



Boulton House, 17 Chorlton St, Manchester, M1 3HY

Review of Commercial Workspace and Refurbishment Viability

Prepared by OBI

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Introduction

OBI have been commissioned by The James (M1 Living) to comment on the proposal to redevelop Boulton House, 17 Chorlton Street, Manchester to provide refurbished commercial workspace.

The report OBI have prepared provides an overview of the Manchester City Centre office market, focusing on the demand and supply dynamics within the Portland & Oxford Corridor district where Boulton House is situated.

The report goes on to summarise current workspace trends and the key features occupiers are demanding from their workspace when looking to relocate.

The report will seek to review the viability of the refurbishment of Boulton House, with supporting financial appraisals.

Manchester City Centre – Office Market Overview

Manchester City Centre – Take-up 2023:

A total of 942,265 sq ft of leasehold workspace was transacted in the city centre in 2023, a 23% downturn when compared to 2022.

220 leasing transactions were completed in 2023, a 7% downturn in comparison to 2022.

A notable impact on take-up during 2023 was indigenous occupiers 'right-sizing' their occupational footprint and taking 20%-50% less workspace when relocating. This trend, combined with no lettings in excess of 50,000 sq ft, were the main reasons for take-up being restricted to sub 1m sq ft.

Driven by demand for ESG and prime new build workspace, a new record rent of £43.00 psf was achieved at No.1 St Michael's, when Pinsent Masons committed to 26,000 sq ft.

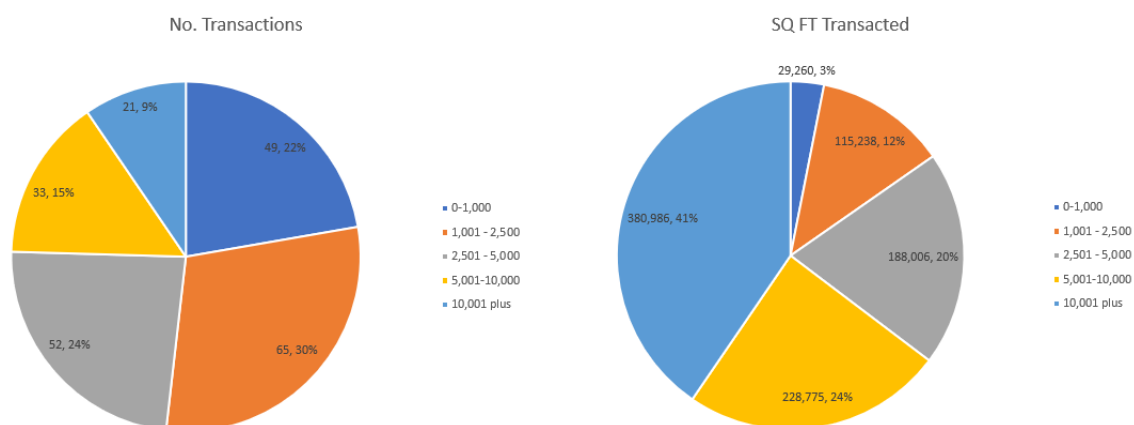
557,274 sq ft (59%) of workspace transacted at rents more than £30.00 psf with Manchester City Centre seeing a 60% increase in the amount of space let over £40.00 psf, driven by large occupiers 'right-sizing' and committing to new best in class prime workspace.

Prime Grade A new build headline rents in the city centre have continued to grow steadily from £30.00 psf in 2012 to £43.00 psf in 2023, with the most active sectors in Manchester City Centre in terms of take up (sq ft) as follows:

1. Financial & Professional Services – 217,865 sq ft
2. Training & Education – 119,955 sq ft
3. Legal – 115,046 sq ft

It was notable that demand from TMT sector declined as businesses in this sector looked to manage cost out of their businesses.

2023 Size Analysis - No. of Transaction and Total Workspace Transacted



As a result of occupiers continuing to adopt agile working practices and 'right-sizing' their occupational footprint, the average transactions size in 2023 continued to fall with an average transaction size of 4,283 sq ft, compared to 5,053 sq ft in 2022.

2023 was the first year since 2017 that Manchester City Centre failed to secure a transaction over 100,000 sq ft, with the largest transaction for the year at 42,944 sq ft with Arden university taking 42,944 sq ft at 2 Hardman Street.

Manchester City Centre – Take-up Q1-Q3 2024:

A total of 933,641 sq ft of leasehold workspace was transacted in the city centre in the first nine months of 2024, a 27% uplift when compared to the same period in 2023.

149 leasing transactions were completed in Q1-Q3 2024, a 10% downturn in comparison to the same period in 2023. Whilst, the number of transactions taking place has reduced, that average deal size has risen. A reduction in smaller transactions has been caused by the increase in the amount of managed workspace available in Manchester. This managed workspace is absorbing demand from smaller occupiers who may have historically committed to a conventional lease.

Manchester city centre Q3 take-up saw a significant increase compared with Q3 2023, up 24% with 430,570 sq ft of workspace transacted in the quarter, compared to a subdued Q1 2024 for take-up in the city centre where take-up was down 16%.

An active Q2 and Q3 in 2024 has been continued to see the demand for best-in-class ESG led properties outperforming the rest of the market, with ARM exchanging on 68,860 sq ft at No.1 St Michael's. Manchester's positive take-up in Q3 has continued in Q4 with Virgin Media exchanging on 45,000 sq ft at Island and Channel 4 committed to the last available space at No.1 St Michael's.

