Knight Frank

THE BIRMINGHAM REPORT

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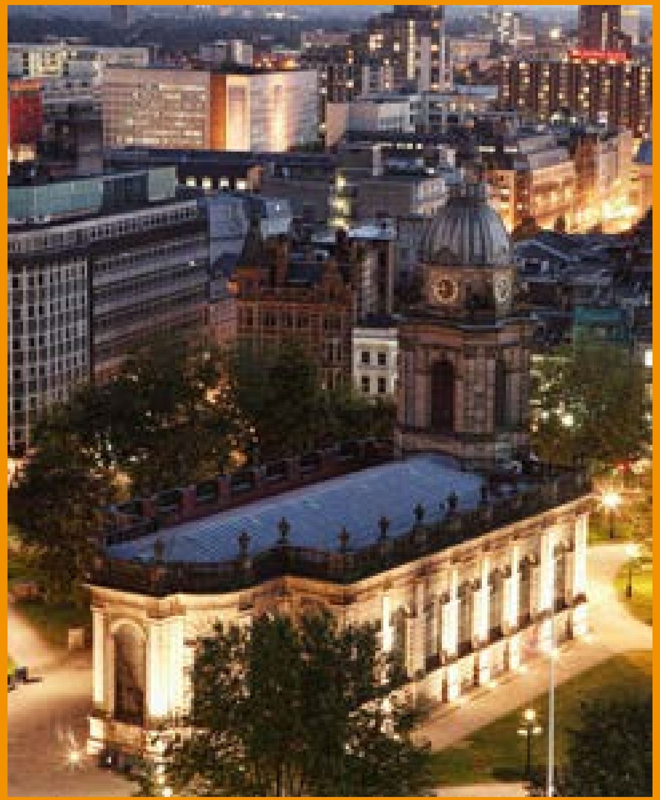

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FOREWORD

Andy Street, former managing director of John Lewis, and former Chair of the Greater Birmingham and Solihull Local Enterprise Partnership.

Perhaps we are a lucky generation here in Birmingham, but that luck brings a touch of responsibility. "Lucky" because the property sector and wider business community is currently moving at great speed. That provides opportunity for lots of us to play just a small part in defining our city's history. Inevitably, though future generations will say, "What did the class of 2016 make of their chance?" As ever the architecture we leave will, in one way define us.

The renaissance here is clear for all to see. Cranes on the City's skyline provide the daily reminder of progress, whilst openings of new ventures are commonplace. However, we should not forget that this dynamism is the result of great forethought, patience, and risk taking on many peoples' part. Waheed Nazir, the City Council's Development Director deserves huge praise for the vision of the 2010 Big City Plan - a genuinely long-term framework. Similarly, the LEP's seizure of the Enterprise Zone opportunity has been transformational. And most importantly, private business has waited its moment and then been decisive in its risk taking. The bets on Birmingham's future are impressive.

John Lewis is amongst those who have placed a bet, and it was a moment of huge personal pride when we opened a store last year at Grand Central. The welcome has been superb, and we now have a splendid West Midlands line up including our shops in Solihull and Tamworth. But John Lewis Birmingham is literally just the cherry on top of the remarkable rebirth of New Street Station. The architects, designers and contractors deserve great acclaim for seeing the potential to create what must now be one of the finest railway stations in Europe. It is a statement of our ambition. Thank you to them, and the whole Development sector for a splendid year.

One senses we have not seen anything yet, as the investments press firmly on, and look to be resilient to the Brexit shock. For me the biggest symbol of this is the evolution of The Grand Hotel as a venue to live up to its name. Moreover, it decisively addresses what had become a symbol of tougher years in Birmingham. Almost next door, the demolition of 103 Colmore Row is similarly totemic. Personally it is tinged with sadness as it was the scene of my first ever job interview - mixed memories there!

"THE RENAISSANCE HERE IS CLEAR FOR ALL TO SEE. CRANES ON THE CITY'S SKYLINE PROVIDE THE DAILY REMINDER OF PROGRESS, WHILST OPENINGS OF NEW VENTURES ARE COMMONPLACE"

Naturally, the property sector is highly representative of the health of the wider economy across the West Midlands. Encouragingly any basket of economic statistics reflect the regions on our new-found, but genuine, leadership of the UK. This has come about through unprecedented collaboration right across our region, and between the public, private and academic sectors. Moreover, the leading indicators, such as investment, and business start-ups provide confidence that we are building a sustainable position. That is the prize.

We should, however, recognise that much of our success has been based on the City Centre, the dynamo that is Solihull, and the entrepreneurial towns that make up the balance of the Local Enterprise Partnership area. There remains much to be done in some of our local suburban centres. My hope is that the proven energy of the development sector can be applied with the same vigour to these areas and thus spread our economic success. There are wonderful heritage buildings to be preserved, and opportunities to share our current energy more widely. Perhaps that will define our generation's legacy, beyond our wonderfully re-imagined City Centre.

Since writing this piece, Andy Street has stepped down from his role at John Lewis to stand as the Conservative candidate for Mayor of the West Midlands.

Also standing for election are Sion Simon for the Labour party, Beverley Nielsen for the Liberal Democrats and James Burn for the Green Party. This list was correct and comprehensive at the time of going to print. There is more detail at westmidlandscombinedauthority.org.uk.

CITY EVOLUTION

BIRMINGHAM IS COMING OF AGE

WRITTEN BY

Ashley Hudson, Partner, Head of Birmingham Commercial

WRITTEN BY

Mark Evans, Partner, Head of Birmingham Residential

Even allowing for the fact that the last two decades can be categorised as an era of widespread urban regeneration across the UK, Birmingham's transformation over that period has been truly remarkable

Birmingham's rennaissance can be dated back to the mid-nineties. Our timeline of transformation starts in the mid-nineties, but it can be argued that the catalyst was the completion two years earlier of the huge (26 acre) mixed-use canalside regeneration scheme Brindleyplace.

It was followed in the period after 1996 by similar large-scale, mixed-use schemes, including The Mailbox and the 'phoenix from the ashes' Bullring scheme.

While physical redevelopment is a starting point for any city's renaissance, it has to be accompanied by key events that enhance a city's reputation.

The G8 Summit bringing world leaders to the relatively immature International Convention Centre in 1998 was one such event. The sight of US President Bill Clinton waving to onlookers from the balcony of the Malt House pub along the regenerated canal area has become an iconic image.

