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JL/RJD/LM

Dear Zalman

**REF: 12-14 LEVER STREET, MANCHESTER  
STRATEGY AND MARKET COMMENTARY - SEPTEMBER 2024**

The following report has been requested to reiterate the advice recently provided due to the lack of marketing success of 12-14 Lever Street since original instruction in Spring 2023.

The recent advice was intended to provide an overview of issues faced whilst attempting to secure replacement income from office occupier(s) and provide solutions to ensure the property becomes income producing at the earliest opportunity from alternative uses where these are seen as most appropriate given the market dynamics and physical constraints of the building.

**1. Market Overview**

Manchester city centre is the UK's dominant regional market with over 1 million sq ft of consistent activity per year. It has established its position globally due to inward investment and public/private partnerships. These have successfully allowed consistently high levels of inward investment from businesses and investors across all business sectors.

Consistent regeneration and development, along with a strong labour pool helped by a robust retention rate within the student population aid in the continual evolution of the city, even with modern working styles that have been adopted in the last 2-3 years.

When considering offices in Manchester, it is important to highlight that it is one of the most diverse and resilient, demonstrated by its performance in the most notable downturns of the 2008-2013 recession and the more recent aftermath of the pandemic. In these cases, the annual take up in the city centre only saw inconsequential decreases from its peak and remained close to the 10-year average.

This is because of many active sectors and Manchester having a brand which very few cities across the UK have when attracting new companies and staff. These companies, whether moving within the city or into the city itself, are now more footloose than ever – which plays in to Manchester's hand – given the regeneration has ensured that every office building is situated near highly sought after amenities and transport, whilst retaining individual micro locational identities – Knowledge Quarter to the Northern Quarter or Spinningfields to the traditional CBD

This does also provide for a double-edged sword, given occupiers now have much more choice within the city and also require more from their office – as Landlords attempt to stay current and future proof their assets in line with more globally accepted and expected styles.



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## **2. Location**

12-14 Lever Street is situated in a prominent location in the Northern Quarter. A location usually synonymous with tech and fashion companies and creative industries. Since the last recession and from 2013/14 the city has seen its most notable evolutionary changes, with these fundamental changes in the Northern Quarter occurring from 2016 with larger inward investors and major renovation works to attract larger and more corporate occupiers.

Manchester regeneration and development teams have worked hard to ensure that each identifiable area of the city centre keeps its identity, however, is connected by high quality public realm and fewer barriers to movement for pedestrians.

In terms of 12-14 Lever Street and its micro-location, it is very much located in an area which would usually attract SMEs and companies who prefer the character space but also like to be equidistant to both Piccadilly gardens and the heart of the Northern Quarter, in Stephenson Square.

This location has over the last 1-2 years whilst marketing 12-14 Lever Street attracted a mixture of existing Manchester based organisations, inward investment and growing existing northern quarter companies. Some of which have considered the building and discounted it for several reasons we will touch on in due course.

## **3. Market Dynamics**

As mentioned earlier, the Manchester city centre office market has remained resilient in the face of economic adversity and in recent years. In terms of demand, it has been consistent with the average (10 year) annual take up still being around 1 million sq ft.

That said, take up is very sporadic from Quarter to Quarter in any 12 month period and it is hard to measure the success of the year until it concludes. Now larger transactions are boosting the overall take up performance, however there is not one area in the city centre that is having stronger results in terms of number of transactions. All areas of the city centre are generally down on the year-on-year performance, with general confidence in the engine room of the market (sub 5-10,000 sq ft) at a post Covid all time low, given this segment usually accounts for over 80% of transactions.

A large proportion of occupiers are also focused on 'easy in' space with them being so used to coworking/serviced space over the last 2-3 years – they simply turn up and the space is ready. More conventional lease length transactions therefore need to offer more than just bridging the gap. In some cases (subject to specific interested party) the below should be offered where not already available;

- Cabled
- Kitchen
- Meeting facilities
- Furniture – or the ability to deliver a solution on a short timescale.

Although 12-14 Lever Street has some existing fitted out areas, these are extremely bespoke and most occupiers have seen them as a hinderance based on their size and impact on the open plan areas – compounded by the inflexibility of the spaces due to the mid-section being truncated and separating.

Demand from alternative uses however considers these aspects less and feedback from Educational users has been more positive over the last 3-6 months as we have seen an increased number of parties in this sector. In fact nearly 80,000 sq ft of transactions have been in the educational sector in the last 12 months, with a similar amount considering new space or expansions in the city centre.

This is also causing further confidence concerns as Landlords are having to consider banking covenants alongside shortening lease lengths and factor in hugely increased voids and capital investment, over and above what has historically been the norm.

A building's ability to adapt is now vitally important to attract the demand that has been present over the last 12 months and continues to desire this type of space.

#### **4. The Market's Response to 12-14 Lever Street**

12-14 Lever Street was previously let in 2018 and at this time was well placed to attract a strong rent within the locality, as occupiers were more focused on location and address rather than many amenities which are now available in the main competition. Rents have seen an increase in some areas of the market, however most schemes that experience this offer a multitude of benefits over and above lesser counterparts.

