

MANCHESTER / SALFORD RESIDENTIAL MARKET TRENDS

The market, like most, had until recently experienced a prolonged period of positive sentiment, increased activity and strong price growth, and it is fair to say that the city market was one of the strongest performing, with aggressive price growth driven partly by inward investment from overseas.

The market, like all, however now enters a period of relative uncertainty amidst the convoluted Brexit process and wider political instability. Some purchasers appear to be adopting a 'wait and see' approach, which may cast a cloud over the direction of the market until such time that there is a greater understanding of political position. That said, activity in Manchester and across the North West more generally has remained relatively robust with appropriately priced properties continuing to attract good interest and readily transact.

Following a long period of under supply, Manchester city centre is now currently seeing a record level of new development. There are currently over 48 schemes under construction which will see over 14,000 new units delivered over the next few years, albeit this figure includes a number of Build to Rent developments.

The increase in development activity is partly driven by a sustained period of undersupply post the GFC. It is also partly in response to the rapidly growing population living in the city centre and the ability to tap in to the overseas markets and drive premium values.

Strong price growth has been seen over the last 3 years. This is expected to moderate given the level of new supply coming on stream. Whilst new build residential is generally considered affordable one concern is the number of schemes targeting the high end market where the pool of demand is naturally lower.

Manchester has become a focus for investors including housing associations, property companies, UK and European Institutions, private equity as well as capital from the Middle East, China and US. This has partly been boosted by the HCA Build to Rent funding schemes that has helped unlock sites.

The BTR pipeline in Manchester is very significant but a direct response to the undersupply and growing demand. This development activity has continued in 2018 with major schemes commenced including Ask's Embankment West (694 units), Bruntwoods New Broadcasting House (418 units) and The Crescent in Salford (399 units). Other significant schemes currently under construction include Angel Gardens (458 units), Clipper Quays (600 units) and Kampus (550 units).

The apartment market in Salford Quays is being driven by the development of MediaCityUK and surrounding areas of The Quays. It is a prime location to live and work and is closely associated with Manchester city centre. There is a value differential between here and the prime city centre stock but it is generally well regarded and growing in popularity as the wider area is increasingly redeveloped.

The MediaCityUK development in Salford will deliver additional housing over the coming years, some of this will be into the private housing market but much is likely to be delivered for Built to Rent.

The main scheme that will be delivered is Pier 7 which is currently in planning stage to be developed by Royalton and Frogmore. This scheme will deliver 1,000+ apartments will be a combination of open market sales and PRS.

According to the property website Zoopla (based on Land Registry data) the average house price in Salford Quays as of June 2019 stands at £261,125 and is below that of the UK at £309,156. They are also reporting that the average price paid in Salford Quays over the last 12 months is £224,460. The average value and average price paid over the last 12 months per house type in the area is as follows:

Property Type	Average Value	Average £/sq.ft	Average Beds	Average £ Paid
Detached	£312,553	£218	3.9	£356,103
Semi-Detached	£199,937	£200	3.2	£213,051

Terraced	£144,795	£176	2.8	£170,808
Flats	£162,879	£258	1.8	£160,123

Figure 7: Property Values in Salford Quays, June 2019 (source: Zoopla)

There have been 40 sales across all property types in Salford Quays over the last year. The most active price point is between £150,000 - £200,000, with 34% of sales occurring within this range. The Salford Quays market is evidently strong with transactions also occurring above this range. Additionally, 23% of sales are between £200,000 - £250,000 and 15% are between £250,000 - £300,000.

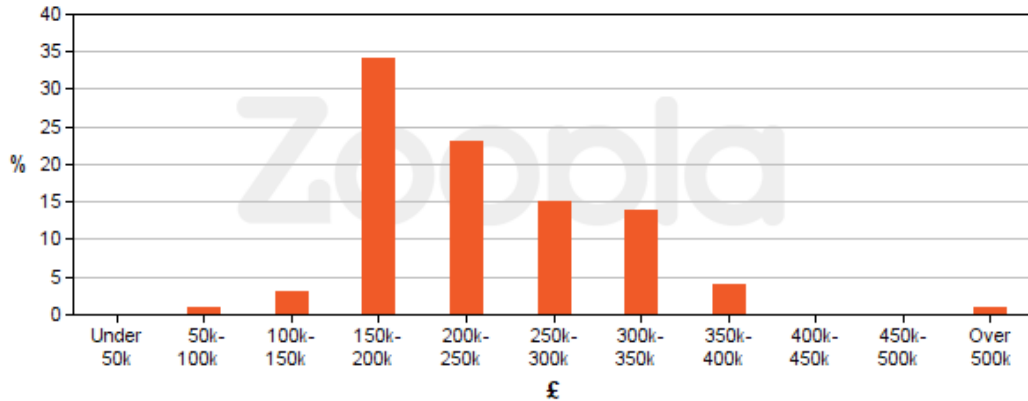


Figure 8: Value Ranges in The Quays, Salford M50, June 2019 (source: Zoopla)