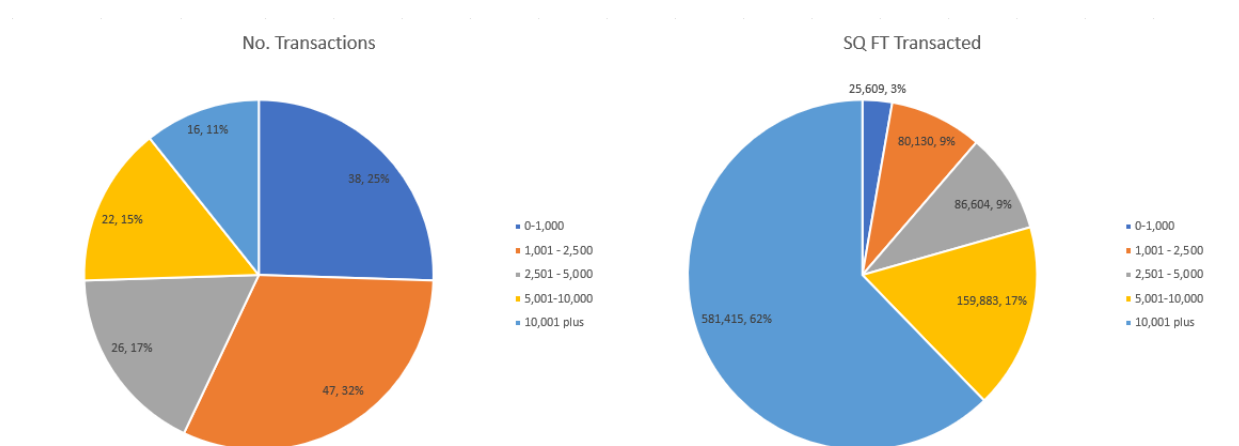
The drive to best-in-class buildings has continued to grow the rental tone within the city, with a new headline rent recorded in the city of £45.00 psf at No.1 St Michael's and 536,236 sq ft of workspace transacting at rents over £30.00 psf accounting for 57% of all space transacted, with 146,780 sq ft transacting at rents over £40.00 psf.

Although the number of transactions over the period has reduced compared to the same period in Q1-Q3 2023, this has been driven by a growth in + 10,000 sq ft transactions which currently stands at 16 transactions totalling 581,415 sq ft, including BNY Mellon completing on 196,443 sq ft at 4 Angel Square.

Manchester city centre's managed workspace offering continues to build momentum, with Koba launching their first Manchester site with 30,000 sq ft of flexible space at 100 Barbirolli Square, Cubo completing on 59,431 sq ft at No.1 Spinningfields and Northern Group's Colony acquiring their eighth location in the city with the acquisition of 41,414 sq ft Grade II Listed building 76 King Street, following on from the acquisition of 19 Spring Gardens. As a result there is now c1m sq ft of Managed Workspace in the city.

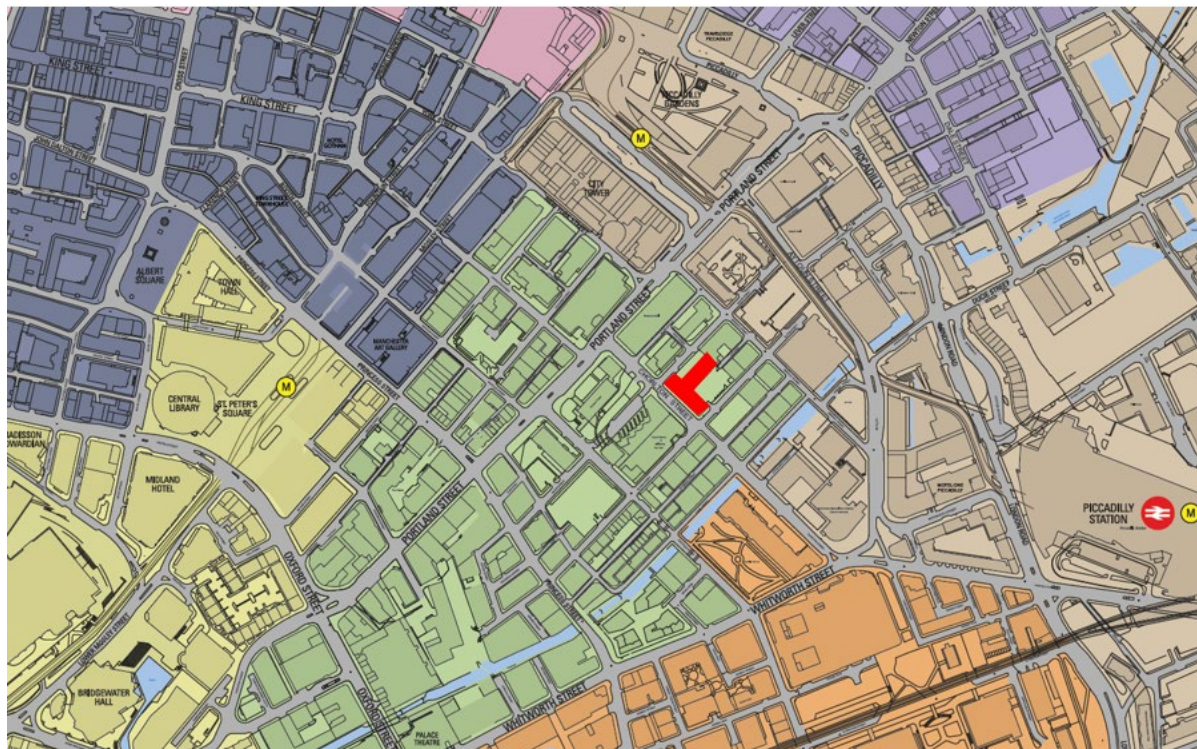
The growth of Managed Workspace and the drive for best-in-class ESG rich office space has led the average transaction size in the city centre for conventional offices to increase to 6,266 sq ft, as the number of sub-5,000 sq ft transactions decreases, with occupiers looking to take advantage of the amenity rich, flexible and ESG offerings provided by Managed Workspace.

