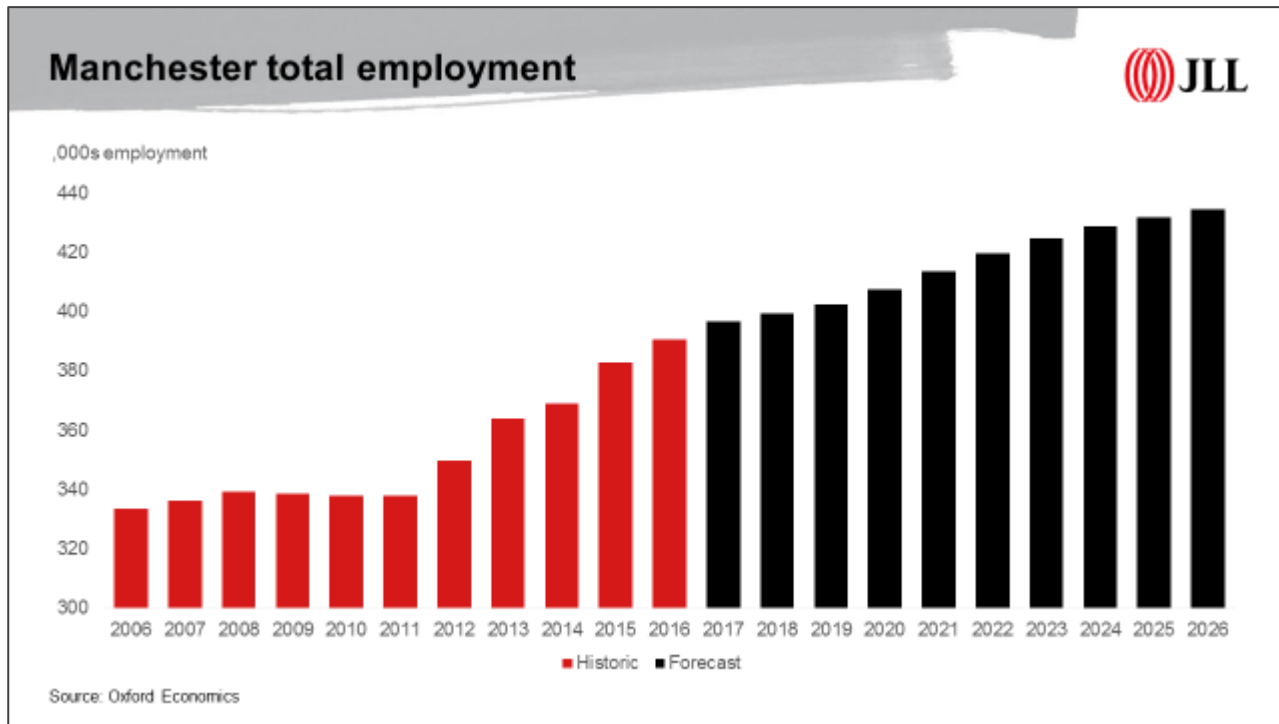


In terms of GDP, Manchester has also seen strong growth of 20.1% in the last 10 years, with only London (29.1%) and Bristol (20.2%) ahead among comparable UK cities.



Employment

In line with Manchester's rapid rise in working age population, the city has also seen an increase in total employment, which has accelerated in recent years. Between 2012 and 2015 total employment jumped significantly, increasing by 13.3%. This pace of growth is forecast to continue over the coming years, as Manchester continues to draw in an increasingly young and dynamic population.



Given Manchester's substantial cost-savings benefit compared to London, skilled workforce and high graduate availability, many major employers have been attracted. Manchester has the only international internet exchange outside of London and is a designated 'super-connected city'.

The BBC relocated from London to MediaCity UK, and employs c. 2,000 staff in Manchester following a £3.5bn investment in building a global hub for creative industries. It is the largest purpose-built media location in Europe, and is set to double in size over the next decade, taking advantage of Manchester's talent pipeline which includes 7,200 creative/media students.

Meanwhile, the Government Property Unit is in the process of leasing large amounts of good quality office space within city centre locations across the UK, consolidating a number of public sector organisations into new hubs. The GPU currently has an active requirement of around 200,000 sq ft in Manchester. When operational, the Manchester hub is likely to employ 2,000-3,000 government staff.