Manchester / Salford Supply

There are wide ranging forecasts of the number of apartments both currently under construction and those with planning consent but not yet on site. The differing figures are largely due to there not being a universally accepted definition of the city centre market. The raw data all comes from the same source, planning applications made to Manchester and Salford City Councils. The extent to which city fringe locations should be included in supply figures causes the disparity.

Deloitte's Manchester Crane Survey is well established, and in addition to detailing current supply, they are able to refer back to their historic reports and demonstrate trends, better than most other commentators. Their most recent edition (February 2019) reports that there are 14,489 residential units currently under construction (double that under construction in 2016), with anticipated residential delivery over the next 3 years due to exceed the previous 10 years combined.

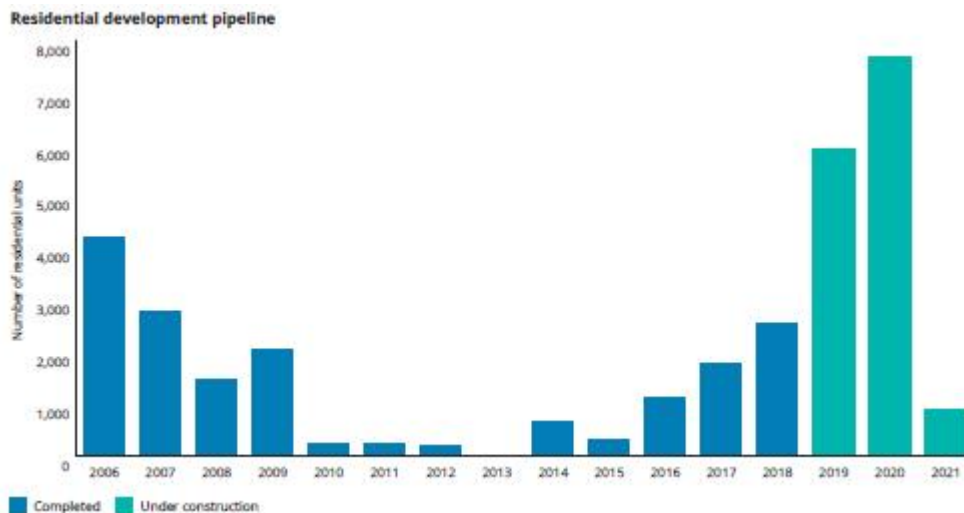


Figure 9: Residential Development Pipeline

Source: Deloitte Manchester Crane Survey 2019

Deloitte comment that “for the third consecutive year, the residential sector has been the main driver of the record levels of development activity in Manchester, clearly evidenced by the large number of cranes visible on the city’s skyline. 48 residential schemes were on site in 2018, up from 41 in 2017, and these are set to deliver an impressive 14,480 units. 3,345 more units are under construction compared to the same time last year and the projected delivery over the next three years is greater than the total number of residential units delivered between 2007 and 2018. Based on 2017’s construction figures, it was reasonable to assume that new construction starts and the growth in this sector may have been subdued in 2018. This expectation was compounded by an anticipated period of economic and political uncertainty due to Brexit. Crane Survey 2019 data evidences ongoing investment in the residential market, with 5,733 units commencing construction on 23 new sites in 2018.

New starts during 2018 included Embankment West by Select Property Group (503 units); Mount Yard by FEC (136 units); Elizabeth Tower at Crown Street by Renaker (664 units) and Crusader Mill by Capital and Central (201).

Density and scale continue to typify residential construction activity. Large schemes form the majority of the construction pipeline with 17 schemes set to deliver more than 350 units each. The pattern of tall buildings being delivered around the inner ring road is now taking shape and making a significant impact on the skyline, with nine schemes of over 25 storeys at various stages of construction.

2018 was also a landmark year for completions in the residential sector. In total, 2,569 units completed, the highest level since 2006 and 1,317 units more than in 2017. These figures were bolstered by the completion of several build-to-rent schemes in Ancoats and New Islington, including Manchester Life’s Smith’s Yard and Sawmill Court and Mulbury’s The Astley. A further five schemes were completed in Salford, including phases of Slate Yard Wharf and Middlewood Locks.