Q1 – Q3 2024 Size Analysis - No. of Transaction and Total Workspace Transacted



Portland & Oxford Corridor District Overview

In addition to the wider city centre update outlined above we have set out a more specific market overview for the Portland and Oxford Road Corridor, where Boulton House is located.

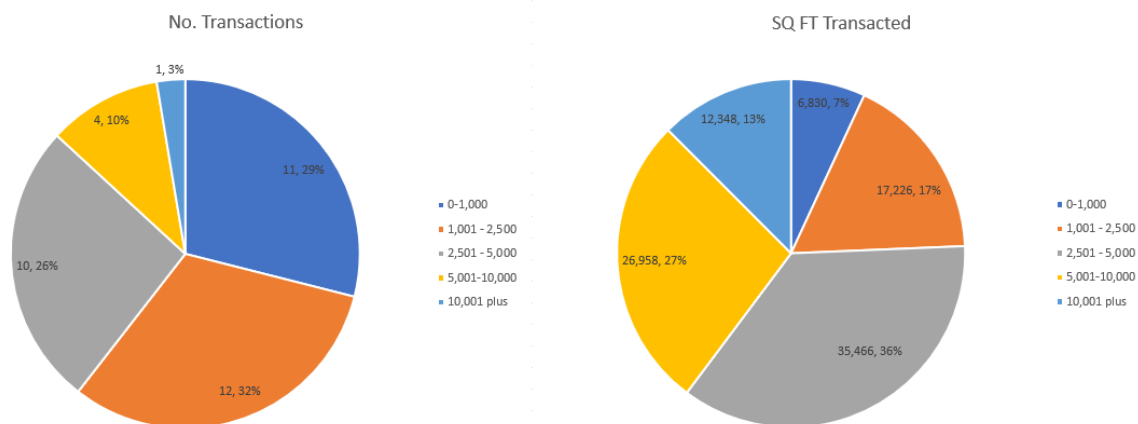


2023

There was 98,828 sq ft of workspace transacted across 38 transactions in 2023 within the Portland & Oxford Road Corridor, with sub 2,500 sq ft suites accounting for 61% of the total transactions.

The average transaction size in the district was 2,600 sq ft with the largest transaction completing when Slater & Gordon completed a 3-year lease on 12,348 sq ft at the Tootal Buildings at a rent of £28.50 psf. This accommodation benefitted from some internal fit out.

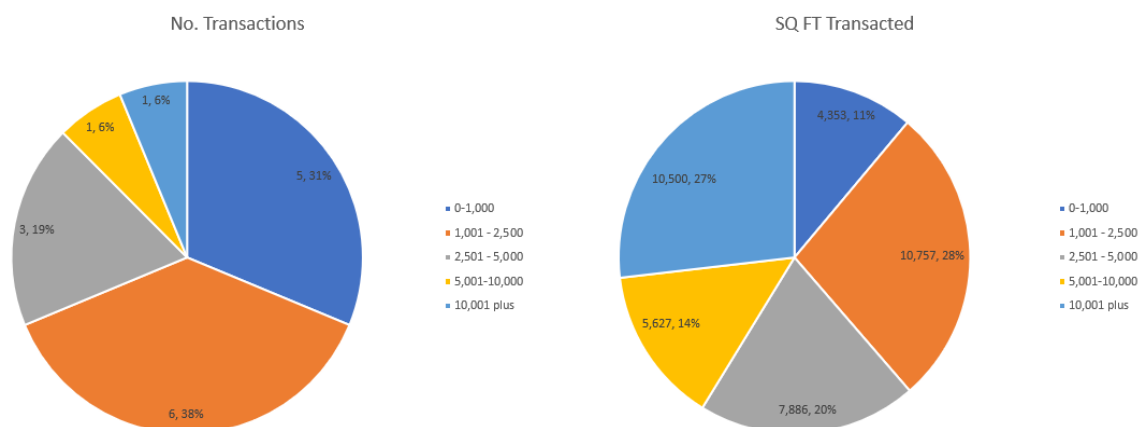
76% of transactions in the district were on suites under £30.00 psf with the £25.00 to £30.00 psf rent bracket being the most active in the district accounting for 44% of the total.