The new Graphene Engineering Innovation Centre (GEIC) is scheduled to open in Manchester in 2017. Advanced manufacturing is a key growth sector with huge opportunities, and Manchester is a global leader in graphene research and commercialisation, with Nobel prize winners from Manchester attributed with the latest breakthroughs in graphene technology. Graphene is the world's thinnest and most conductive material and is 200 times stronger than steel.

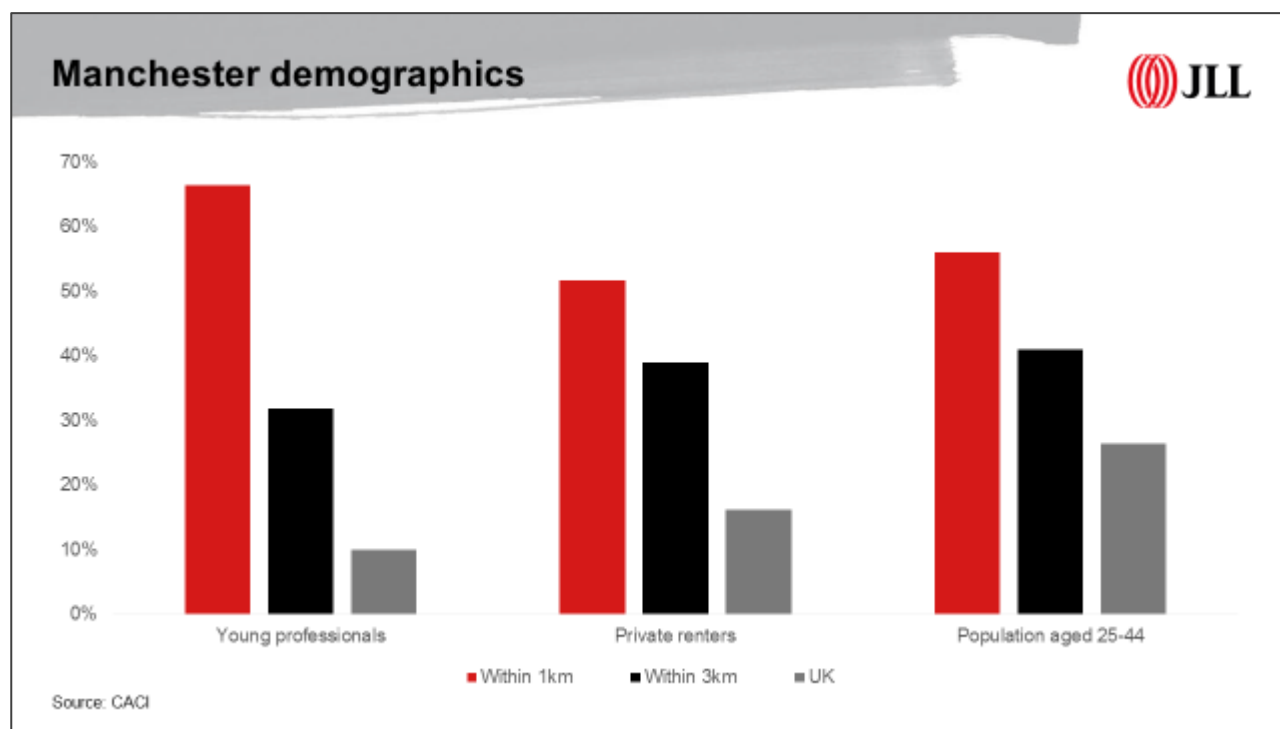
Manchester boasts the biggest regional financial and professional services hub in the UK. A number of major corporate occupiers have a presence in the city, including the headquarters' of BNY Mellon and The Co-operative Group. One of a number of professional and financial companies to move to or expand operations in Manchester in recent years, Freshfields is relocating to One New Bailey, and will employ c. 300 staff in the new office in 2017, 'northshoring' a number of its London staff to benefit from lower costs.

Airport City Manchester, located alongside Manchester International Airport, is currently under construction and will create an adjacent logistics and manufacturing hub to enhance the freight and distribution facilities at the airport. There are also considerable office and leisure facilities under construction, offering a total of 5 million sq ft of commercial space. The completion date is expected to be between 2025 and 2030 and once finished it will be one of the largest property based investments in Manchester alongside MediaCity and NOMA. It was announced in 2013 that Beijing Construction Engineering Group would invest £800 million into the project, making it one of the largest single investments in the UK from China.