Since the mid-1990s, Birmingham has become a more confident place and one that has moved away from its roots as an industrial city, as important as the manufacturing sector still is.

Like any provincial city, Birmingham will always be compared to the capital and as its retail, lifestyle, leisure and residential offerings continue to improve and employment prospects became better and broader, those comparisons have become more favourable.

Already popular amongst foodies from the 1990s because of the Balti phenomenon, another key milestone for Birmingham came along in 2000 when Edgbaston restaurant Simpsons gained the city's first Michelin star. Four other restaurants in the city now have one too, more than any UK city outside London, while Birmingham's weekly street food event, Digbeth Dining Club, is a national award winner.

With first-class entertainment venues attracting international artists and sporting events, and the ICC attracting major political party and business conferences, Birmingham became a place to visit and visitors liked what they found and returned. Hotels multiplied to keep up with this demand.

New Street Station, though, provided a poor first impression of the city to visitors. That changed last year with the re-launch of the station as a major 21st century facility, complete with its adjacent shopping and restaurant complex, Grand Central. Newley-launched city centre trams now move past its front doors, improving connectivity across the city.

Much of the key infrastructure is now in place, and there is the potential of the HS2 link between Birmingham and London and then onwards to the North of England. Future growth is likely to be around attracting inward investors, students and visitors to a vibrant and attractive multi-cultural city with a young, skilled population.

A city, in fact, that is always moving forward, as the motto on its coat of arms suggests.

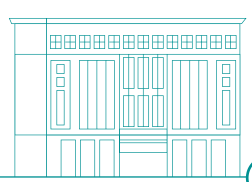
AFTER

BEFORE

Above: Grand Central Station

TIMELINE 1996-2016

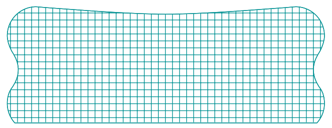
1996
Knight Frank opens its first office in Birmingham



1998
G8 Summit. The world's leaders arrive in Birmingham in what was a huge coup for the city and the summit's venue - the seven-year-old International Convention Centre (ICC).

2000
Birmingham's redevelopment continues apace with the opening of The Mailbox which included Harvey Nichols. Home of the BBC, the scheme was revamped in 2015.

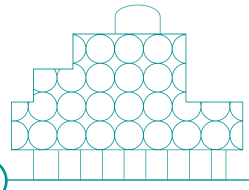
2003
The new replacement Bullring arrived in 2003 and introduced the world to the iconic Selfridges 'space ship' building (or 'bubble wrap' if you prefer).



2005
Car maker MG Rover's decline finally ended in collapse. From its ashes a huge regeneration project began in Longbridge bringing a new town centre with offices, retail and housing to the fore.

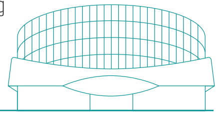
2008
One of Birmingham's most immediately recognisable landmarks, the 81 metre tall cylindrical high-rise Rotunda, re-opened as a residential development after an extensive makeover. The original building dates back to 1965.

2010
The Queen Elizabeth (QE) 'super hospital' opened in Selly Oak. Something of an exemplar in the healthcare field, the £545m hospital incorporates the Royal Centre for Defence Medicine and world class research facilities.



2013
The Library of Birmingham opened with its cutting-edge design - by architects Mecanoo. It is now one of the UK's Top Ten visitor attractions. The building it replaced has been demolished as part of the on-going Paradise development.

2015
The much criticised New Street Station was re-born with the attached Grand Central scheme bringing a large of number of retailers - including John Lewis to complement the already strong line up in the city which includes, Selfridges, Harvey Nichols, Debenhams and House of Fraser.



2016
For the first time since 1953 'trams' could be seen on the streets of central Birmingham. The extension of the Midland Metro from Snow Hill station to New Street station is the first stage of plans to extend further with routes to Eastside and Edgbaston in the pipeline.

INTO THE FUTURE

WRITTEN BY

James Roberts, Partner, Chief Economist

Brexit and the digital revolution mean change is ahead for Birmingham's economy. James Roberts, chief economist at Knight Frank, sees the new industries emerging from those changes generating future demand for offices and homes

Like the rest of the UK, for the Birmingham economy Brexit is a challenge, the size and scale of which is unknown. We were promised a vote to leave would hit the economy hard, only to see benign trading conditions quickly re-emerge. Indeed the IMF recently upgraded its UK GDP forecast for 2016 to 1.8% - the strongest rate of growth the IMF is predicting for a G7 nation.

Being in the EU may add 50 or 100 bps to the annual GDP percentage growth rate, but it is far from being the sole driver for the UK economy. As a G7 country with a population of 65 million people, firms like Coca Cola and BMW will always want to sell to the UK consumer market. Knowledge industry employers like PwC, KPMG, and Aon are sure to want to continue accessing Britain's skilled workforce.

Indeed recent economic indicators have been encouraging. UK GDP growth in Q3 was 0.5%, coming in ahead of expectations and exceeding the 0.3% figure for the Eurozone. The government has offered reassurances to car makers on EU single market access, and the FTSE 100 equities index has been trading above pre-referendum levels for some time.

Birmingham remains a cornerstone of the UK's skilled based economy, which is why major banks like Barclays, Deutsche Bank, HSBC and RBS have relocated thousands of jobs to the city in recent years. Nevertheless, with the approach of Brexit and the changes brought about by digital revolution, we see new industries emerging in the coming years, and generating additional sources of demand for offices and homes. HS2 moving closer to reality should accelerate the pace of change.

There are five future trends we see shaping Birmingham's economy and property market in the future.

01

SECOND WAVE TECH DEMAND

In the US, the first wave of tech office demand was heavily concentrated in San Francisco and New York, but it has now spread out into a range of regional cities, like Austin, Portland, and Pittsburgh. Birmingham with its large universities and extensive rail connections would be a logical second wave tech location for demand spilling out of London. This would also bode well for the housing market, given the impact tech has had on house prices in San Francisco, and New York's tech districts like Chelsea and Brooklyn.

02

RE-SHORING MANUFACTURING

As hi-tech manufacturing moves towards 'dark factories' full of robots, the need to be in low labour cost countries is gradually disappearing. As manufacturing activity returns to the UK we are predicting the creation of more desk-based engineering jobs, as humans will be needed to oversee and direct the robot factories; with the West Midlands as a logical hub.

