
Pall Mall Court, Manchester

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1. Introduction

- 1.1. Savills have been approached to provide a report that considers the leasing history of Pall Mall Court since 2003. In doing this we have been asked to consider wider trends and themes within the Manchester City Centre office market to put the subject office building into context.
- 1.2. Savills is a leading Property Advisory firm that has been active within Manchester since 1996. The office agency team is market leading and has an excellent depth of knowledge across the market, dealing with transactions of all sizes within the City Centre. The team were joint leasing agent on Pall Mall Court from 2003 and consequently the building is well known to us.
- 1.3. This report is produced by James Evans MRICS. I have been an office agent in Manchester City centre since 2000. I have led the Manchester Office Agency team since 2016 and I now run the Savills National Office Agency division.

2. Pall Mall Court

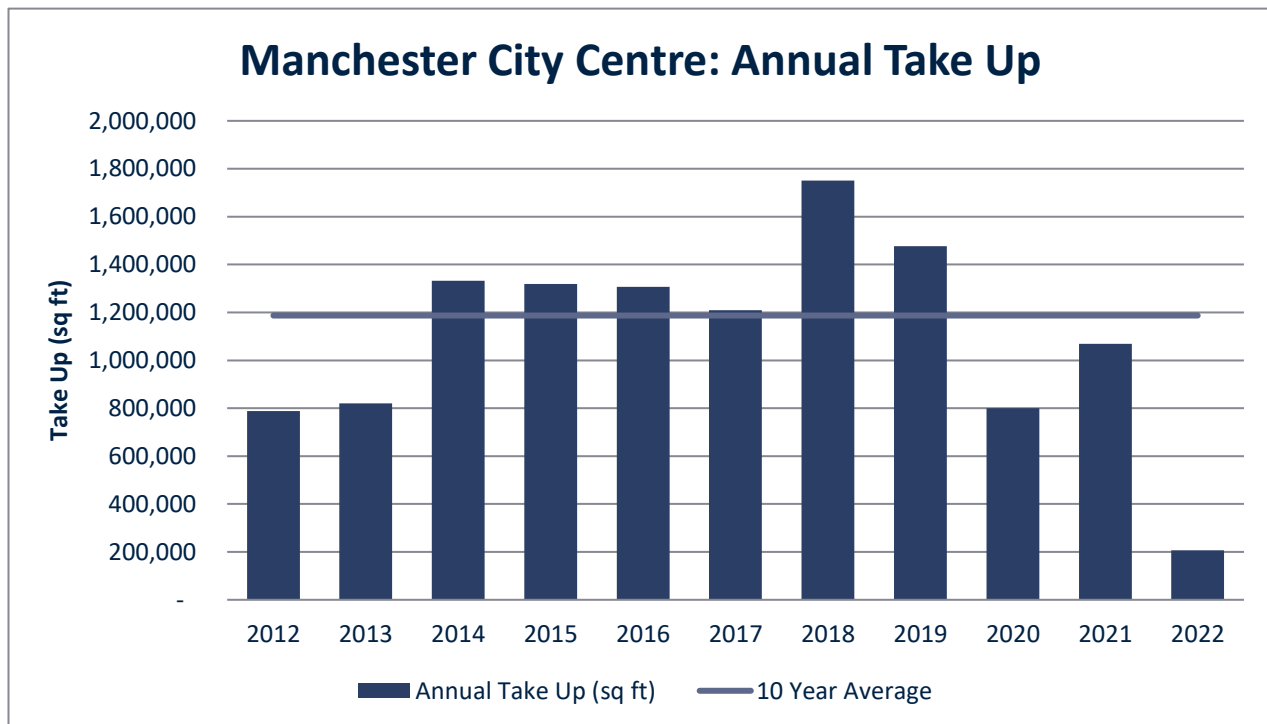
- 2.1. Pall Mall Court is a high profile office building situated in the traditional Central Business District, an area traditionally associated with the King Street and Spring Gardens area of Manchester City Centre. The office measures approximately 85,000 sq ft and is arranged, somewhat unusually in 3 distinct “blocks” referred to as King Street block, The Tower and Marsden Street block, in a Z type layout
- 2.2. We understand the building was constructed in the late 1960's and is characterised by its dark grey mosaic cladding along with a dark glazing system throughout.
- 2.3. To the West of the building is a raised Piazza area which connects Marsden Street to King Street. The building projects outwards creating an overhang in certain external areas.
- 2.4. Internally the building has a main reception area accessed via steps off King Street. Offices suites are arranged over the 3 respective blocks ranging in size from approximately 2,000 sq ft to 5,000 sq ft. A basement provides a combination of car parking and storage.