Demographic Overview

Manchester has a large young professional demographic group, accounting for 66.3% of households within 1km of Potato Wharf, and 31.8% within 3km, compared with an average of 9.9% for the whole of the UK. This demographic are predominantly private renters. Many will have yet to raise the capital for a housing deposit, others making the clear distinction that they want to rent in the city centre. The high proportion of young professional households provides a likely source of demand for rental property in the city centre.

This is reflected in the high proportion of private renters, accounting for 51.7% of households within 1km of Potato Wharf and 38.9% within 3km, compared to the national average of 16.2%. The area around Potato Wharf has a significantly younger population than the national averages. Some 55.9% of the population are aged between 25 and 44 within 1km of Potato Wharf, and 40.9% within 3km, compared to the UK figure of 26.3%.

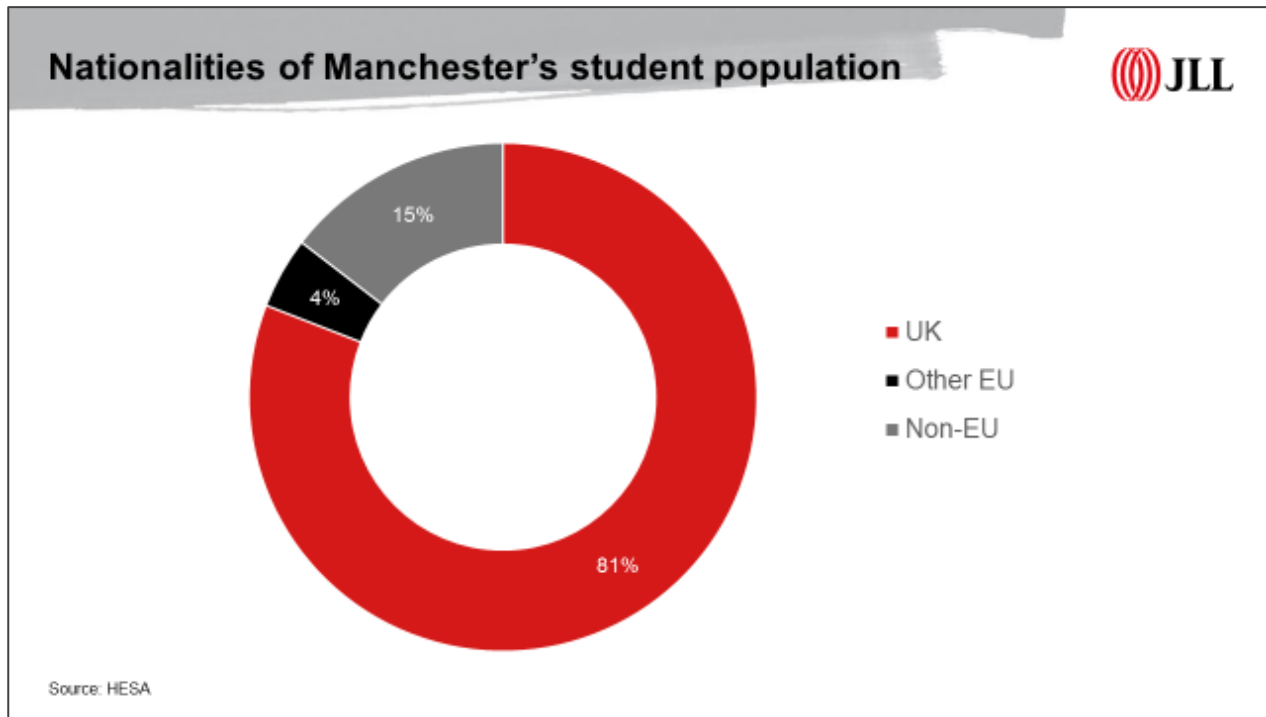


Within 1km of Potato Wharf, over half of households (51.1%) have incomes over £40,000pa. However, within 3km this figure falls dramatically to just 18.6%. This suggests there is a concentration of high earners in the immediate vicinity of Potato Wharf.

Manchester is home to a number of diverse communities. As a historic centre of commerce and trade, the city has long attracted a strong migrant population, with many cultures and ethnicities thriving. In particular, Manchester is home to the UK's largest Chinatown outside of London, which has seen rapid growth since the 1950's as the government relaxed immigration laws due to labour shortages following the Second World War. This is further supported by Manchester's large international student population.

Universities

Manchester is home to four universities, the University of Manchester, Manchester Metropolitan University, Salford University and the University of Bolton. Combined, they have a total student population of almost 100,000, of which 85,290 are full-time students. Of these 19% come from overseas, with the majority of the overseas students coming from outside of the European Union.



