CITY CENTRE MARKET
MANCHESTER

Manchester's residential markets are highly active, from the sales and rental markets to institutional private rented communities through to new development. Demand is far outstripping available supply in both the sales and lettings markets which has led to significant value growth during 2015 and in the near-term there will not be enough new development to alter this dynamic. The outlook is for increased development, but not enough to halt expected price and rental growth over the next couple of years.

Sales market

The Manchester city centre sales market is witnessing a strong uplift in prices amidst a notable imbalance between demand and available supply.

Typical prices of one and two bedroom flats in the city centre were circa £135,000 and £210,000 respectively at the end of 2015, having increased by 9.5% on average during 2015.

Buyer appetite has risen significantly during the past year, having already been pretty strong, with both owner-occupiers and buy to let investors active.

There is particularly high demand at the top end of the market, with ever increasing numbers of buyers looking to spend in excess of £250,000. The very upper end of the market, above £750,000, is also witnessing greater demand. However, there are very few properties available, or in existence, at these price points. Manchester's developers have become aware of this recent trend and we are awaiting their response. In the meantime, however, prices continue to climb.

Rental market

The city centre lettings market has become even more active and squeezed during 2015. New build rental demand is led by new graduates and young professionals but there are also an increasing number of students, from both overseas and the UK, looking at new or nearly new apartments.

While several are renting out of choice and convenience there are additionally many who are renting because they cannot yet afford to buy. Despite this, tenants are increasingly attracted to developments which provide a higher level of service and amenity such as a gym and concierge, with rental level not seemingly too great a deterrent for many.

The demand and available supply imbalance has become increasingly notable during 2015. JLL research highlights that there have been more than six applicants per letting in 2015 with the average letting being secured less than 72 hours after marketing. These figures also emphasise the need for more rental stock in the city centre.

Market pressures have led to an 8.5% average increase in rental levels during 2015 with a typical two bedroom apartment now commanding in excess of £1,000 pcm.

Development market

The short-term prognosis for the development market is that there is not nearly enough new stock to meet demand, but with an abundance of schemes in planning or pre-planning we are not anticipating that all schemes will get built out in the medium-to-long-term. These figures, however, clearly reflect the positive appetite and enthusiasm for residential development in England's ever-progressing second city.

There are almost 3,500 units under construction in Manchester city centre as at the end of 2015 but, significantly, all bar a few units have been sold off-plan well ahead of completion.

There are 9 schemes underway with Renaker's 500 unit Greengate development the largest. There are a further five schemes of more than 300 units including Renaker's Wilburn Basin, Urban and Civic's Princess Street and the next phase of residential at MediaCityUK.

Additionally, there are just over 3,000 units with planning permission, almost 5,000 units at planning application stage and nearly 20,000 units pre-planning.

Of short-term concern is that there have been no new scheme launches since summer 2015, when Hatbox was marketed. And with no further launches scheduled until mid-2016, we are anticipating even greater tensions between demand and supply in 2016.

A key development trend is the growing demand for apartments with higher specification and for schemes with better amenities such as resident lounges, gyms and concierge.

MANCHESTER CITY CENTRE

SALES MARKET

AVERAGE

£135k 1 bed	£210k 2 bed

PRIME

£170k 1 bed	£265k 2 bed

RENTAL MARKET

AVERAGE

£795 pcm 1 bed	£1,050 pcm 2 bed

PRIME

£1,025 pcm 1 bed	£1,495 pcm 2 bed

PRICE GROWTH

2013	2.6%
2014	6.3%
2015	9.5%

RENTAL GROWTH

2013	5.1%
2014	10.0%
2015	8.5%

Source: JLL

LAND MARKET & OUTLOOK
MANCHESTER

Private Rented Communities

There is significant and growing interest in the Manchester PRC market from institutional funds based in the UK and from overseas, predominantly from North America and the Middle East.

There are three PRC developments under construction with the possibility of a further eight starting on site during 2016. These include the first large-scale forward funded PRC product at New Bailey in Salford where L&G are funding the first block of 90 units.

A significant part of the future supply pipeline in Manchester is also now targeting the PRC sector. This includes around 2,000 units at Middlewood Locks, circa 600 units at St John's and a prestigious scheme of around 480 units at Muse's New Victoria.

Typically, investors forward funding city centre schemes are buying at 4.5-5.0% net initial yield (NIY) and an 8% ungeared internal rate of return (IRR).

Land market

Housebuilder confidence in Northern England has remained high, as evidenced by the increased transactional activity in the land market during 2015.