Q1 – Q3 2024

In Q1-Q3 2024, 39,123 sq ft has transacted in the Portland & Oxford Corridor district across 16 transactions. This is down 50% compared to the same period in 2023. Transactions in the district continue to be concentrated to the sub 2,500 sq ft market accounting for 69% of the transactions, with the average transaction size decreasing to 2,445 sq ft.

94% of transactions in the district have been concluded on suites sub £30.00 psf, with the most active rent bracket at £20.00 to £25.00 psf accounting for 31% of transactions.



2025 Predictions

Despite some economic and financial challenges, the occupational market within Manchester city centre remains strong.

OBI are confident of further rental growth for 'best-in-class' workspace as occupiers continue to 'cherry-pick' the premium space available in the market which will put an upward pressure on city centre headline rents.

As occupiers seek 'best-in-class' workspace, those buildings which are compromised from a structural, environmental or location perspective will become increasingly challenging to lease, even at discounted rents.

Key Workspace Trends

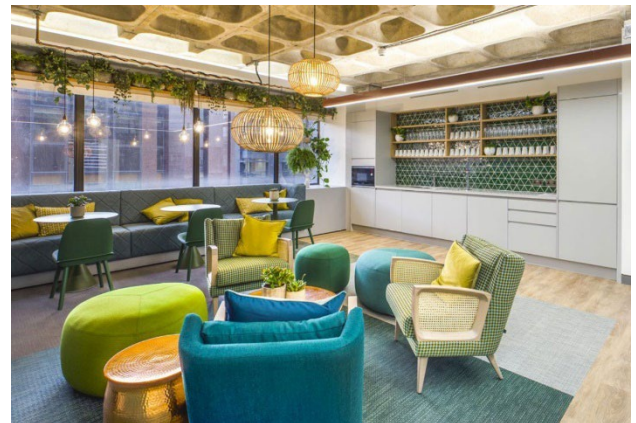
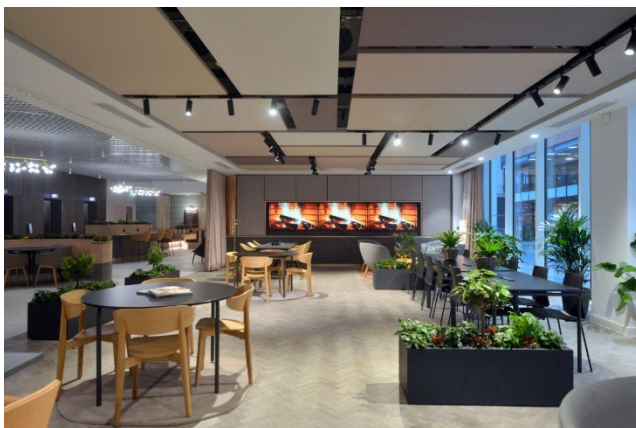
The commercial workspace market has evolved significantly in recent years, changing the way buildings are occupied, operated and activated. It is key to the success of a property that these areas of a building are positioned. We have set out these key areas below:

Amenity:

A key trend that has emerged over the last few years and is now a critical element of a successful commercial asset is the level of amenity a building offers, along with the service-led management of a building.

Occupiers are now expecting to see amenity offerings include:

- Meeting space – formal and informal
- Collaboration, breakout and social spaces
- Outside terraces
- Cycle storage and shower/changing facilities
- Gym / studio
- Restaurants/café/business lounge facilities
- Building event programmes, stimulating collaboration, innovation and networking



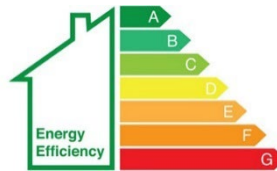
ESG:

Driven by the climate change crises, we have seen the sustainability of commercial assets become increasingly important to occupiers. Although historically predominantly only a focus of larger corporate occupiers, since 2022, smaller businesses have become increasingly aware and focused on their sustainability agenda, and how commercial real estate factors into this.

It is therefore increasingly important to provide options in the market that not only cater for the larger occupiers but the increasingly ESG aware smaller occupiers.

OBI have set out below several accreditations that we believe to be ever more important to occupiers when assessing workspace options:

- Nabers
- BREEAM
- EPC
- Net Zero Carbon in operation



Review of Existing Building

Boulton House is a 1970s office building located on Chorlton Street in Manchester. Due to the age and nature of the building, it fails to meet the standards of a modern office building in several ways. The constraints of the building have been summarised below:

1. Floor-to-Ceiling height
2. Existing glazing and associated fittings
3. Building footprint and floorplate configuration
4. Environmental performance
5. Building Amenity

1. Floor-to-Ceiling Height

The current building has a typical floor-to-floor height of 3.00m which restricts the ability to provide both air-conditioning and raised floors. Two key features of modern workspace.

New build BCO grade A offices are required to have a floor-to-ceiling height of 2750-2800mm.

As a result of not being able to implement a raised access floor scheme, the building would be restricted to using perimeter trunking for the distribution of power and data across the floors, consequently, it does not reach modern office workspace building standards and the quality of working environment demanded by city centre occupiers.