The University of Manchester is the largest single-site university in the UK and a member of the Russell Group, an association of the UK's 24 top research-intensive universities. There are 25 Nobel laureates among the University of Manchester's alumni, and 8 current Prime Ministers and Presidents were educated at the university.

The University of Manchester consistently ranks highly in national and global league tables:

- 7th in the UK and 34th in the world in the 2018 QS World University Rankings;
- 5th in the UK and 35th in the world in the Academic Ranking of World Universities.

As a result, the university attracts a high proportion of international students. In 2015/16, almost one third of the University of Manchester's students came from outside the UK, with 29% of full-time students from outside the EU, the fourth highest figure outside London, among public, undergraduate institutions.

At 51%, Manchester has the highest graduate retention rate in the UK outside London. Retaining skilled graduates is vitally important for maintaining a young, diverse and dynamic working population.

Universities have become increasingly important in promoting innovation and growth in UK cities, especially in rapidly expanding knowledge intensive sectors such as software development and life sciences.

Transport Connectivity

Manchester possesses one of the most extensive urban transport networks in the UK. Good quality transport infrastructure is vitally important for attracting and retaining occupiers by enabling the smooth movement of people across the urban environment.

Manchester Airport flies to over 200 destinations and is the third busiest airport in the UK, after London Heathrow and London Gatwick. The airport has direct links to a number of key international and Asia-Pacific destinations, including Beijing, Hong Kong and Singapore. Manchester airport is predicted to see passenger numbers reach 30m by 2030, up from the current 23.1m passengers (2015) using the airport. If further land is required for expansion, an adjacent site has been designated an 'Enterprise Zone' which will benefit any future development plans.

Manchester Piccadilly is the UK's fourth busiest railway station outside London with 24.1m entries and exits in 2014-15. In addition to Piccadilly, the central Manchester area is also served by Victoria, Oxford Road, Deansgate and Salford Central stations. The Ordsall Chord is currently under construction and will link the two principal stations (Piccadilly and Victoria), alleviating a current bottleneck and allowing more trains to operate through the city centre. Current journey times from Manchester to London are 2 hours and 8 minutes, and to Birmingham 1 hour and 21 minutes. The proposed HS2 line will slash direct journey times to 1 hour and 8 minutes and 41 minutes respectively.

The Manchester Metrolink is the largest light rail system in the UK, with 57 miles of track along 7 lines, and has recently seen a second city centre line introduced. Opened in early 2017, and known as the Second City Crossing (2CC), this will allow more services to operate in the city centre. The tram network will also be extended by 3.4 miles towards the Trafford Centre via Trafford Park, with completion due in 2020.

Manchester is well located at the heart of the UK motorway network. Complementing the orbital M60 motorway, Manchester is also located on the north/south M6 and the east/west M62.

Retail Provision

Retail in the city benefits from access to a large consumer market, new transport networks and attracts high levels of spend, particularly from the large educated workforce in the wider region and the city's sizeable student population. The city centre is within two hours' drive time of approximately 60% of the UK population and has one of the strongest five year retail sales growth forecasts in the UK.

Market Street is the city centre's prime high street and features a wide range of UK and international mainstream retailers. The street also provides direct access to the city centre's leading shopping centre, Manchester Arndale, and also to the Northern Quarter, the 'Soho of the North'. HUGO BOSS, Michael Kors and Burberry all have stores on New Cathedral Street, where Selfridges and Harvey Nichols department stores are located.

A number of upmarket retailers including Emporio Armani, Mulberry and Flannels have opened in the Spinningfields development, while King Street and St Anne's Square, the city's traditional premium area, hosts international retailers including lululemon athletica, & Other Stories, Mint Velvet and Cath Kidston.

Manchester Arndale is one of the UK's largest inner city shopping centres and hosts a large selection of popular brands, including Apple, Superdry, Next, Topshop and River Island. It was extended in 2003, with a second phase of redevelopment providing 450,000 sq ft of new space. Recent new entrants include Lovisa, Radley and KIKO MILANO, while Lush and Swatch have taken flagship stores. In 2018, the £11m redevelopment of the scheme's main square will be completed; the new contemporary casual dining destination will be rebranded as "Halle Place".