3. Manchester City Centre Office Market

- 3.1. The Manchester City centre office market has historically been described as the geographical area bounded by Manchester's inner ring road. Over the last 5 years however, this has spread and pushed beyond this notional delineation into areas of Salford and Ancoats particularly.
- 3.2. The market totals approximately 22 million sq ft of offices and is broadly categorised as follows:-
- New Build, Grade A – the highest quality, newest office buildings.
 - Grade A – offices that benefit from the best office specification but not brand new.
 - Refurbishment – offices that are generally older and have benefitted from a scheme of refurbishment works.
 - Grade B and C – These offices are increasingly dated and may represent a cheaper option for businesses.
- 3.3. Until approximately 2000 the traditional office district was centred around King Street and Barbirolli Square. However, over the past two decades given the scale of investment in the City and wider economic growth many new “districts” have emerged, each with its own idiosyncrasies. These districts would include, notably Spinningfields, New Bailey, Piccadilly, First Street and the Northern Quarter.

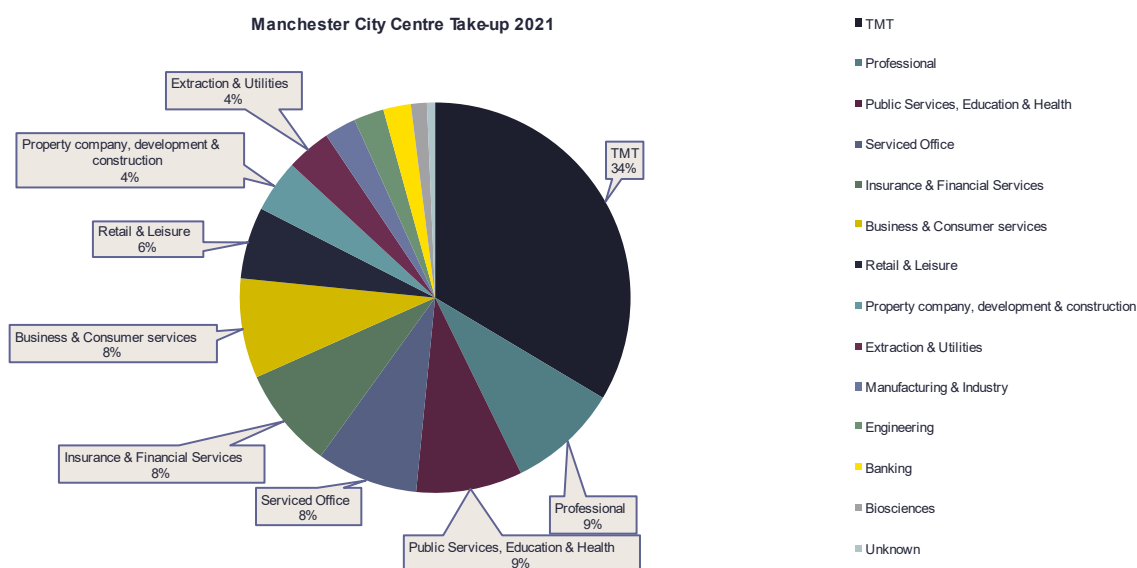
Demand

- 3.4. Since 2000 the City Centre office market has generally experienced an upward trend in office demand (“office take up”). This can be attributed to firstly, Manchester becoming a much larger market with wider economic growth resulting in more businesses wanting more office space. Secondly, a continued trend of “centralisation” as businesses previously located in out of town locations favour a move to the City Centre for ease of access and a greater ability to recruit from a wider pool of labour / talent. In other instances we have seen some notable new movers to the City, for example Bank of New York Mellon, Freshfields and Amazon. A combination of these factors has resulted in this general trend of take up increasing.