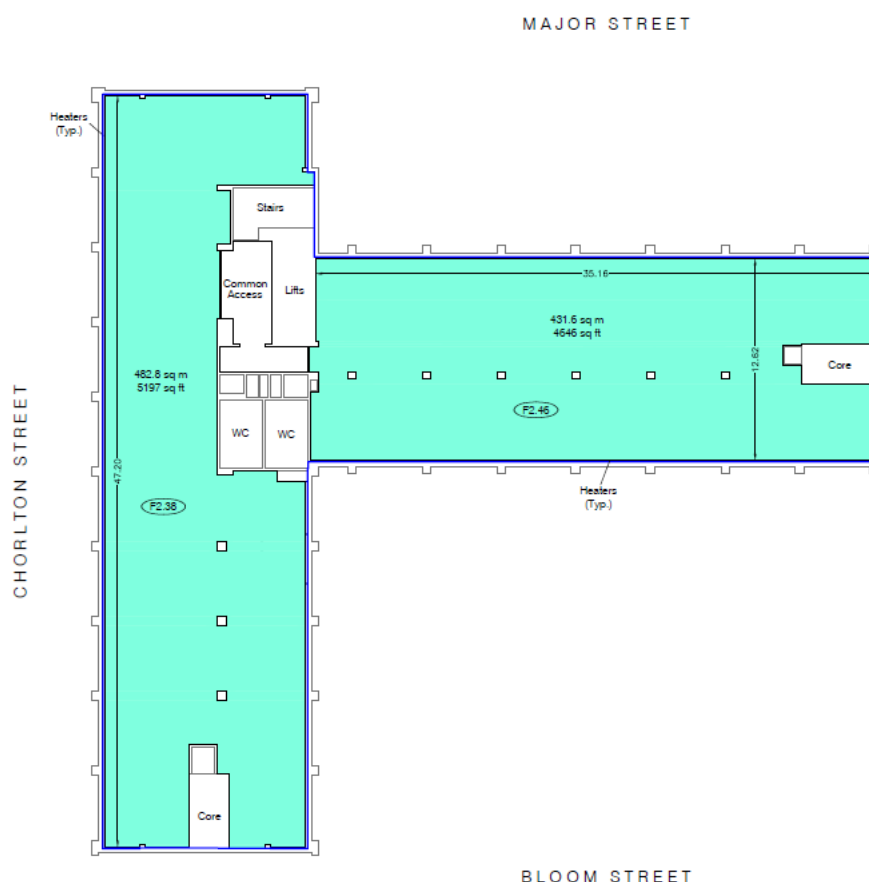
The floor to ceiling height also limits the amount of void space available for ceiling mounted air-conditioning with a requirement to install perimeter heating and cooling.

2. Existing Glazing and Associated Fittings

With occupiers looking for increasingly sustainable options within the market, the historic construction methods used at Boulton House and the existing glazing, limit the possible environment performance of the building, impacting the ability to let the current space.

The existing glazing is circa 50 years old. They have poor acoustic qualities and inefficient energy credentials. They will therefore require replacement throughout the building. The challenges around the quality of the glazing and inefficient thermal qualities will become increasingly evident as required EPC ratings increase from and "E" to "B" by 2030.

3. Building footprint and floorplate configuration

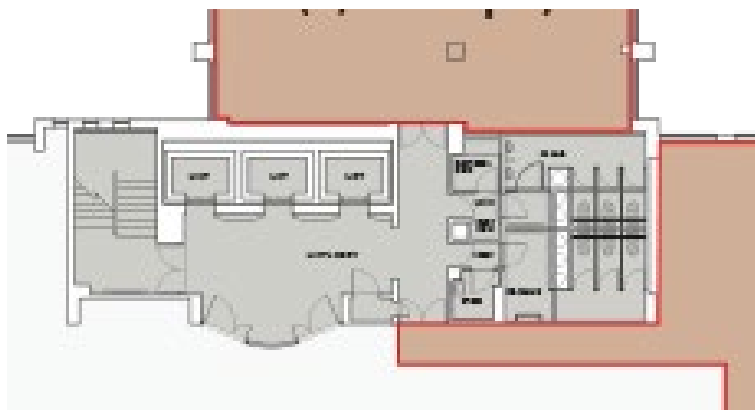


Boulton House fails to maximise the current footprint of the site providing a floorplate of c.10,000 sq ft. As a result, this limits the overall net internal floor area of the building and subsequent rental income achievable.

The floor plate is also configured with the workspace provided over two separate wings of a similar size of circa. 5,000 sq ft. This limits the potential target market with multiple transaction required to fully let the building. It is unlikely that an occupier seeking 10,000 sq ft upwards would consider splitting their requirement across multiple suites or floors.

The floors / suites can be subdivided to accommodate smaller requirements, but this requires the installation of a corridor to provide access to the fire escape stairs. The result is a loss of net lettable area which will further compromise the viability of the scheme.

The WC configuration on the floor provides for male and female toilets but the only accessible toilet in the building is currently located on the ground floor.



4. Environmental Performance

The construction methods of Boulton House, and age of the mechanical and electrical installation significantly impact its ability to meet modern environmental standards. Boulton House is currently certified with an EPC of C, the increase under the Minimum Energy Efficiency Standards will prohibit the disposal of any commercial building under a “B” by 2030.

The building is also heated by two gas fired boilers. As occupiers increasingly focus on the ESG commitments, many are moving away from buildings that use of gas to heat the building and hot water.

All existing water fed radiators will need replacing with electric within the common areas / WC’s and new VRF air-conditioning will be required through the workspace.