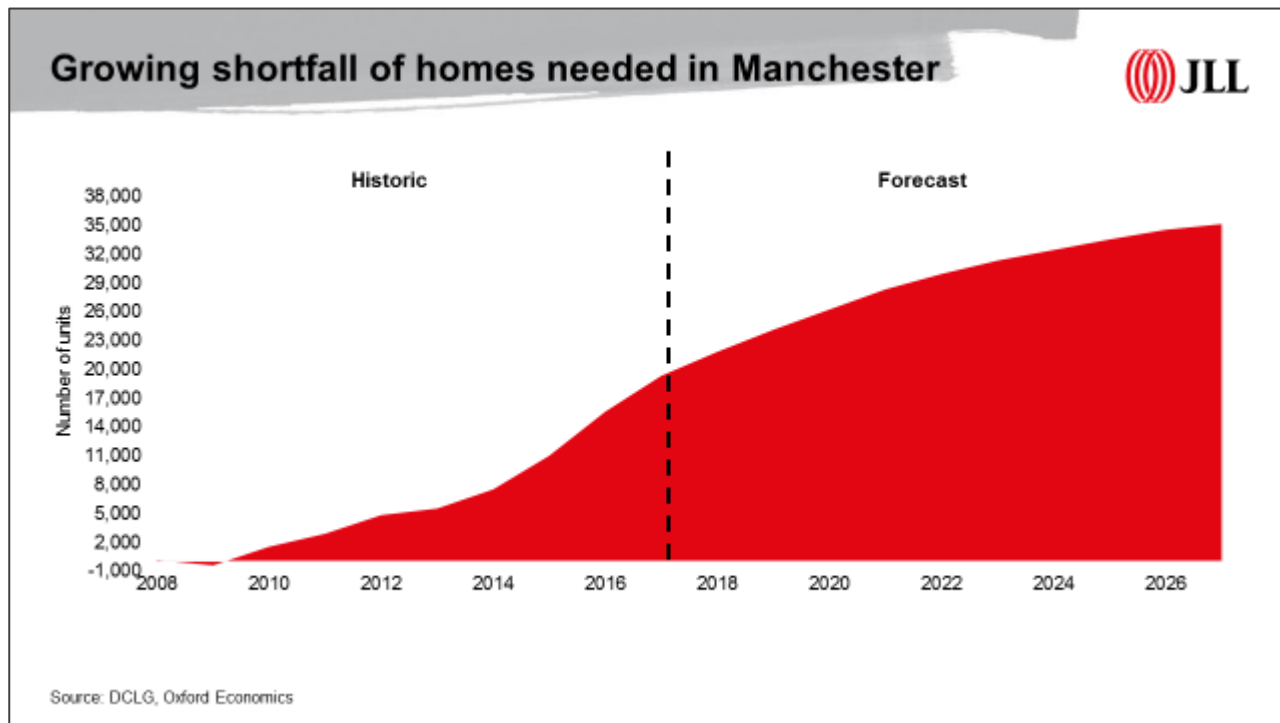
The intu Trafford Centre is a large regional scheme seven miles to the south-west of the city. It has an extensive leisure offer and has attracted a number of international retailers, including KIKO MILANO, Michael Kors, Stradivarius and Victoria's Secret. The new tram line from the city centre to the Trafford Centre will improve connectivity, creating six new stops.

Population Growth & Housing Shortfall

Over the past decade, the population of Manchester has risen to 550,300, an increase of more than 79,800 people. This has resulted in 34,100 new households.

The growth in households has placed pressure on housing supply. Since 2007, only 14,760 new homes have been built in Manchester compared with the 34,100 new households. This has resulted in a shortfall of 19,340 houses in the city. As a result, there has been upward pressure on both prices and rents as demand outstrips supply.