Office demand **for all Grades of office space**, originates from many different sectors within the City Centre. This ensures a diverse occupier base and no over reliance on a single industry sector. However, over the last 10 years we have seen a noticeable shift in the increase in demand from the wider “Technology, Media and Telecoms” sector and a movement away somewhat from the Financial Services sector.

TMT accounted for over a third of City Centre Take Up in 2021



Supply

- 3.5. In response to this continued increase in wider office demand from many different sectors, developers and landlords have sought to increase the availability of office stock in the City. This has resulted in the extension of traditional locations to those newer districts referred to above.
- 3.6. The quality of office stock within the City centre has continued to improve throughout this period of growth. The office market is competitive and consequently both developers and landlord continually seek to improve their office “product offer”. Various aspects of an office building that were once deemed to be “nice to haves” are now seen as essential ingredients to successfully leasing office space. These include:-
- High quality reception space / excellent first impression
 - Attractive common areas throughout the building
 - Additional facilities provided for the benefit of occupants i.e. informal break out space, meeting rooms

- Wellness areas to include exercise studios, shower and changing facilities, external space i.e. terraces, communal roof or external space at ground floor
- High quality office specification to include “basics” such as excellent natural light and floor to ceiling height
- A potential to acquire “fitted space”. By being furnished and with dedicated kitchen /meeting rooms, this removes the lead in and inconvenience for occupiers of designing and constructing fit out.

3.7. In today’s market Pall Mall Court would compete with a number of high quality office buildings, all of which have benefitted from refurbishment and investment. Each competing building has its own individual characteristics but to provide an indication of the type of office product on offer I highlight below some particular examples:-

i) Bloc

Refurbished throughout 2020 Bloc now provides significant occupier amenity at ground floor and responds to the growing trend of offering tenants a range of communal facilities within common areas. Rental Tone -



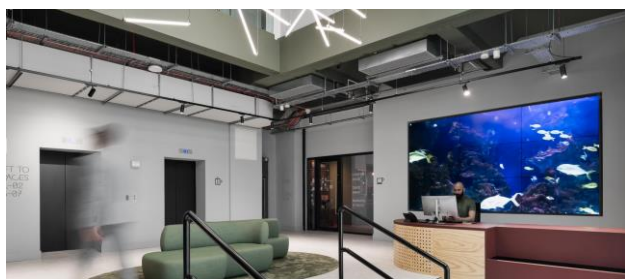
*Communal areas at Bloc

ii) Hyphen

Refurbished during 2019 and 2020 Hyphen provides a variety of “smaller” suites. The landlord has responded to the need from occupiers for an excellent first impression, contemporary specification and fitted suites. Rental Tone - £29.00 - £31.50 psf.



*Contemporary specification at Hyphen



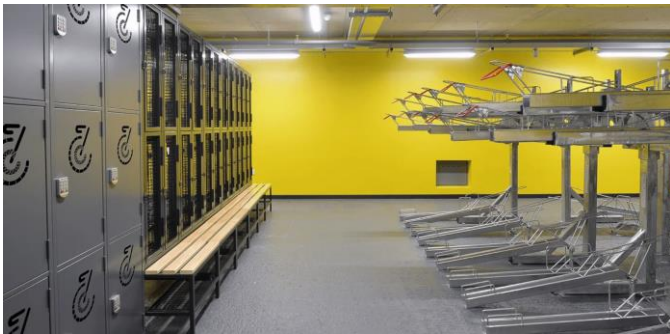
* Attractive reception area



* Fitted office suite

iii) Barbirolli Square

Barbirolli Square has recently been refurbished to a high quality, A particular emphasis has been placed on the wider occupier amenity including basement spaces incorporating exercise suites as well as break out space within the reception. Rental Tone - £30 - £33.50 psf.