03

MEXICAN WAVE SERVICE CENTRES

Some law firms use 'Mexican wave' systems whereby London-based rainmakers win work, which is carried out by junior lawyers in regional offices. This model could be applied to a range of service industries. Given the UK's position in the global time zones, Mexican wave centres in Birmingham could support front offices in the Far East, and US East Coast by operating shift systems.

04

ROBOTICS, DRONES AND AUTONOMOUS CARS

These look set to form the next big wave in the tech revolution, which plays to the West Midlands' strengths in engineering and the automotive industry. However, now more research and development (R&D) takes place via computer modelling, car and robot makers can offer their R&D staff a better quality of life by basing them in the centre of Birmingham, rather than in traditional motor manufacturing locations. This could also lead to more demand for homes in or near the city centre, given the popularity of living near work among high-skilled young professionals.

05

FINTECH (FINANCIAL TECHNOLOGY)

FinTech firms have driven the development of London's Shoreditch tech village. However, development of the Shoreditch tech hub has been biased towards wholesale markets trading. With Birmingham emerging as a centre for UK retail banking, there could be an opportunity to position the city as the retail FinTech centre, applying technology to consumer banking. This may have implications for the housing market, given Shoreditch's tech-driven office boom has been shadowed by strong house price growth.

RELIGHT MY FIRE

WRITTEN BY

Dr. Lee Elliott, Partner, Head of Commercial Research

When the young future Queen Victoria passed through industrial Birmingham in the summer of 1832, she is said to have made much mention of the glow of the fires raging throughout the city. If her modern day ancestors were to take a similar journey they would be unlikely to make similar comment. The obvious signs of an industrial landscape are long since gone. Yet Birmingham is, in one sense, on fire, the city has become a magnet for a range of new office occupiers. The recent relocation of core functions from HSBC and Deutsche Bank into the city, together with more than 1 million sq ft of active demand considering following suit, is a glowing testimony to the repositioning of the city as a post-industrial business location.

What is the driver for this activity? Birmingham is increasingly seen as a viable option for businesses trying to get to grips with the varied sources of disruption that characterise their operating environment. Most obviously there is the onslaught of technology which has threatened the very existence of not just businesses but whole industries. That same technology is changing the where, the when and the how of work. It is exposing companies to the war for talent as technical, digital and creative skills become the primary source of competitive advantage. Simultaneously, the low growth economic environment is forcing businesses to embark on strategies to increase productivity, save costs and protect margins. Little wonder that we are in an unprecedented phase of business restructuring. The very shape and structure of businesses; the processes by which they deliver services; and the geographical footprint through which they operate is being constantly reformulated. As Knight Frank has argued, Disruption = Demand.

These disruptive forces are also having three clear effects on the characteristics of occupier demand. First, they are fuelling a new approach to space. Occupiers are seeking to better utilise, more densely occupy and beautify their office space. They are doing so to create real estate solutions that are more efficient and cost effective; that drive higher levels of collaboration and creativity; and which enable the attraction, and critically, retention of talented staff. Second, occupiers are embracing new types of space. As the nature of work and workers is redefined, with more reliance on short-term project teams, freelancers and partnering with other companies, co-working space has emerged as a key consideration for many occupiers. Finally, occupiers are becoming more mobile. As we maintained in our latest Global Cities report, the notion that office occupiers are spatially fixed is being challenged daily. The occupier is increasingly comfortable with seeking real estate solutions across a wider array of markets in an attempt to save costs; access different talent pools; conform to regulatory requirements; or bring a new efficiency and productivity to their operations.

It is this mobility that has fuelled both the unforeseen levels of active demand and take-up from occupiers drawn in from outside the city core over the last eighteen to twenty-four months. As our info-graphic shows there have been significant inflows into the core from both elsewhere in the city, the wider West Midlands and beyond. Indeed of the 2.28 million sq ft of office space let in the core market since the start of 2014, 30% of it has been taken by occupiers moving in from outside. Occupiers are taking full advantage of a high quality market offering and the wider benefits that a Birmingham location can offer, not least the access to talent and unrivalled transport connectivity.

Disruption is bringing the city firmly into focus. There is no sense of the fire going out anytime soon.

OCCUPIER MIGRATION INTO BIRMINGHAM CORE
(2014-Q3 2016)
(SQ FT)

A Core 1,609,483	D London 425,137
B Outer Birmingham 103,191	E Other UK 75,419
C West Midlands 32,829	F International 34,397

Source: Knight Frank Research

"THE CITY CORE HAS BECOME A MAGNET FOR A RANGE OF NEW OCCUPIERS ... GLOWING TESTIMONY TO THE REPOSITIONING OF THE CITY AS A POST-INDUSTRIAL BUSINESS LOCATION"

RESIDENTIAL TRENDS

Birmingham's economic renaissance has been matched by an uptick in activity in the housing market, underpinned by strong demand for housing, both from local buyers and those moving from London and further afield

WRITTEN BY

Gráinne Gilmore, Partner, Head of UK Residential Research

House prices in Birmingham rose by 8.2% in the year to August, according to the latest official figures from the ONS. This is broadly in line with the average 8.4% growth seen across the wider UK market. In the 12 months to the end of Q2, Knight Frank Global Research shows that Birmingham was in the top ten performing cities in Europe in terms of capital growth.

Since 2009, prices have risen by 32%, as shown in figure 3 but most of this growth came during or after 2013, the point at which the UK economy showed signs of sustained recovery from the financial crisis, which prompted an uplift in confidence among UK homebuyers.

This change is clearly shown in the future House Price Sentiment Index for the West Midlands, shown in figure 5. This index reflects households' expectations about how the value of their home will change over the next 12 months. Any figure over 50 indicates that prices will rise – the higher the figure the stronger the rise - whereas any figure under 50 indicates that households feel the value of their home will fall over the next year. The UK's vote to leave the EU had a noticeable effect on sentiment – but the post-vote 'bounce-back' is also clear.

Sentiment in the market can also be gauged by activity levels in the Birmingham market, shown in figure 1, with the number of homes purchased across the city picking up sharply from 2013. The average number of transactions each month rose to 1,162 last year, up from 714 in 2009. However, this is still some way below the scale of transactions in 2005 which averaged 1,663 a month.

The average price of a home in the city has grown in recent years to £162,000 with new-build units in the city centre averaging around £181,000. Putting this in a UK context, the average cost of a home is around 60% less than in London. Recent data from the ONS shows that Birmingham is the most popular UK destination for those moving out of the Capital, with more people moving to Birmingham than any other major UK city, as shown in figure 6.