Occupiers have become extremely focused on what a building offers, even at the 10-30 person business level, given they have grown their business in a Co Working centre and have been spoiled for choice. Namely they require aspects such as;

- Terraces
- Bike storage, lockers and showers
- Raised floors for easy data and power access
- Flexible open floor plates
- Full air conditioning
- Fully fitted solutions
- Short lease terms (sometimes less than 12 months)
- Shared break out spaces
- Concierge
- Stocked canteens

12-14 Lever Streets inability to offer the majority of these aspects has resulted in a negative response from interested parties during our protracted marketing campaign. The layout and fabric of the building unfortunately mean that any refurbishment now would be counterproductive as it would not provide any additional value to potential tenants. There is no additional areas to offer many of the things noted above - like additional cycle storage and showers, adapted layouts (due to the listed nature and overall configuration).

As a result, not only has the rental level for the building regressed, but the building is also becoming less and less suitable to office occupiers as other investors that can invest in their buildings without physical constraints are attracting the occupiers this building would have previously.

As other schemes gradually fill up in this sporadic market, focusing solely on office occupiers for 12-14 Lever Street is becoming notably more challenging, with potential for it to remain vacant for some time into the

future; given it has been marketed since Spring 2023, a much longer void/marketing period would be expected on schemes with many or all of the above aspects included.

As a comparison average void periods for this size of space, would be 9-12 months. This and Incentives are covered below and reiterate the challenges financially and how long it could take to let and become income producing if an occupier is secured at all.

## 5. Incentives

Unfortunately, these have increased in the market due to overall conditions post Covid. That said this is balanced with rental growth – which we have not seen at 12-14 Lever Street.

With the lack of ability to attract occupiers due to the property's constraints we have also attempted to offer enhanced incentives, however this has been counterproductive in the following ways.

- It has demonstrated that the current activity in the market is not focused solely on the financials – more on staff attraction and retention and hence why the amenities are so important.
- Has inadvertently expressed to the market that the building 'has something wrong with it' which is a perception from over offering incentives when against competitors.
- It has removed any chance of securing a 'market level' rental as the space is seen as subservient within the market.

## 6. Voids

Voids are intrinsically linked to the right market placement and what is offered and as demonstrated, 12-14 Lever Street is not best placed to attract office occupier demand based on its inherent flaws.

Edwards Property and JL Mcr Property have been marketing 12-14 Lever Street since Spring 2023 which we have already confirmed is significantly longer than many of 12-14 Lever Streets competitors. We have attempted to combat the void length by offering the building in as many configurations as possible and faced the following issues;

| Configuration          | Comments                                                                                                                                                                                                                                                                                   |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Single Occupancy       | There have been fewer occupiers in this size, location and style bracket which is consistent with year on year demand (only 8 transactions in 2023 around 10,000 sq ft of a total 221) limited occupiers are prepared to be spread over so many zones                                      |
| Single floor occupancy | Limited companies will consider their operation being truncated 50/50 on single floors with no ability to connect or vary the shape and this has resulted in being discounted by all the occupiers that viewed and since have taken space in competitors buildings.                        |
| Part floor occupiers   | This is the most active sector of the market (41% of transactions in 2023) and also the most competitive. Since commencing marketing has seen the most inspections. With a lack of lifts, high specification and amenities these occupier have and will continue to discount the building. |

The competing buildings that we have touched upon above consist of the following premises:

The Hive, Hilton House, Fourways House, Sevendale House, 35 Dale Street, Express Buildings & 86 Princess Street amongst others.

These properties have stronger fundamentals than 12-14 Lever Street which have allowed them to evolve and adapt as office occupier's requirement become more complex and demanding. These properties have therefore seen substantially higher success rates, lower incentives and void periods along with higher rental levels.

Many of the components that 12-14 Lever street lacks that the competition offers is as noted in section 3. A prime example is 35 Dale Street which had a similar rental level when it let space in 2018 ) the last time 12-14 Lever Street was let. They both achieved peak rents of £24 per sq ft. 35 Dale Street has now been able to achieve £30 + per sq ft, whereas 12-14 Lever Street's achievable rental level is now lower than its 2018 level, if let as office space.

## **7. Conclusion**

All in all this demonstrates that no matter what configuration we attempt to offer the building in, it is unsuitable for office occupiers – based on the multitude of factors – Configuration, added benefits (lack of), specification, and even with overtly aggressive financial discounts, this has been unable to counteract the buildings flaws.

12-14 Lever Street, which was originally a residential dwelling, has reached its physical constraints and therefore its ability to be current and can no longer compete against building that are more purpose built or adaptable for office accommodation.

Couple this with an increasingly competitive market, our chances of securing office occupiers are not sustainable given the continuing negative connotations it will result in and lack of income security. As with our initial recommendation it is no longer advisable to continue a campaign to secure office occupiers and we strongly believe that attempting to secure alternative uses will result in income security in the immediate future.

We trust the above is sufficient for your current purposes. Should you require any further clarification on the above, please contact us.

Kind regards,

Yours sincerely

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**This report was prepared jointly by JLMcr Property & Edwards Property Consultants.**