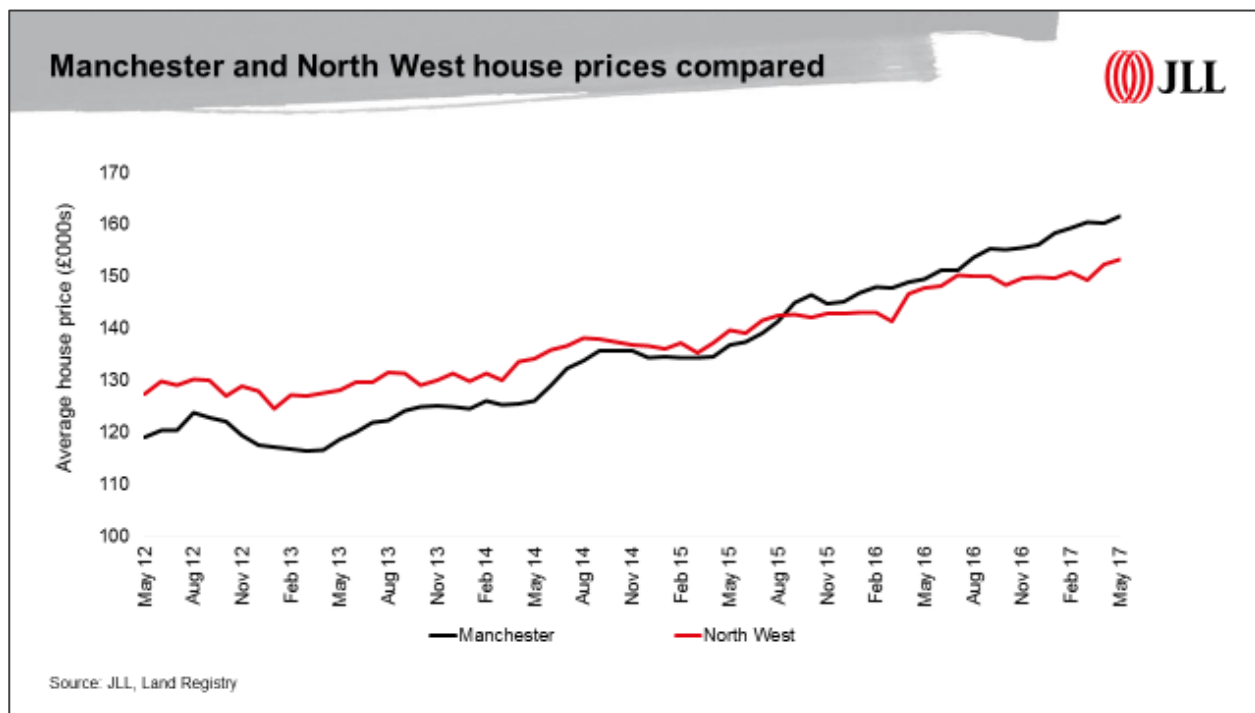
Looking forward, Manchester's population is forecasted to increase to 603,800 by 2026, equivalent to an additional 28,700 new households. This strong population and household growth will result in a continued need for new homes. However, house building is not expected to keep pace. The graph below shows the growing housing shortfall in Manchester, which is expected to reach nearly 35,000 homes by 2026. This rising deficit will continue to place upward pressure on prices and rents in the city.



House Price Performance

Over the past two years, average house prices in Manchester have increased by 18.1% to reach £161,611, compared with 9.8% growth for the wider North West region. Prices in the city now outstrip those in the wider region. Over the past year, prices in Manchester have increased by 8.1%, compared to a national average of 4.7%.

As can be seen in the graph below, price growth for the region has been steady, while price growth for Manchester has been very strong, rising sharply, particularly since early 2014.



Drilling down further reveals that Manchester city centre has performed even more strongly than the wider city, and more specifically among flats within 1km of the Potato Wharf development site. The area has seen incredibly strong recent growth, with double-digit percentage growth among all unit types in the last 12 months.

The table below provides an overview of current prices for 1-, 2-, and 3-bed flats within 1km of the site, and the growth in median values over the last year. We can see these growth figures significantly outperforming the overall Manchester growth figure of 8.1%, and the national average of 4.7% over the past year.

	Lower Quartile	Median	Upper Quartile	One-year growth
1 Bed Flat	£136,363	£159,950	£180,625	14.3%
2 Bed Flat	£185,000	£225,000	£274,950	12.5%
3 Bed Flat	£184,995	£242,000	£332,475	18.0%

Source: Rightmove

While these average prices are lower than those at Potato Wharf, it is important to note that these predominantly relate to second hand stock. The Potato Wharf price point is in line with the high end market in the area. The distribution of list prices for the year ending June 2017 is shown below for one-bed flats, with the starting price of £190,000 highlighted. In this period, 14% of listings for one-bed flats within 1km were in excess of £200,000.



The distribution of listing prices for two-bed flats is shown below, with the Potato Wharf starting price of £280,000 highlighted. In this period, 18% of listings for two-bed flats within 1km were in excess of £300,000.



Prices have been boosted by the recent popularity of Manchester in the Chinese market, with economic ties strengthened by the visit of Chinese President Xi Jinping to Manchester in October 2015.