This relative differential in the cost of property, which crosses over to the commercial sector too, has acted as a draw to the city, attracting more talent to Birmingham and adding to the demand for housing, especially in the city centre which has seen very little supply since the financial crisis, a theme which is explored in more detail on page 16-17.

The changes in Birmingham city centre over the last decade are notable, from the final developments at Brindleyplace, one of the largest mixed-use re-generation schemes in the UK, to the £600 million redevelopment of New Street Station, one of Birmingham's main train stations - which runs regular train services to London taking just 1 hour and 25 minutes.

The Metro line extension from Snow Hill to New Street has improved connectivity around the City Centre. Further work is slated to create additional links to the east of the city, including Curzon Street – the station where the proposed HS2 line will terminate – and mean that all the city's main railway stations are linked by Metro for the first time, further enhancing connectivity across Birmingham.

Ease of transport, along with schooling, safety and housing are some of the factors considered by Mercer when it compiles its Quality of Living index, ranking 230 cities around the world. It is telling then, that Birmingham is placed 53rd, meaning it scores higher than other global cities such as Rome, Dallas, Miami and Hong Kong.

There is more regeneration to come, all forming part of Birmingham's 'Big City Plan', which aims to transform the city centre. This will include nearly £1 billion of investment to regenerate the area around Curzon Street station, including the creation of 4,000 new homes.

The increased pressure on housing in Birmingham has seen steady rises in rents in recent years, with stronger growth in asking rents in the city centre as shown in chart 5. Asking rents in central Birmingham have risen by 24% since 2009, and Knight Frank projections, based on past rental performance, indicate 3.6% growth this year, and 4.3% next year (figure 4).

Average house price growth across the city is forecast to moderate slightly next year to 5.5%, with cumulative growth of 26% to the end of 2021, as shown in figure 2.