*Images illustrating the refurbishment of Barbirolli Square

4. Pall Mall Court Leasing History

- 4.1. Savills involvement in the building commenced in 2003 whilst the building was owned/managed by Isis Asset management. Our involvement continued through various changes in ownership, including the move to Resolution in 2005 and Ignis (now Abrdn) in 2011. Throughout this period Savills were instructed to lease various part floors in the building.
- 4.2. According to our records between 2003 and 2005 we were instructed to market approximately 55,000 sq ft across the entire building. The remainder of the office space (46,000 sq ft) had previously been let in April 2004 to AWG Business Centres on a lease until 2029. The majority of the space Savills were instructed to market was let to Mace and Jones, a firm of solicitors, who ultimately acquired 20,000 sq ft in the building. The original transaction was agreed in H1 2004, however only completed in March 2005. Many of the delays associated with this transaction were as a consequence of the listed status of the building and the tenant experiencing difficulties in obtaining an appropriate Listed Building consent for their potential fit out of the office space. Although I was not directly involved I understand these discussions were protracted and difficult.
- 4.3. Between 2005 and 2011 the only two vacant office suites were marketed, a 1st floor suite of 3,100 sq ft and a 6th floor suite of 5,000 sq ft. Throughout this period on average x2 viewings would be undertaken per month, as an estimate this would mean approximately 140 viewings would have taken place over this period of time. Only one transaction was forthcoming throughout this period despite this significant number of inspections of the office space. This was a letting of the 1st floor suite to Rapleys. Thereafter, the 6th floor suite remained vacant and on offer to the market and no tenants was identified for this space until Savills' leasing involvement ceased in 2015. Following this date, the new owners of the building did market the vacant space however their intentions were to redevelop the building and consequently occupiers were not forthcoming given the likelihood of redevelopment.
- 4.4. Throughout the above time period various marketing initiatives were carried out to ensure the offices had the greatest chance of securing new tenants, these included:-
- Production of high quality marketing brochures
 - Regular mailing and emailing of particulars to agents acting for occupiers and occupiers themselves
 - Agent tours of the building
 - Various "on line" listings
 - Marketing signage to the external elevations
- 4.5. To provide further context, on average within the size range of 2,000 – 5,000 sq ft, approximately 60 to 90 transactions would occur in the City Centre annually. This is an active size range and there was no significant shortage of target occupiers or transactions occurring.

- 4.6. On the face of it during the period post 2005 there was only a limited “landlord void”, that being vacant space to let directly from the landlord (in total c. 10%). However, this gives an overly positive picture of the building’s occupancy. Although the majority of the building was let to AWG, they themselves were not in occupation of this space. For corporate reasons the space had not been occupied and though a business centre was in operation within c. 50% of their space, the remaining 20,000 sq ft was being offered to the market from 2005 on flexible sub lease terms. According to their agent this space gained very little interest and only two suites each of 5,000 sq ft were let and not until 2017 and 2018 respectively. In addition, the space that been previously leased to Mace & Jones (thereafter acquired by Weightmans) was placed onto the market in early 2011 following the firms move to an alternative office in Manchester. This place a further 20,000 sq ft of the office on to the market, in addition to the AWG space and the landlord’s space. From the period of 2011 to 2017 approximately 48,100 sq ft of the building (56%) was available to let with only x1 transactions occurring during this entire period. The majority of the remaining space was let to a business centre which experienced poor levels of occupancy.

5. Market Perception of Pall Mall Court

- 5.1. As agents on Pall Mall Court for many years, as well as acting for occupiers seeking to relocate, we have an excellent overview of the wider perception of the building. Generally speaking, the location is, and remains, an attractive proposition for businesses of all sizes and from many different business sectors.
- 5.2. However, the building has been held back for many years through a lack of significant capital expenditure and unfortunately possesses various characteristics that put it at a major disadvantage to other competing buildings. I would categorise these as follows:-
- Common Areas – The common areas within the building are severely lacking. Many occupiers who we inspected the building with during our leasing appointment, passed negative comment on the small reception area. This creates a very negative first impression especially for a building of this considerable scale and particularly when compared to other competing office schemes. The building continues to lack a sense of arrival.
 - Lack of investment – previous owners of the building have taken a piecemeal approach to refurbishment and failed to invest in the office more widely. This has resulted in a continued downward spiral in quality and again puts the building at a significant disadvantage to those offices it competes against.
 - Building Complexity – The building’s complexity notably its arrangement over various wings and floors and in particularly the ceiling detail, which created issues around tenant fit out, meant Pall Mall Court obtained a reputation for being difficult to fit out for a modern occupier’s needs. This was certainly the case for Mace Jones who encountered major issues around their fit out specifically in obtaining Listed Building consent. This reputation did tarnish the building and acted as a further barrier to agreeing lettings.