Salford city centre is the location of a cluster of residential developments with 1,299 units delivered and seven new starts in 2018. In total, 5,963 units are under construction, meaning that Salford has overtaken neighbouring areas as a key residential growth area and recorded the highest level of completions in 2018. The Chapel Street corridor has been a major contributor, with schemes such as Chapel Wharf and The Crescent under construction. The Salford University campus masterplan, plus further phases of development at Greengate, mean that this area has significant further potential, supported by improved connectivity with Manchester City Centre.

SALES EVIDENCE

The Lightbox, MediaCityUK

This is a development of 238 x 1, 2 and 3 bedroom apartments. It is located within MediaCityUK itself which is considered to be the prime location in Salford Quays. We have reviewed the sales details and the proposed specification is high in the context of the local new build market with high quality fixtures and fittings. We have been provided with the most recent pricing schedule, with the following range of unit types and reservation prices:

Type	Size (Sq.Ft)	Reservation Price	£/sqft rate
1 bed studio	430	£130,000 - £136,320	£302 - £317
1 bed	495 - 513	£159,312 - £168,950	£310 - £341
2 bed	700 - 850	£236,000 - £310,888	£325 - £384
3 bed	983	£335,000 - £358,500	£340 - £365

Figure 10: Lightbox Sales

This development has reportedly been sold off plan at asking prices to a mixture of foreign far eastern and UK based investors.

It is worth noting that the most recent sales are also for the apartments on the higher floors and that this, as well as the movement in the market, will be reflected in the prices. The previous release of units were achieving average values in the order of £315 - £320 per sq ft.

The Exchange, Elmira Way, Salford Quays

This is a scheme by X1 Developments of 140 x 1 and 2 bedroom apartments which completed in Q2 2016. It is located off Trafford Road on the outskirts of the Salford Quays area also bordering the Ordsall area. The specification as detailed in the marketing brochure is of a mid- level specification in the context of the local new build market.

Purchasers are being offered an assured net yield of 6% in the first year of tenancy. Assured yields are often unsustainable however the provision of such can often inflate pricing and so it is prudent to adopt such values with some caution.

Address	Beds	Sqft	Sold Price	£ per sqft	Date
Apartment 408	2	619	£180,000	£291	Jun-18
Apartment 709	2	570	£175,000	£307	Jul-18
Apartment 302	2	619	£170,000	£275	Mar-18
Apartment 307	2	700	£165,000	£236	Aug-18
Apartment 316	1	431	£133,800	£310	Sep-18
Apartment 303	1	431	£130,000	£302	Mar-18

Figure 11: The Exchange Sales

The average value across these sales is £283 per sq ft.

Hudson Court / Madison Court / Lexington Court, Broadway, Salford Quays

A collection of three purpose built blocks similarly located to the north side of Broadway, some 0.2 miles west of the subject and so is similarly peripheral however this scheme is further compromised resulting from its position adjacent to a timber merchant and for this values are perhaps lower than would otherwise be expected.

The most recently completed sales, according to Land Registry data, are as follows:

Address	Beds	Sq ft	Sold Price	£ per sqft	Date
306	1	520	£128,000	£246	Feb-19
405	1	633	£146,000	£231	Mar-19
511	1	560	£145,000	£259	Dec-18
210	2	572	£157,000	£275	Sep-18
108	2	645	£165,000	£256	Jul-18
305	2	657	£155,000	£236	Jul-18
110	2	560	£162,000	£289	Jun-18

Figure 12: Hudson Court / Madison Court / Lexington Court

The 1 bed sales equate to an average of £245 per sq ft and the two beds an average of £263 per sq ft. The apartments here are fitted out to a reasonable standard and have retained a relatively modern feel despite now being circa 10 years old.

Vancouver Quay / Winnipeg Quay, Salford Quays

A slightly dated scheme but nevertheless very centrally located adjacent to the Lowry Outlet, some 0.7 miles south west of the subject, and so within easy walking distances of all the amenities with the Quays and so too well connected to the Metrolink network.