FIGURE 1: MONTHLY RESIDENTIAL PROPERTY SALES IN BIRMINGHAM 1995 - 2016

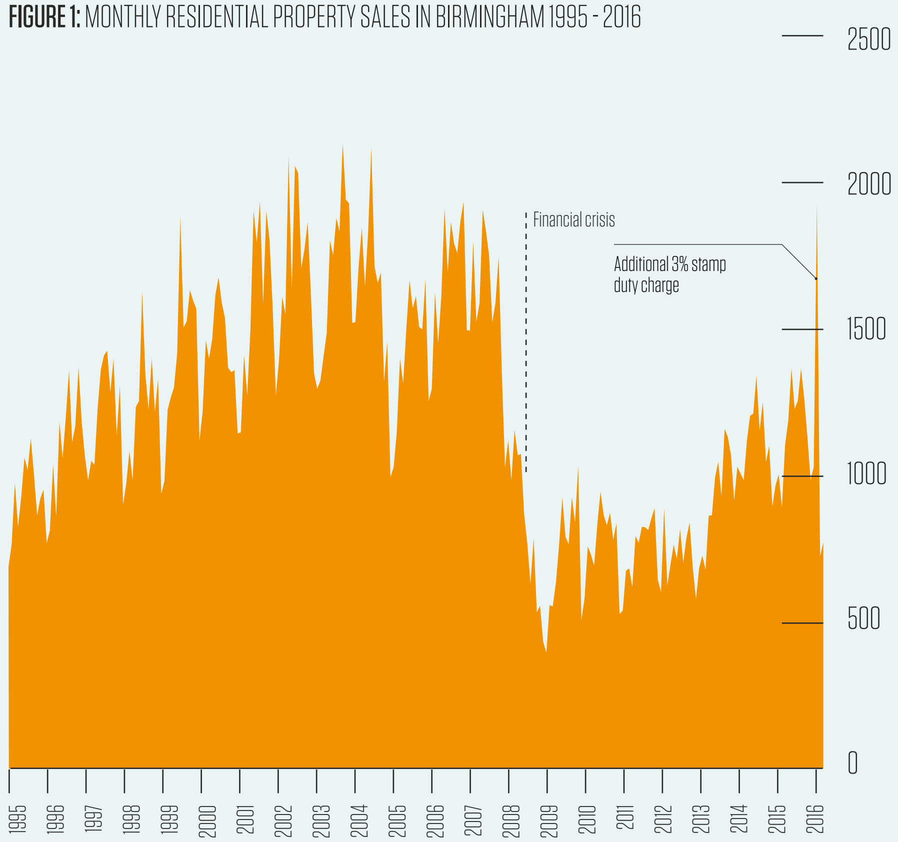


FIGURE 2: BIRMINGHAM HOUSE PRICE FORECAST

Source: Knight Frank Research

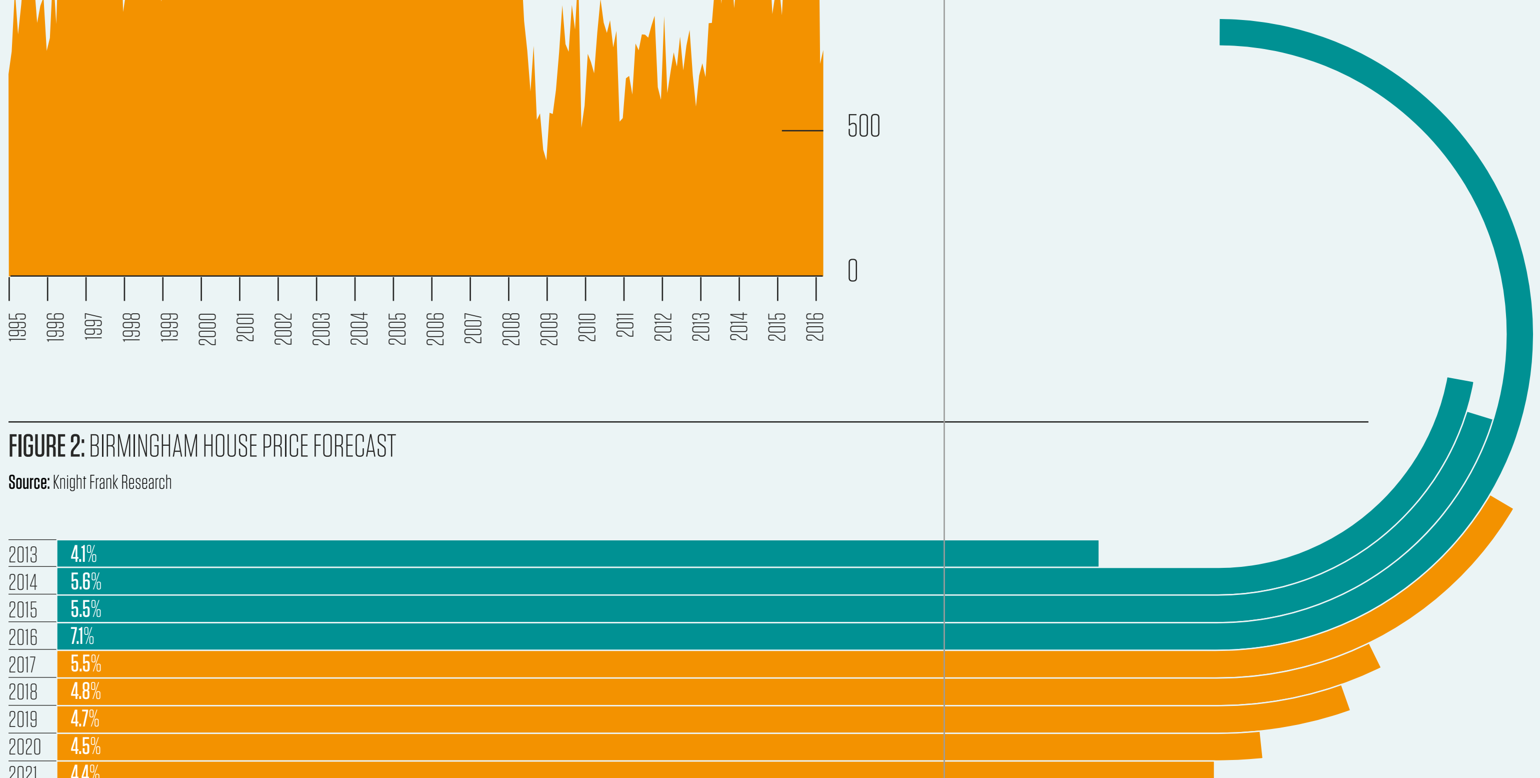


FIGURE 3: HOUSE PRICE INDEXED 100=2005

Source: Knight Frank Research/Land Registry

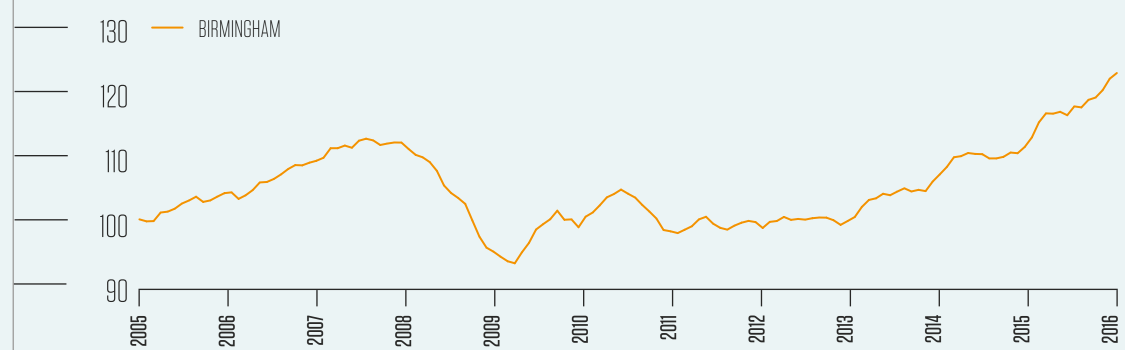
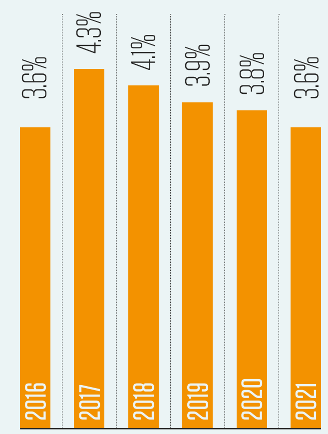


FIGURE 4: PROJECTED RENTAL GROWTH BIRMINGHAM



Source: Knight Frank Research

FIGURE 5: HOUSE PRICE SENTIMENT INDEX

Source: Knight Frank / IHS Market

Future index: West Midlands

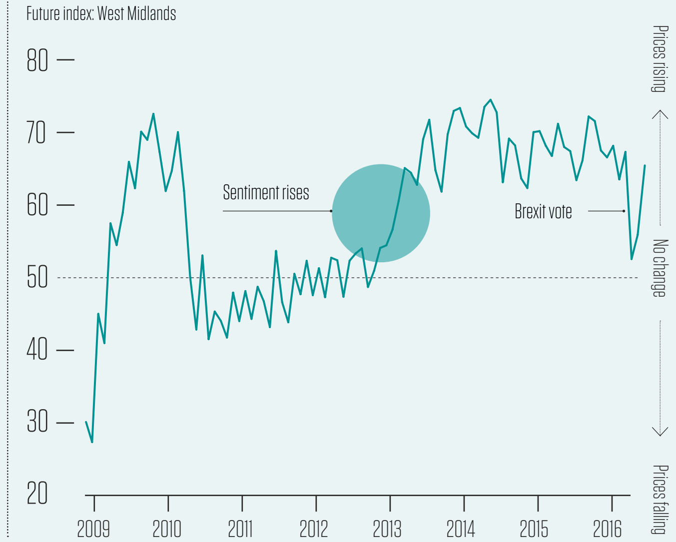
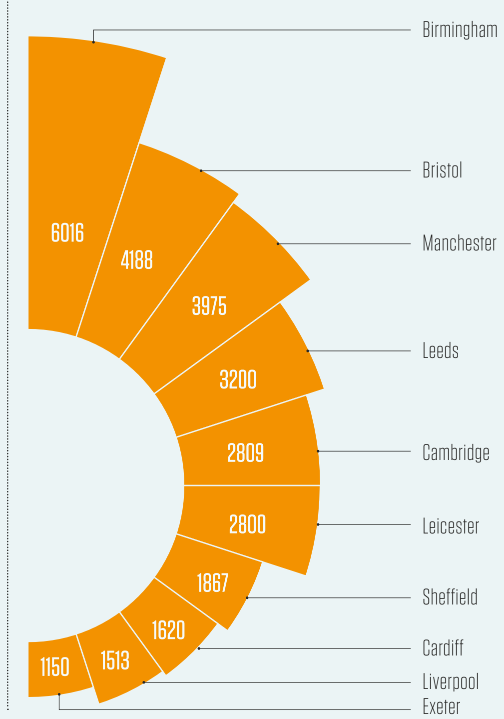


FIGURE 6: MIGRATION FROM LONDON 2014 / 15

Source: Knight Frank Research/ ONS internal migration



HOT SPOTS

New development is elevating the profile of large areas of the city, supporting both the ambitions of residents and business alike

WRITTEN BY
*Mark Evans,
Partner, Head of
Birmingham Residential*

Left:
The Colmore Business District CBD.

