

Mitchells & Butler
27 Fleet Street
Birmingham
B3 1JP

Dear Mark

1-3 York Street, Manchester, M2 2AW

I refer to our recent discussion when you instructed Colliers to provide the freeholder with a detailed report as to the ongoing viability of the above accommodation being utilised as B1 offices, and to evaluate whether it is credible to convert to a Hotel use.

This report will demonstrate that the answer will be yes

The accommodation comprises as follows

Basement	4,225sq ft / 392.50 sq m
Mezzanine	657sq ft / 61.04 sq m
First floor	4,014sq ft / 372.90 sq m
Second floor	3,957 sq ft / 367.61 sq m
Third floor	3,870sq ft / 359.52 m
Total	16,723sq ft / 1553.57sq m

In order to evaluate this, it is important to consider the accommodation in context of the City Centre office market and analyse the letting performance of the building as office accommodation.

HISTORY

The office accommodation became available when the existing tenant, Linder Myers, vacated the property in September 2014.

Colliers were instructed to market the accommodation from that date up until July 2019.

Colliers were instructed to consider and peruse a office letting strategy that considered various disposal scenarios such as: -

i) Let the property as a whole or on a floor by floor basis

- ii) Let the property on a room by room basis and target start-up companies who require short term fixed price contracts
- iii) Market the upper floors as a long leasehold interest (999-year lease) to attract owner occupiers
- iv) Set up a management agreement with a serviced office operator

A marketing campaign was instigated with appropriate marketing literature in order to attract occupancies. In addition, we considered alternative uses as we were unsuccessful. We were unsuccessful in finding a tenant.

ALTERNATIVE USES

In an effort to generate commercially viable income it was also sensible to undertake a basic review of use options and undertake a viability study.

Consideration was given to the following options:

- Apart-hotel – the building is too small for a traditional hotel although there might be scope for converting the floors into an Apart-hotel.
- Budget hotel / bed and breakfast – As the floor layouts are already very cellular; the office accommodation could be converted into a budget hotel / bed and breakfast offer with double en-suite bedrooms. This use would complement the existing Browns facility as dining and leisure facilities are already on site and would not require any additional expenditure.
- Residential conversion – subject to acquiring the necessary planning permission you could market the building as a development opportunity aimed at residential developers. This might not be the most desirable option given the layout of the building it may be difficult to achieve efficient splits in the floor plates to provide profitable private residential accommodation.
- Medical consultation rooms – by splitting the floors up into small rooms we would be able to target dental practices, private doctors / consultants and health and beauty operators. Given the buildings location and layout, it may be possible to attract a main line cosmetic surgery company.

MARKETING STRATEGY AND TOOLS

Colliers marketed the building aggressively in order to successfully find an office occupier. As such we produced and utilised the following tools and initiated a sustained marketing campaign

Marketing		
Method	Comments	Cost
Marketing Board	The building occupies a prominent location and the footfall generated by Browns make this building an ideal property for a marketing banner. We will consider a number of options and look to	£1,000

	find the most effective solution whilst keeping the buildings listed status in mind.	
Brochure / I Brochure	We recommend commissioning an electronic brochure for this building. It is much more cost effective than hard copy brochures and it can be printed if required.	£2,000
Mailing / Emailing	Target mailing campaigns can generate significant interest. This can be done electronically with the I Brochure. The main associated cost would be for up to date occupier's mailing lists in this area.	£1,000
Advertising	We recommend advertising the property in various web based / hard copy publications, many of which are free of charge. I.e. Egi Property Link, Commercial Property Register, Wantspacegotospace and CoStar.	£1,000
Agent Event	In an effort to generate interest it is important to showcase the building to all office agents in central Manchester. This can be undertaken effectively by hosting an informal agents breakfast / lunch. Clearly we can make use of Browns to provide the catering.	£1,000
Total		£6,000 excl of Vat

During the period that we marketed the accommodation we experienced constant resistance from many occupiers due to the fact that the floors were so cellular.

We undertook numerous inspections but all of the companies that inspected dismissed the accommodation and acquired alternative office space that was more open plan elsewhere in the city.

During this period Colliers successfully let other office premises. The market was buoyant, so we cannot blame the failure on the economy or the market. We set out below a detailed analysis of the take-up of office accommodation in terms of size and amount and quality during the period of the marketing.

Fig.3 Size band analysis of take-up

Month	Number Of Deals	0 - 1,000 sq. ft.		1,001 - 2,500sq. ft.		2,501 - 5,000 sq. ft.		5,001 - 10,000sq. ft.		10,001 + sq. ft.	
		deals	sq. ft.	deals	sq. ft.	deals	sq. ft.	deals	sq. ft.	deals	sq. ft.
2018											
January	18	7	2895	6	11,189	2	5,635	2	11,096	1	15,150
February	21	7	6,716	3	3,313	7	24,418	3	20,550	1	12,540
March	38	6	3,965	12	21,061	9	23,998	11	73,519	3	201,691
April	13	2	1,109	7	10,810	2	8,503	1	6,920	1	14,880
May	21	7	3,478	6	8,125	6	20,913	2	11,936	0	0
June	41	9	5,408	10	17,513	15	49,812	2	15,475	5	151,471
July	15	3	1,599	8	10,794	3	12,256	0	0	1	11,500
August	13	1	771	3	4,851	5	19,038	2	18,518	2	25,034
September	36	10	5,059	13	22,008	6	23,552	2	12,259	5	313,255
October	20	7	3,382	7	10,846	3	10,741	2	13,400	1	89,449
November	29	11	5,233	8	12,822	5	17,120	2	14,117	3	47,806
December	49	8	3,709	21	33,749	11	41,897	4	27,841	5	181,069
2018 TOTAL	314	78	43,324	104	167,081	74	257,883	33	225,631	28	1,063,845
2019											
January	21	7	3,534	8	12,736	1	4,167	2	11,879	3	49,7423
February	18	5	2,778	6	12,784	2	7,485	3	24,757	2	33,316
March	22	4	2,064	9	15,165	2	6,432	3	17,799	4	110,408