The table below shows growth in prices of 1-, 2-, and 3-bed flats within both 1km and 3km of Potato Wharf since the visit of President Xi. We see significant growth across all units in this period.

	1 Bed Flat	2 Bed Flat	3 Bed Flat
Within 1 km	18.5%	23.6%	18.0%
Within 3 km	14.8%	18.2%	23.9%

Source: Rightmove

Looking ahead, house price growth in Manchester is expected to significantly outperform all other major cities and the wider UK market. JLL's latest forecasts predict that prices in Manchester will grow by 28.2% over the next five years, compared with 15.8% for Central London and 13.1% for the UK.

JLL House Price Forecasts (%pa)

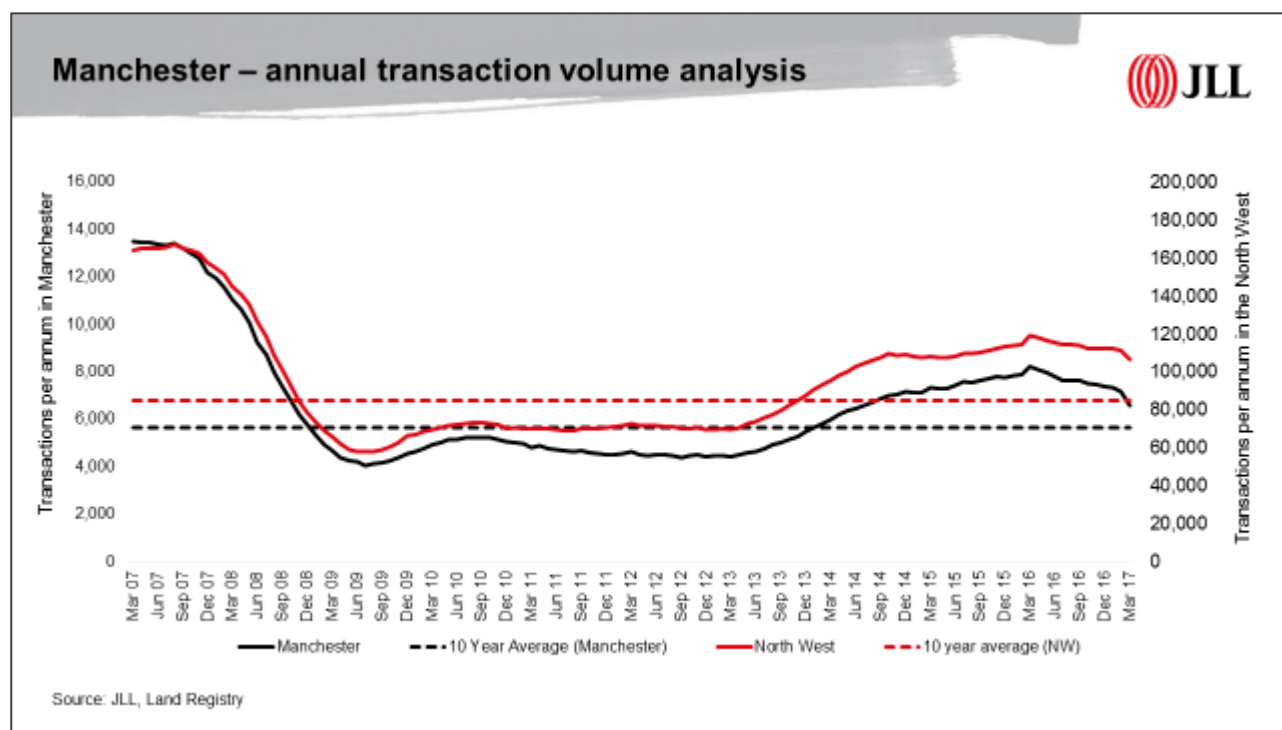
	2017	2018	2019	2020	2021	Total Change 2017-21
Manchester	7.0	6.5	3.5	4.0	4.5	28.2
Edinburgh	5.0	4.0	4.0	4.5	4.0	23.4
Liverpool	4.5	5.0	3.0	4.0	4.5	22.8
Birmingham	3.0	4.0	4.0	4.0	5.0	21.7
Leeds	2.0	4.0	4.0	4.5	5.5	21.6
Bristol	5.0	4.0	3.0	3.5	4.0	21.1
Central London	0.0	1.0	2.5	6.5	5.0	15.8
Glasgow	2.5	2.5	2.5	3.0	4.0	15.4
UK	0.5	1.0	2.0	4.0	5.0	13.1

Source: JLL

Sales Transaction Volumes

In the wake of the GFC, sales volumes across the country plummeted. Annual sales volumes fell by over 63% from their 2007 highs to 2009 lows for the UK. Manchester witnessed an even more pronounced drop of 70%, falling from a peak of 13,600 sales in the year to March 2007, to a low of 4,100 sales in the year to July 2009. However, as can be seen in the graph below, Manchester has recovered and transactions have been back up around 8,000pa over the last 3 years.