01 JEWELLERY QUARTER

The Jewellery Quarter has a wide range of residential property, combining former factories which have been converted into stylish lofts to townhouses and more conventional new-build schemes. With the increasing number of independent bars and restaurants opening in this area, and its industrial heritage being reinvented through thriving jewellery businesses and exciting start-ups, it is becoming one of the most popular places to live in the city. The area's connectivity has recently been augmented, with a new direct metro link to New Street Station. Once the Eastern Metro extension is complete in 2026, there will also be a direct link to Curzon Street station, the potential terminus for HS2 high-speed services from London. The 20 year 'vision' for this area of Birmingham also includes a plan to it more pedestrian-friendly, further enhancing its attraction. The Jewellery Quarter is within a 15-minute walk of Snow Hill train station.

02 CONVENTION QUARTER

This is arguably the area where the renaissance in 'city-centre living' started in Birmingham in the late 1990's. Many of the city's best-known residential addresses sit along the Canal basin around Brindleyplace and The Mailbox, and there are still key residential development opportunities in this part of the city. The arrival of HSBC's new headquarters in Arena Central, planned for 2018, along with the redevelopment of Paradise, Birmingham's biggest regeneration project in a generation, is only set to further enhance the desirability of this area. The demolition of the former library in the area divided opinion, but the result has improved journeys for pedestrians through the Convention Quarter and beyond. With approximately 12 million people per year using this route as a thoroughfare, augmenting this infrastructure will help underpin values in this area of the city. The metro extension from Centenary Square, in Westside, to New Street Station is also under construction, opening in 2019.

03 GUN QUARTER

Sitting on the fringes of the Jewellery Quarter and Snow Hill, the Gun Quarter is only a short walk away from the Central Business District. Despite being so centrally located, there is a relative price discount to some other central areas, adding to its appeal. As the Snowhill Masterplan starts to come to fruition, this will become one of the key growth areas for residential in the city. Snow Hill station, sitting on the edge of the Gun Quarter, offers train services across the UK including the Chiltern Line service direct to London Marylebone. WIn addition, the ease of access to the motorway network, via the A38, means it is an enviable location in terms of connectivity.

WRITTEN BY
*Ashley Hudson,
Partner, Head of
Birmingham Commercial*

04 WEST SIDE

Westside originally provided large floor plate development with the regeneration of Brindleyplace in the late 1990's. The noughties saw this trend shift to Snowhill and a disconnect in rental occurred between the two locations. Today, the major redevelopments at Arena Central and Paradise combined with the landmark Library and Baskerville House will connect the whole of West Side to the traditional core and recent key transactions to HSBC, Network Rail and PWC demonstrate the vibrancy this location is generating. West side's connectivity is continually improving with the opening up of vistas blocked by the former library, the new tram extension and soon to arrive SPRINT system. The improved access to New Street and growing local amenity are making this more attractive to occupiers and employees alike.

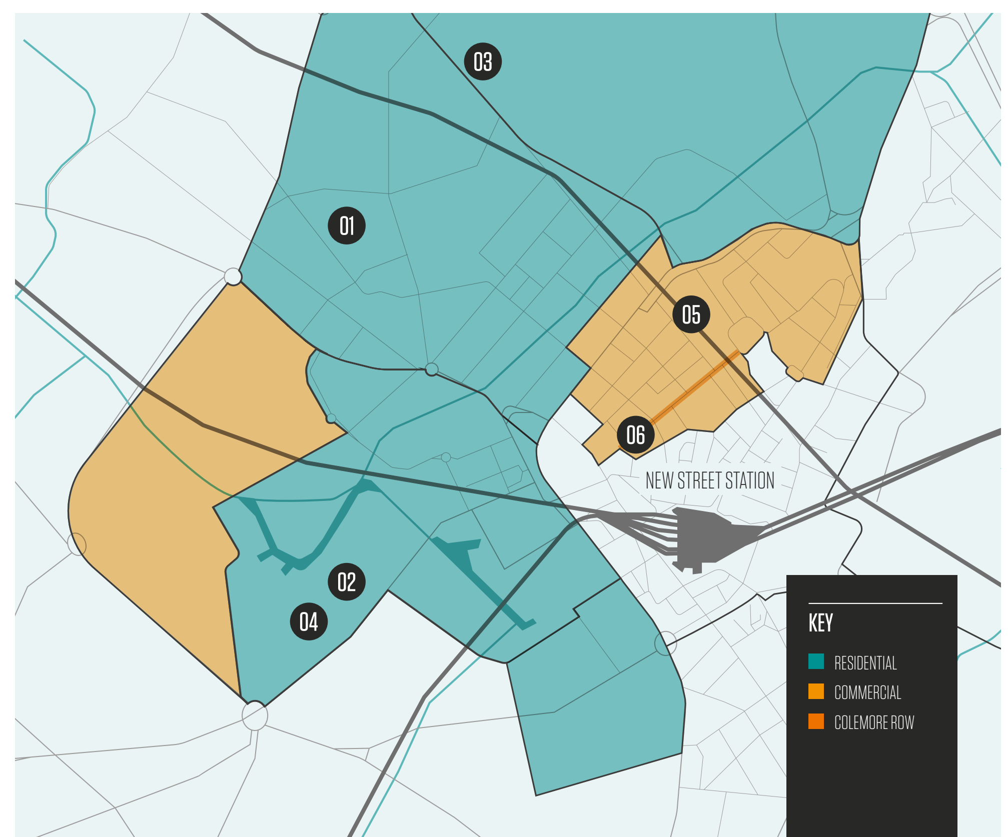
05 SNOWHILL DISTRICT

The major area of Central Business District growth in the last cycle. Major developments and key lettings to KPMG, Barclays, AECOM, Amey, Gowling WLG and EY re-established this as a location of choice for major corporates. As the Snowhill Masterplan begins to shape the locality with further new development at 3 Snowhill, Post and Mail and Birmingham's 'skyscraper zone' this will continue to be one of the key growth areas in the city.