- Natural Light – The natural light within the building has always felt somewhat tempered by the shaded, glazed treatment. Occupiers on occasion would pass comment on the negative impact that the existing glazing system would have on the provision of natural light to the office space.
- Anti-Social behaviour –The external piazza area and various areas of covered external space at ground floor have for many years been a haven for rough sleeping and anti-social behaviour. Throughout the year this is a problem and is often cited as a significant barrier to attracting occupiers to the building. In fact so great has the problem become at certain times, it has even been raised as an issue for occupiers in nearby buildings such as No. 1 Marsden Street.

5.3. Each of the above issues in isolation has acted as a hurdle to attracting occupiers to Pall Mall Court. When one considers these as a whole it is unsurprising to therefore conclude in its current form, and without significant intervention, the building is unlettable. Market conditions throughout 2021 and into 2022 have been characterised by a general flight to quality. This has seen businesses wishing to encourage their employees back to the office deciding to relocate to better quality offices in the City Centre. This includes the provision of wellness facilities as part of a building offer. This continued trend brings into further focus Pall Mall Court's weaknesses and unlettable in its existing form. One might question the rent at which the building might realistically be expected to attract tenants without any refurbishment and in my opinion I believe this to be negligible. The market is defined by a flight to quality, very few occupiers are attracted to budget space recognising the fact a poor office will not assist them in attracting people to work for them. Even if rents were in the order of £15 psf I doubt significant amounts of space could be let and even then to poor quality businesses on short term leases.

6. Pall Mall Court Sale Process

- 6.1. The building was originally brought to the market in January 2019 and marketed as an opportunity for a new landlord to reposition the asset through a programme of refurbishments. This in turn would change the market's perception of the office resulting in a series of new lettings and increasing the value of the asset. Given its location and scale the opportunity attracted much interest from the market with a large number of viewings undertaken.
- 6.2. We understand the marketing process attracted interest from various potential purchasers seeking to deploy capital within a "value add" opportunity in Manchester City Centre. In addition a number of Serviced office operators were also attracted to the opportunity to buy a building in Manchester City Centre.
- 6.3. During the period of January 2019 until Bruntwood's purchase in November 2021 we believe no less than 4 separate parties had the building under offer. The fact 4 parties were each under offer at some point is a reflection of the strong opportunity that Pall Mall Court represented. However, in each of these instances the due diligence undertaken by the prospective purchaser revealed issues associated with either building structure/windows and / or concerns over the prohibitive nature of the listing. Such issues affected confidence in the ability to successfully carry out their proposed business plans and ultimately led to all such parties withdrawing from the purchase. This in itself reflects the significant risks associated with redeveloping an office building of this nature.

7. Post Lockdown Market Themes and Trends

- 7.1. As the City Centre and associated office market emerges from the various pandemic lock downs and post pandemic working patterns emerge, we have seen businesses slowly return to their offices. The majority of office based businesses now recognise the need for their workspace to be of high quality in order to attract the best talent.
- 7.2. The consequence of this theme has been a general flight to quality whereby businesses wish to position themselves in the best buildings. This is evidenced by considering the breakdown of rents paid within the city Centre. If we conclude the benchmark of a rent of £30 psf and above as representing high quality, during 2019 9% of all transactions occurred within this rental bracket whereas the corresponding figure for 2021 is 30%.

8. Concluding Observations

- 8.1. Pall Mall Court possess some of the characteristics required to succeed as a large scale City Centre office building. In particular, its profile and excellent location should ensure the building is capable of attracting tenants.
- 8.2. For many years however a lack of investment into the building from previous landlords and some of its physical characteristics has hampered its ability to attract tenants. The competing stock of office buildings has, in most instances, experienced major refurbishment to respond to the changing needs of the office occupier community. Pall Mall Court has not and therefore has failed to compete.
- 8.3. There are several fundamental issues that without rectification render Pall Mall Court unlettable, this feedback had been received consistently by Savills, in their capacity as letting agent over a long period of time. In a market where occupiers demands are increasingly for high quality accommodation, without a significant intervention Pall Mall Court will remain largely vacant.