These volumes remain below pre-crisis peaks due to a significant shortage of supply on the market. Demand far outstrips supply in the Manchester city centre market, and transaction volumes are constrained as a result.



Despite the overall recovery, 2016-17 has seen a slight dip in transaction volumes due to changes in stamp duty for investors and further falling levels of availability, as has been the case across the whole UK residential market.

Rents

The latest data from Rightmove reveals that rents for 1-bed flats in Manchester have increased by 6.0% over the past 12 months. This continues a period of robust growth, with rental levels up by 17.8% over the past five years. Rental growth has been more subdued amongst 2- and 3-bed flats, but has remained positive.

The table below provides an overview of current rental levels for 1, 2, and 3-bed flats in Manchester City Centre, within 1km of Potato Wharf.

	Lower Quartile	Median	Upper Quartile	One-year growth
1 Bed Flat	£725pcm	£795pcm	£875pcm	6.0%
2 Bed Flat	£850pcm	£950pcm	£1,150pcm	0.0%
3 Bed Flat	£1,200pcm	£1,300pcm	£1,431pcm	0.4%

Source: Rightmove

Manchester is expected to witness stronger rental growth over the next five years than the UK average. The latest JLL forecasts predict that rents in the city will increase by 20.5% by 2021, compared with 13.1% in Central London and 17.6% for the UK.

JLL Rental Growth Forecasts (%pa)

	2017	2018	2019	2020	2021	Total Change 2017-21
Leeds	5.0	5.0	4.0	3.5	3.0	22.2
Manchester	3.0	3.5	4.0	4.0	4.5	20.5
Bristol	3.0	3.5	4.0	4.0	4.5	20.5
Edinburgh	3.0	3.5	4.0	4.0	4.5	20.5
Glasgow	2.5	3.0	3.5	4.0	4.0	18.2
Liverpool	2.5	3.0	3.5	3.5	4.0	17.6
Birmingham	2.5	3.0	3.5	3.5	4.0	17.6
Central London	1.0	1.0	3.0	3.5	4.0	13.1
UK	2.5	3.0	3.5	3.5	4.0	17.6

Source: JLL

Using price and rental data from Rightmove the below indicative gross yields have been calculated for flats within both 1k and 3km of the development site. These are shown in the tables below.

Estimated Gross Yields (Within 1km of Potato Wharf)

	Lower Quartile	Median	Upper Quartile
1 Bed Flat	6.4%	6.0%	5.8%
2 Bed Flat	5.5%	5.1%	5.0%
3 Bed Flat	7.8%	6.4%	5.2%

Source: Rightmove

Estimated Gross Yields (Within 3km of Potato Wharf)

	Lower Quartile	Median	Upper Quartile
1 Bed Flat	7.1%	6.3%	6.1%
2 Bed Flat	6.2%	5.5%	5.3%
3 Bed Flat	6.8%	6.5%	5.3%

Source: Rightmove

These yields generally compare favourably with the Central London average of c. 3.75% and the wider UK average of c. 5%, highlighting the relative price competitiveness of this location.

Conclusion

Manchester continues to benefit from growing trends towards urbanisation, while the industrial and cultural history increases the city's global appeal.

Manchester has a strong and diverse economy, supported by world class universities and a wide range of private and public sector employers, including the BBC, The Co-operative Group and BNY Mellon, while an excellent local infrastructure sustains healthy commercial and residential development. The city has seen an influx of new residents, which has increased demand for limited housing stock. This has led to consistent and robust house price growth.

Looking forward, Manchester is expected to continue growing, and is forecast to attract an additional 34,100 households in the next decade. This will place further pressure on the limited housing supply in Manchester.

These factors combine to underpin why Manchester is expected to see continued outstanding growth levels, and why JLL have forecast Manchester to see the highest house price growth of any major city in the UK over the next five years.

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