The most recently completed sales, according to Land Registry data, are as follows:

Address	Beds	Sq ft	Sold Price	£ per sqft	Date
36	2	592	£218,000	£368	Aug-18
54	2	883	£230,000	£260	Sep-18
60	2	618	£182,500	£295	Feb-17

61	2	591	£185,000	£313	Oct-17
75		560	£160,000	£286	Jun-17
97		682	£187,500	£275	Jun-17
99		649	£175,000	£270	Sep-17
11	2	689	£195,000	£283	Aug-18
22	2	664	£188,000	£283	May-18
23	2	700	£179,950	£257	Aug-17
34	2	700	£184,000	£263	Jul-17
39	2	708	£174,000	£246	Jun-17
42	2	689	£200,000	£290	Aug-18
58	2	678	£245,000	£361	Sep-18
78	2	635	£191,000	£301	Apr-18

Figure 13: Vancouver Quay / Winnipeg Quay Sales

The average of these sales equates to £287 per sq ft.

Given the age of the scheme, in many instances, save for where apartments have been refurbished, the accommodation is generally basic and of an age and therefore we would expect the subject units to have a better standard of accommodation being new.

Labrador Quay, Salford Quays

Located just to the east of Vancouver Quay / Winnipeg Quay, and forming part of the same development and so likewise better located than the subject but, again the units here are of a comparable age and therefore similarly dated. The most recently completed sales, according to Land Registry data, are as follows:

Address	Beds	Sq ft	Sold Price	£ per sqft	Date
41	2	635	£188,000	£296	Jan-19
167	2	657	£191,000	£291	Dec-18
12	2	657	£189,000	£288	Sep-18

Figure 14: Labrador Quay Sales

The average of these sales equates to £291 per sq ft. Again we would expect a slight discount at the subject to reflect the noticeably inferior location.

XQ7 Building, Orsdall Lane, Salford Quays

Another purpose built block located some 0.7 miles south of the subject, to the south side of Orsdall Lane and adjacent to Exchange Quay Metrolink station. The development was completed in the early 2000's and therefore whilst are of a reasonable quality, the apartments are now of an age. The most recently completed sales, according to Land Registry data, are as follows:

Address	Beds	Sqft	Sold Price	£ per sqft	Date
924	1	455	£128,000	£282	Mar-19
524	1	452	£135,000	£299	Mar-19
624	1	517	£127,000	£246	Dec-18
728	2	754	£175,000	£232	U/O
1009	2	675	£165,000	£244	Mar-19
402	2	689	£172,650	£251	Mar-19
1121	2	633	£180,000	£284	Mar-19
1113	2	710	£192,500	£271	Jan-19
1214	2	630	£195,000	£310	Dec-18

1222	2	639	£189,950	£297	Dec-18
1224	2	622	£186,000	£299	Nov-18
719	2	687	£175,000	£255	Oct-18
830	2	678	£178,000	£262	Oct-18
1103	2	623	£193,000	£310	Sep-18
607	2	710	£178,000	£251	Aug-18
723	2	677	£176,500	£261	Aug-18

Figure 15: XQ7 Building Sales

The average of the one bed sales equates to average of £274 per sq ft and the two bed sales an average of £270 per sq ft. This is better located than the subject offering immediate access to public transport and immediate access to amenities albeit that said, it is still slightly peripheral in the wider Quays context. We would expect the subject apartments to now deliver a better standard of accommodation. The subject

X1 Elmira Way, Salford Quays

A collection of relatively new build blocks by X1 Developments dating from between approximately 2005 and 2016, located along Elmira Way just to the north of the XQ7 Building, describe above. The most recently completed sales, according to Land Registry data, are as follows:

Address	Beds	Sq ft	Sold Price	£ per sqft	Date
359 Spinner House	1	441	£130,000	£295	Mar-19
260 Endeavour House	1	441	£122,500	£278	Oct-18
1 Brindley House	1	592	£119,000	£201	Sep-18
235 Endeavour House	2	700	£160,000	£229	Apr-19
38 Walker House	2	651	£167,500	£257	Dec-18
18 Egerton House	2	570	£156,500	£274	Oct-18
54 Walker House	2	797	£191,250	£240	Oct-18
20 Platt House	2	632	£155,000	£245	Sep-18
1 Platt House	2	635	£160,000	£252	Sep-18

Figure 16: X1 Elmira Way Sales

The average of the one bed sales equates to an average of £252 per sq ft and the two bed sales an average of £249 per sq ft. This scheme is better positioned than the subject and the units generally feature a reasonable albeit basic standard of accommodation, appropriate for the location and market however we would expect the brand new accommodation at the subject to be of a better standard.

As highlighted previously and relevant to all schemes detailed above, the unit sizes at the proposed scheme are generally much smaller and so we would expect a high rate per sq ft owing to the typically inverse relationship between size and value.