Fig. 1 Quarterly Take-up

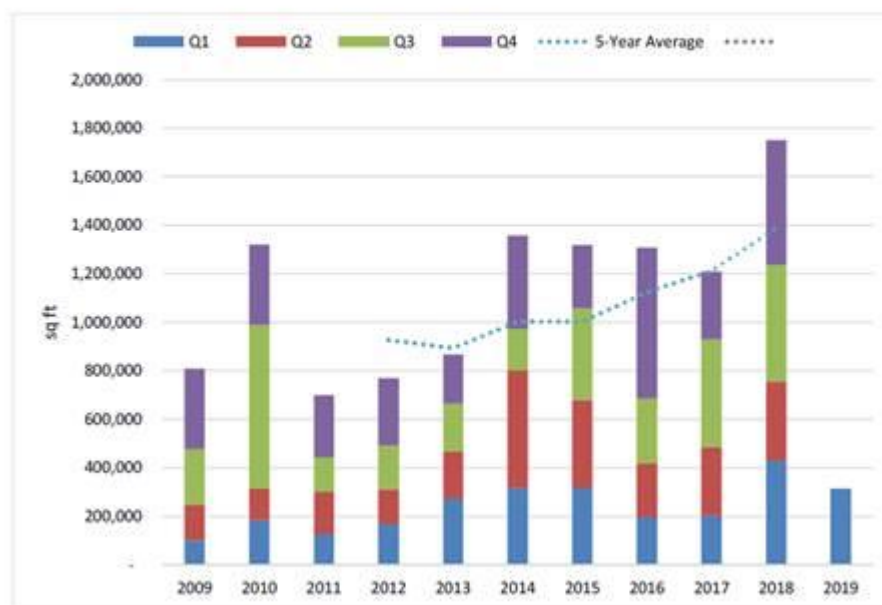


Fig. 2 Annual take-up with Grade A

Year	Total Take-up (sq.ft.)	Grade A (sq.ft.)	% of total
2008	1.04m	275,802	27%
2009	1.33m	347,243	26%
2010	1.32m	701,990	53%
2011	699k	139,037	20%
2012	788k	102,366	13%
2013	881k	89,674	10%
2014	1.33m	247,068	15%
2015	1.318m	407,197	31%
2016	1.306m	297,871	22%
2017	1.209m	286,744	24%
2018	1.750m	173,497	10%
Q1 2019	314,733	147,312	46.8%

“The market” effectively spoke and stated that the building is no longer commercially viable in its existing use as an office building.

This was due to the physical constraints of the built form and the position of the entrance lobby, size of the reception area and lobby areas, inadequacy of the building services, passenger lifts and WC provision.

The lobby area was far too small and was not well received.

The property remained vacant for 5 years.

The Colliers team comprised very experienced office real estate advisors including Michael Hawkins – 30 years’ experience, Peter Gallagher 45 years’ experience and Dominic Pozzoni 24 years’ experience.

Our combined efforts and vast experience failed to achieve a letting.

It is out professional opinion that should the building continue as an office, it will remain vacant and no occupiers, are likely to be attracted to it.

The loss of this office building which currently forms part of the total available city centre office stock would not be detrimental to the commercial vibrancy of the City Centre office market.

Market Analysis

Significant consideration has been given to addressing the concern about diminishing office stock, should 1 – 3 York Street Manchester cease to be utilised as an office building.

The other key aspect affecting the attractiveness of this accommodation is that the companies may have considered this accommodation in the past now have a vast array of options in the co working and managed work space of which there is 1.3 million Sf in the Manchester City Centre market.

There is a plentiful supply of good quality modern available office space in the City Centre that is more suited to current modern occupier demands.

Conclusion

Colliers has concluded the following:

-The building is no longer commercially viable in its existing use as an office building. This is due to the physical constraints of the built form and the position of the entrance lobby, size of the reception area and lobby areas, inadequacy of the building services, passenger lifts and WC provision.

-Should the building continue as an office, it will remain vacant and few, if any, occupiers, are likely to be attracted to it.

-It will have an increasingly significant negative impact on the streetscape further exacerbated by its highly prominent location.

-There is no commercial justification / capability to undertake any improvements to the interior of the property.

-The loss of this office building which currently forms part of the total available city centre office stock would not be detrimental to the commercial vibrancy of the City Centre office market.

The conversion of the building into a credible hotel on a pre-let basis provides the opportunity to facilitate the comprehensive refurbishment of an existing tired building into an architecturally stimulating building that fully functions and adds to the vibrancy of Manchester City Centre.

Without refurbishment for a hotel, the opportunity would be lost to secure significant direct investment and multiple spin off economic, social and community benefits.

I am more than happy to expend upon any aspect of this report and attend any meetings with representatives of Manchester City Council if that would help.

Kind Regards

A handwritten signature in dark ink, appearing to read 'Michael C Hawkins', with a stylized flourish at the end.

Michael C Hawkins