The improved connectivity at Snow Hill station offering train services direct to London Marylebone, the extension to the tram giving quick simple access to Wolverhampton, to the north, and New Street, to the south. The planned Eastern Metro extension creating a direct link to Curzon Street station, the terminus for HS2 high-speed services from London and LEP & Colmore BID plans recently announced for a more pedestrian-friendly revamp of the public realm will only make this location more attractive.

06 COLMORE ROW

The traditional core of Birmingham's professional quarter, Colmore Row was, in the last cycle, constrained by current occupiers and a lack of sites becoming available for development. There has been a dramatic change this cycle with a number of redevelopment and refurbishment opportunities coming forward which is resulting in a vast improvement in the quality and stock and consequently occupier expectations and rental levels. IM Property's 55 Colmore Row, Rockspring/Sterling's 103 Comore Row and Ardstone's 1 Newhall Street demonstrate that this location remains very important to occupiers and absolute prime. These will continue to connect the city core from Paradise at the west and Snowhill at the east. We have also seen a huge improvement in the amenity offer. The gentrification of the traditional core with its explosion in social dinning, drinking and coffee offers and the redevelopment of the Grand Hotel has given a vibrancy and buzz whilst keeping the professional outlook.



BIRMINGHAM OFFICE INVESTMENT Q3 2016

WRITTEN BY

Ashley Hudson, Partner, Head of Birmingham Commercial

Birmingham's position as the UK's second city makes it a natural destination of choice for both domestic and overseas investors. Traditionally preoccupied with domestic investors, the trend towards globalisation of capital brings new opportunities for Birmingham as it competes with a range of cities across Europe and beyond for global capital. Over the last five years overseas capital has accounted for 30% of all office investment in the city.

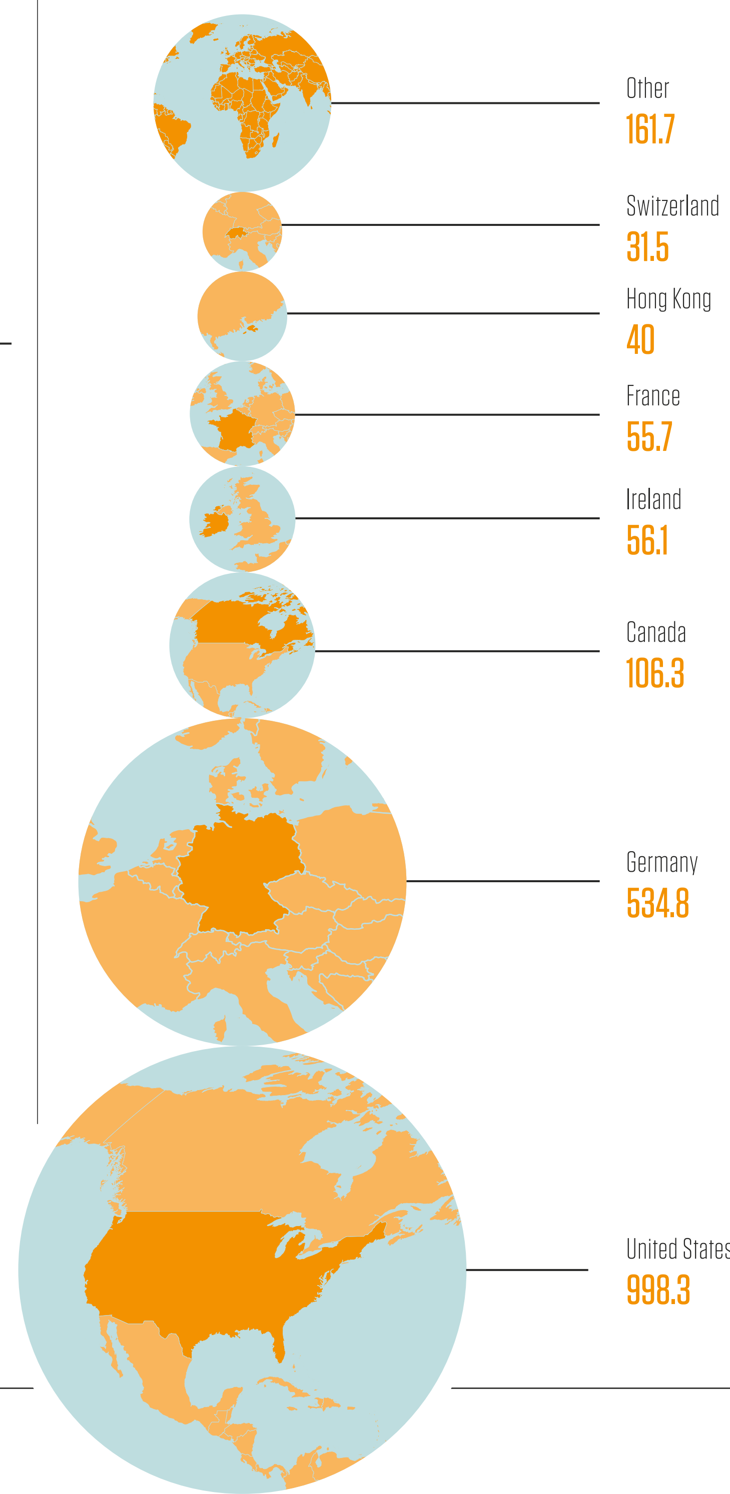
Fundamental to Birmingham's competitiveness is its ability to regenerate, which has been so evident over the past 10-15 years. Investment in infrastructure and new commercial real estate combines to create a first class investment destination for overseas investors who understand the need for connectivity in attracting a skilled & diverse workforce. The motorway network makes Birmingham easily accessible, at the heart of the UK. The rail network is key for both passengers and freight, and the much discussed HS2 rail-link will slash the travel time from London and therefore from connecting destinations including Paris & Brussels. Birmingham airport serves over 10 million passengers per year, with flights to major global hubs including New York & Dubai in addition to all major European cities.