However, PLC housebuilders are becoming increasingly selective on their acquisition targets in secondary locations as a more liberal planning system has significantly increased the available supply of land in these areas. As a result, demand for brownfield land in these locations has waned as developers are finding an increased offering of more attractive development opportunities elsewhere.

Whilst affordable housing providers may not welcome the Government's new Starter Home policy, private housebuilders are keenly awaiting clarity on this initiative. Very strong demand for this new product is expected, which should provide a boost to the land market, especially in less favoured secondary and tertiary areas.

Demand and values for prime land have marginally improved over the past 12 months as land supply in premium areas is still very constrained. Developers have also been encouraged by the rise in values in the housing market, which have been helped by the limited supply of new product coming to the market.
With increasing demand for these prime sites in particular, and continued under supply, competitive tension in the Northern England land market is set to rise further during 2016.

Outlook

The prospects for the Manchester residential market remain very bright. Supported by a strong and expanding economy, labour force and population, demand for housing is expected to increase further over the next five years.

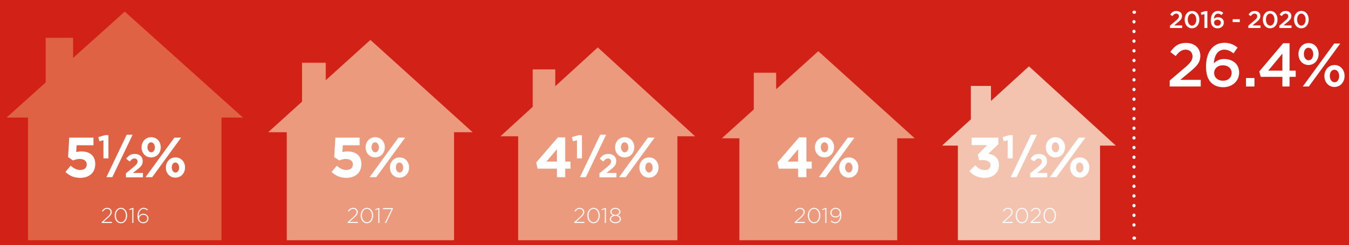
Although some schemes will complete in 2016, there will remain a dearth of new stock finishing over the next couple of years which will be insufficient to meet the growing demand, both for owner-occupied and rental stock.

As a result, we are forecasting sales prices to rise by 5.5% in 2016 and by an average of 4.5% pa over the 2016-2020 period. We are also predicting strong rental growth, with rents expected to increase by 5% in 2016 and by an average of 4.2% pa over the five years 2016-2020.

In addition, we expect further growth in the institutional PRC market with more investors and more schemes coming forward. We are also anticipating a notable raising of the bar in terms of the specification of units being delivered and in the amenities being provided within developments in Manchester, to a level never before witnessed in the city.

MANCHESTER HOUSE PRICE FORECASTS

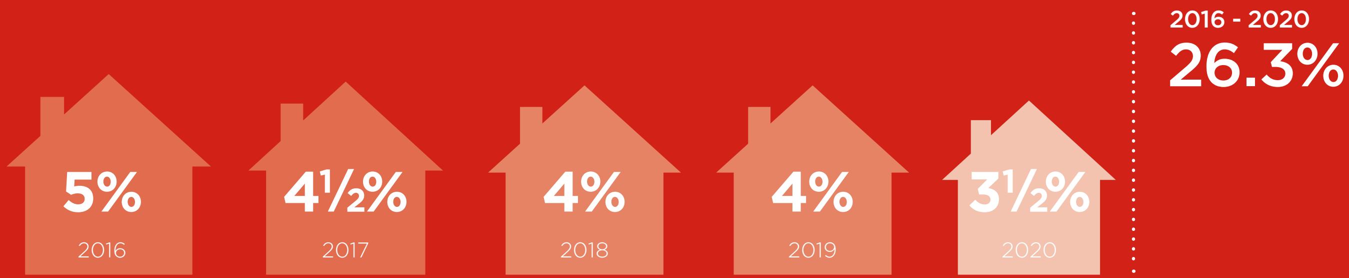
% change pa



Source: JLL

MANCHESTER RENTAL GROWTH FORECASTS

% change pa



Source: JLL

"The PRC investment market is extremely competitive with increasing interest from international investors vying with UK institutions for large-scale prime schemes. Key regional centres such as Leeds, Liverpool and Manchester have emerged as a focus of investor's attention due to the more attractive returns on offer compared with London & the South East. This is coupled with strong population growth forecasts and an improving economic backdrop."

Robert Hogarth
JLL Residential Investment, Manchester