5. Building Amenity

As outlined earlier in this report, occupiers looking to relocate in Manchester are increasingly focused on the amenity provision within the buildings they are considering. As businesses continue to try and attract employees back to the office, these added amenities, such as cafes, meeting and breakout space, external roof terraces, gym, shower and changing facilities are increasingly valued.

Net lettable area would need to be sacrificed, primarily on the ground floor of the building, to provide several of the amenities listed above. This reduction in lettable area puts additional pressure on the appraisal and viability of the refurbishment of the asset.

Refurbishment Review and Demand Overview

A refurbishment of Boulton House utilising the existing building would need to include the following:

- New Reception and building entrance
- Wellbeing facilities – studio / gym etc
- Installation of new glazing throughout
- Strip out of existing fit-out
- New lighting and air conditioning including the removal of existing gas fired boilers
- New WC's and lift lobbies
- New shower and end of journey facilities
- Breakout and meeting space

If the above works were undertaken the building could command a quoting rent of £25.00 - £27.00 psf.

In recent years as occupiers have re-evaluated their workspace strategy, we have seen businesses adopt agile working practices, reducing the occupational footprint and seeking to move to better quality space over a reduced footprint.

As a result, demand for Grade B refurbished accommodation has suffered. This is reflected in the take-up statistic below.

Boulton House provides wings of approximately 4,600 sq ft to 5,500 sq ft. We have provided below analysis of transactions completed since the start of 2023 in the 4,000 – 6,000 sq ft size band to understand the depth of the occupational market in the event a refurbishment of Boulton House was undertaken:

Total transaction since start of 2023 between 4,000 – 6,000 sq ft:

40 transactions

Total transaction since start of 2023 between 4,000 – 6,000 sq ft in Portland & Oxford Corridor:

6 transactions

Total transaction since start of 2023 between 4,000 – 6,000 sq ft at a rent of £25.00 - £30.00 psf:

11 transactions

Total transaction since start of 2023 between 4,000 – 6,000 sq ft at a rent of £25.00 - £30.00 psf in Portland & Oxford Corridor:

2 transactions

In contrast to the limited demand outlined above, there is large amount of supply with 208,492 sq ft of available space between 4,000 and 6,000 sq ft across the city with a quoting price of £25.00 - £30.00 psf.

The lack of demand for workspace of this quality and quoting price is further reflected in the void period, with an average current void of 28 months on the available space £25.00 and £30.00 psf and 4,000 – 6,000 sq ft. This compares to a city wide average current void of 13 months.

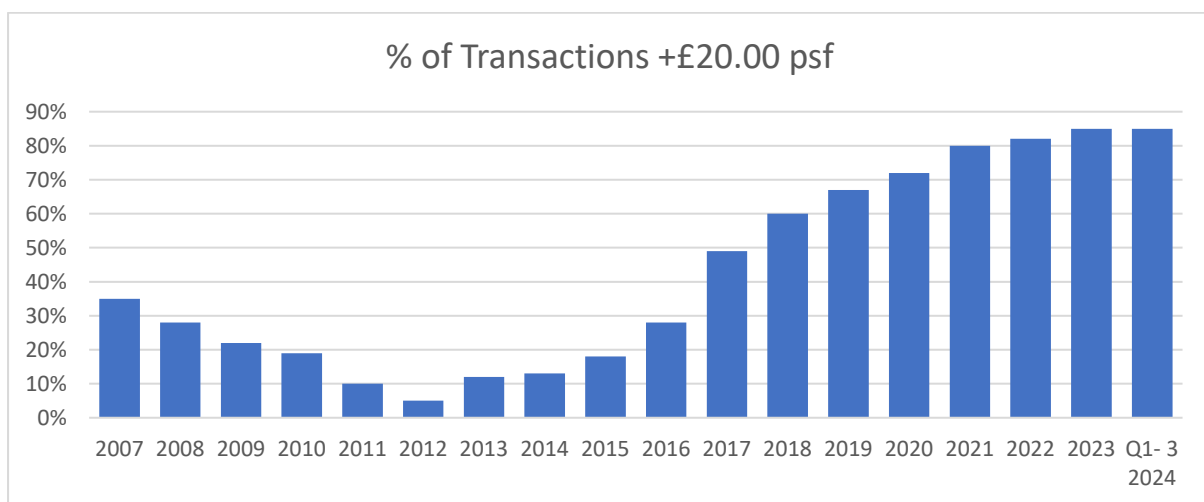
The above statistics highlight the major challenges Boulton House would face in leasing 14 separate suites of circa. 5,000 sq ft with considerable competition and shallow demand.

We have provided below a breakdown of relevant competition to Boulton House:

Building	Availability (sq ft)	Quoting Rent (psf)	Comments
Arthur House, Chorlton Street	6th Floor – 4,757 sq ft	£26.50 psf	1980's 28,500 sq ft building. Recently refurbished to a high standard. Closest comparable to Boulton House
Manchester One, Portland Street	3 rd Floor (3D) – 2,094 sq ft 7 th Floor (7B) – 4,360 sq ft 8 th Floor (7B) – 4,360 sq ft 11 th Floor – 6,142 sq ft 13 th (13C) – 2,033 sq ft 18 th Floor (18B) – 4,360 sq ft	£29.00 psf – Fitted £32.50 psf – Fitted & Furnished	1960's Tower across 21 floors. If available, conventional Cat A workspace would be £24.00 - £27.50 psf
Tootal Building, Oxford Road	Ground Floor – 2,390 sq ft Ground Floor – 5,425 sq ft	£28.00 psf	Listed warehouse building located close to Oxford Road Station.
17 York Street	Ground – 3,300 sq ft 4 th Floor – 8,363 sq ft 5 th Floor – 8,363 sq ft 6 th Floor – 8,636 sq ft (floors can be sub-divided to provide 4,535 & 3,816 sq ft)	£28.50 psf £28.50 psf £28.50 psf £30.00 psf	Recently refurbished to include ground floor business lounge and basement gym. Superior location to Boulton House.
Bridgewater House	Part 2 nd – 5,300 sq ft Part 4 th – 7,250 sq ft	£32.00 psf £26.00 psf	Listed warehouse building with ground floor café and breakout space. Part 2 nd floor is fitted and furnished.
St James's Tower	2 nd Floor – 12,606 sq ft 3 rd Floor – 12,751 sq ft (floors can be sub-divided to provide suites of 6,000 sq ft)	£28.00 psf £28.00 psf	Conventional refurbished accommodation. Superior location to Boulton House.

City Tower	15 th Floor – 9,059 sq ft	£25.00 psf	
	17 th Floor – 9,121 sq ft	£25.00 psf	
	20 th Floor – 9,128 sq ft	£27.50 psf	
	21 st Floor – 9,120 sq ft	£24.00 psf	
	23 rd Floor – 8,985 sq ft	£27.50 psf	
	(floors can be sub-divided to provide suites of 4,000 – 6,000 sq ft)		

Over the last decade we have seen a downward trend in transactions on secondary workspace, as represented in the below graph which shows the number of transactions above £20.00 psf has increased from 5% in 2012 to 85% in 2024, representing the flight-to-quality the market is experiencing.



The above provides evidence to suggest that even if significant capital was invested to reposition the existing asset, there would be rental ceiling and limited demand for the finished project if available in the open market.

Appraisal and Viability

It is evident that Boulton House does not provide the necessary foundations to be able to satisfy the current demands of a city centre commercial occupier. This has been proven by the poor historic leasing performance at the building.

A major refurbishment would be required to reposition the building to provide any prospect of letting the vacant workspace.

We have provided below an overview of an appraisal which illustrates that there are significant viability issues with undertaking these works to have any prospect of securing a positive return on the investment required.

Our appraisal makes the following assumptions:

- Purchase price - £9,352,000
- A full refurbishment of the building including the following:
 - New ground floor reception, breakout and meeting space
 - Installation of new glazing throughout the building including the ground floor
 - Strip out of existing fit-out
 - New mechanical & electrical installation throughout including heating & cooling, mechanical ventilation and LED lighting.
 - New WC's and lift lobbies
 - Modernisation of lifts
 - New shower and end of journey facilities

A cost plan has been undertaken by Hollis for the works (excluding reception and end of journey / wellbeing) of £5.75M.

We have assumed an additional £0.75M for reception and end of journey / wellbeing facilities.

Total spend = £6.5M including professional fees but excluding VAT.

- 12-month refurbishment period
- Vacant space let on a suite-by-suite basis
- 5-year term with 12 months rent free (20% discount)
- Leasing profile based on the disposal of one suite per quarter
- Estimated Rental Values:

○ Ground to 3 rd floor	-	£25.00 psf
○ 4 th to 6 th floor	-	£26.00 psf
○ 7 th & 8 th floors	-	£27.00 psf

Appraisal Summary

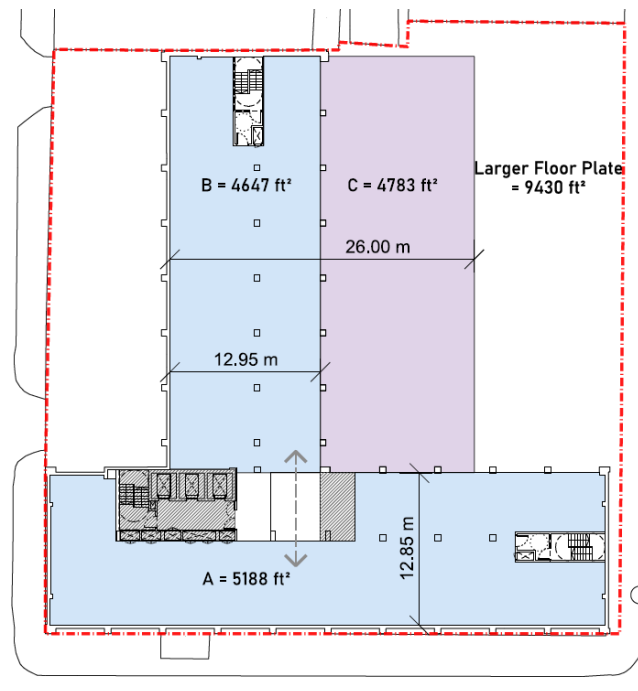
Purchase price	£9,352,000
CAPEX	£,6,500,000 (£84.70 per sq ft)
Hold Costs Excluding CAPEX	£3,604,248
Exit Yield	9.00%
Reversionary Yield	9.16%
Exit Price	£18,638,6811
Capital Value Per Sq Ft	£243
Returns Ungeared IRR	0.33%

Office Extension

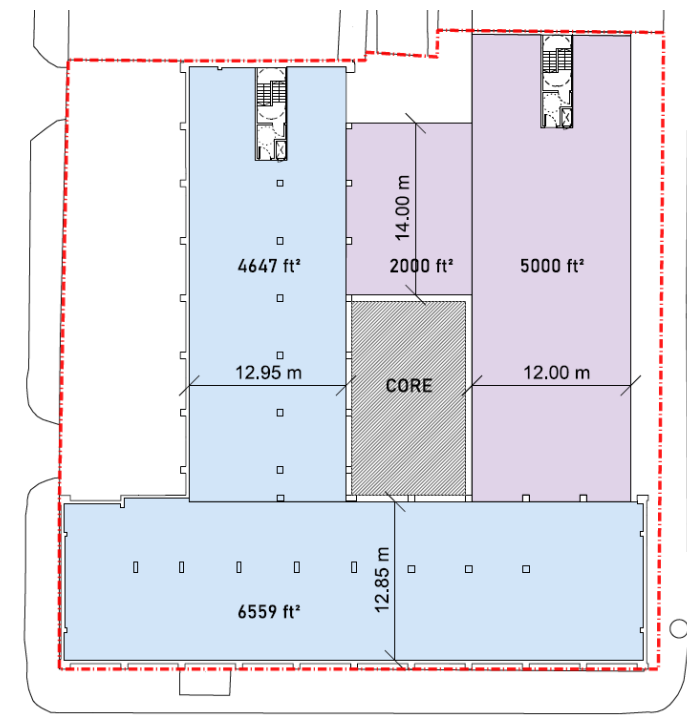
Alongside considering the refurbishment of the existing building. We have also reviewed the potential to extend the building into the car park area to increase the building floorplate.

We have provided below two sketches illustrating the potential extension options of the existing building:

Option A – Extension of floorplate to provide c. 14,600 sq ft (an additional 4,783 sq ft per floor)



Option B – Extension of floorplate to provide c. 18,200 sq ft (an additional 7,000 sq ft per floor)



Adding a new build extension to the existing building presents several design and viability issues which we have outlined below:

1. Floor-to-floor height

The floor-to-floor height of the extension will be dictated by the existing structure. The floors will need to align across the full floors of the building. This would mean any new building extension will also suffer the physical floor-to-floor restrictions of the existing building.

2. Occupational density and core configuration

In option A, the floor area of the building would be extended approximately 50% but no changes have been reflected in the core. The increased floor area will put pressure on the occupational densities of the WC's, lifts and fire escape capacity on the floor and across the building meaning the building would fail to meet building regulations. A full core reconfiguration will come at considerable cost and put further pressure on the appraisal.

3. Floorplate depth

On option A, the proposed floorplate would be c.26.00m deep. This exceeds BCO Guidance which recommends a maximum floor plate depth of 23.00m (window to window). BCO guidelines on floor plate depth are intended to ensure new developments do not deliver workspace that suffers from a lack of natural light. Not only does the depth of the floor plate in option A exceed recommended guidance on floorplate depth, the floor-to-floor height of the building would further exacerbate issue with natural light in the middle of the proposed floor.

4. Build cost v rental return

Both extension options at Boulton House would involve considerable new construction at a cost of c. £250 per sq ft plus. Despite the cost of delivery, the product delivered would be compromised by the floor-to-ceiling height of the space on offer.

There are significant viability issues in the delivery of new BCO compliant workspace caused by increased build cost, higher debt costs and the profile of yields on exit. The rent that the building can command would be restricted due to the physical drawbacks of the workspace being delivered and the significant cost of the new building extension make these additions unviability.

Summary

As shown by the Manchester City Centre office take up, key workspace trends have been evolving, changing the way that occupiers see and use office buildings. Office buildings are no longer just a place to come and work, but are engrained in the fabric of a business and its culture. ESG characteristics, with a focus on environmental performance and workspace amenity, have become some of the key features that occupiers consider when reviewing offices.

This has been evidenced with the flight-to-quality experienced in 2022, with over 30% of transactions occurring at rent over £30.00 psf and a new record rent of £45.00 psf secured in 2024.

Our analysis shows that just 40 transactions have been completed between 4,000 – 6,000 sq ft and at the target rent of £25.00 - £30.00 psf across the whole of the city centre since the start of 2023. Just **six** of these was completed in the Portland and Oxford Corridor district when Boulton House is located.

The depth of demand makes the lease up assumptions in the appraisal of one wing/suite per quarter look very optimistic.

Having reviewed Boulton House in its current form, the 1970 structure and floorplate configuration does not allow for the building to meet either modern office building standards or occupier occupational requirements.

As illustrated by the appraisal, the refurbishment of the building to deliver workspace would deliver returns of just £300K.

If a cosmetic refurbishment was delivered at a lower cost, the building would fail to provide the quality of workspace required to meet occupational demand. It would also become obsolete in 2030 when the Minimum energy Efficiency Standards are implemented requiring a minimum EPC of B. It is currently a C.

The historic leasing performance of Boulton House over the last 3 to 5 years and the inability of the building to attract new occupiers also illustrates the challenges faced by the property if no significant interventions and improvements are undertaken.

From our analysis and appraisal we do not believe that Boulton House is a viable proposition for use as a commercial workspace asset.