A huge amount of development in the city centre, underpinned by the strong infrastructure, including the Bullring and New Street Station, has raised Birmingham up the list of European cities for investors. The ULI's annual Emerging Trends in Real Estate study ranked Birmingham as the sixth best location in Europe for investment & development opportunities in 2016, and fourth for expected increase in investment, higher than any other UK city.

Repositioning has helped Birmingham outperform the regional UK office market since 2014. IPD capital value growth of 5.4% in the year to June 2016 is three percentage points above the average for offices outside of London. Rental growth has driven value increases, responsible for a 3.4% rise, again outstripping the wider market. As the UK property cycle enters a mature phase, and buffeted by uncertainty following the EU referendum investment volumes in Birmingham are down around 50% year-on-year. To put this in context however, this is in line with the UK market and with 2014 volumes.

Over the last ten years, office assets in Birmingham have attracted new capital from the US, Canada, Germany, France, Ireland, Hong Kong & Switzerland. The US & Germany have been particularly active acquiring £1bn and £0.5bn respectively. In the first nine months of 2016 investors from the US & Canada have been responsible for six acquisitions totalling £118m, including some of the world's largest investors such as the Canada Pension Plan Investment Board and GE Asset Management. Against a backdrop of higher asset prices in London, Birmingham is ideally placed to soak up capital. In addition to the fundamental growth drivers, the continued weakness of sterling is likely to heighten investment interest in Birmingham over coming months as currency movements improve entry prices for non-domestic capital.

CAPITAL FLOWS INTO BIRMINGHAM LAST 10 YEARS £M



OFFICE DEVELOPMENT

If you took a helicopter view of Birmingham today, the most prominent feature would be one of cranes

WRITTEN BY

Jamie Phillips, Partner, Birmingham Commercial

Firmly set on a journey of transformation, the city is developing rapidly. The £600m redevelopment of New Street Station and the £188m Library of Birmingham are perhaps the most obvious changes to the city. However, alongside these is an on-going programme of infrastructure and amenity improvement, revitalising the image of Birmingham and serving to attract new firms to the city.

The development of office space however, has not kept pace with the wide-scale building programme. The last major office schemes brought to market were Ballymore's Two Snowhill and the refurbished Five Brindley Place. Both schemes reached practical completion in 2013 and since such time development of new or refurbished space has been limited. This has meant that availability of Grade A space has fallen to a historic low level.

The current office development pipeline for the city looks more extensive. Over the next three years, stock levels will be boosted through a mix of major refurbishment and ground up new schemes. Around 90% of this total is speculative build, which indicates the strength of confidence in the leasing market. Perhaps most notable is that 670,000 sq ft currently under construction is refurbishment schemes. As such, the first example of brand new space will not be until late 2018.

Nonetheless, with Birmingham currently recording the highest level of occupier take-up across the major regional markets, speed to market is advantageous.

Of those started, Freshwater Groups major renovation of 10 Temple Street is closest to completion. The IM Properties redevelopment of 55 Colmore Row and Bruntwood's renovation of Cornerblock (formally Two Cornwall street) will quickly follow before year-end.

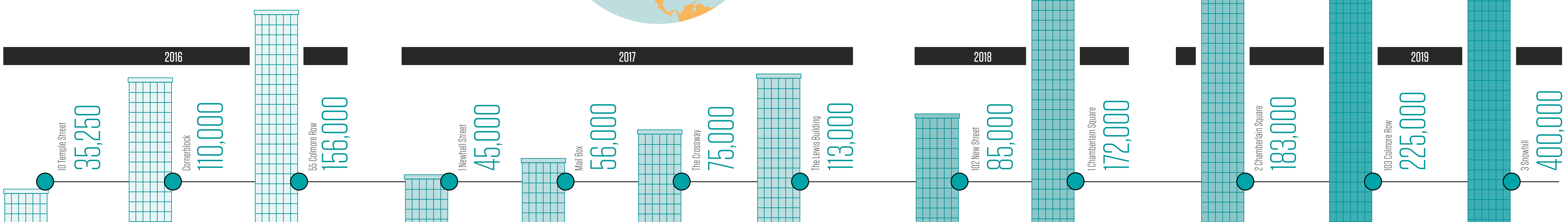
These schemes combined will deliver 260,000 sq ft of vacant space to the market.

A similar amount of speculative space is due in 2017 headed by Legal & General Property's renovation of The Lewis Building. With LIM and Evenacre's 102 New street renovation expected to complete in Q1 2018, a total of 590,000 sq ft of speculative Grade A space will come to market between Q4 2016 and Q1 2018. Based on the take-up levels of 2015, this equates to just over one year's supply of Grade A space.

The schedule for the new schemes therefore is timely. Demolition work is underway to prepare for One and Two Chamberlain Square, which will form the first wave of new space. PWC have already announced their intention to take 90,000 sq ft at Number One. With a £200m funding agreement in place, Ballymore and M&G's Three Snowhill is going ahead. The 420,000 sq ft final phase of Snowhill will complete in 2019 along with the unveiling of Rockspring and Sterling Property's 26 storey tower 103 Colmore Row.

The city clearly has a schedule of development which is aligned not only to modern day business but also modern day living. The years that follow the current development cycle promise even greater changes underpinned by the proposed arrival of HS2. What we can be sure of now is that the skyline of Birmingham will look very different by 2020.

IPD RENTAL GROWTH INDEX



WRITTEN BY
Gráinne Gilmore, Partner, Head of UK Residential Research

WRITTEN BY
Mark Evans, Partner, Head of Birmingham Residential

DEVELOPMENT & INVESTMENT

RESIDENTIAL

The level of development in Birmingham has been rising in recent years, but not enough to meet the overall demand for housing in the UK's second city.

Coming against a national backdrop of a continued decline in second-hand homes being put on the market, there is increasing pressure on the delivery of new homes to help meet housing needs.

The overall delivery of homes in the West Midlands started to rise notably from 2012, as in figure 1 on page 22 reflecting a wider trend in the UK.

Official figures vary on how many new units have been supplied into the Birmingham market, but the net additions of homes (including conversions) shows that some 1,800 homes were created in 2014/15, compared to around 4,000 new households being created every year.

Based on the current levels of population growth in Birmingham, official data suggests some 111,000 new households will be created in the city over the next 25 years as shown in the figure 3 on page 22. In the future, some 4,500 homes a year need to be created – far above the current average annual delivery.

We have examined how housing delivery may change in the years to come by analysing every scheme with planning, and while the data suggests that housebuilding levels will continue to rise, the shortfall of housing is likely to remain.

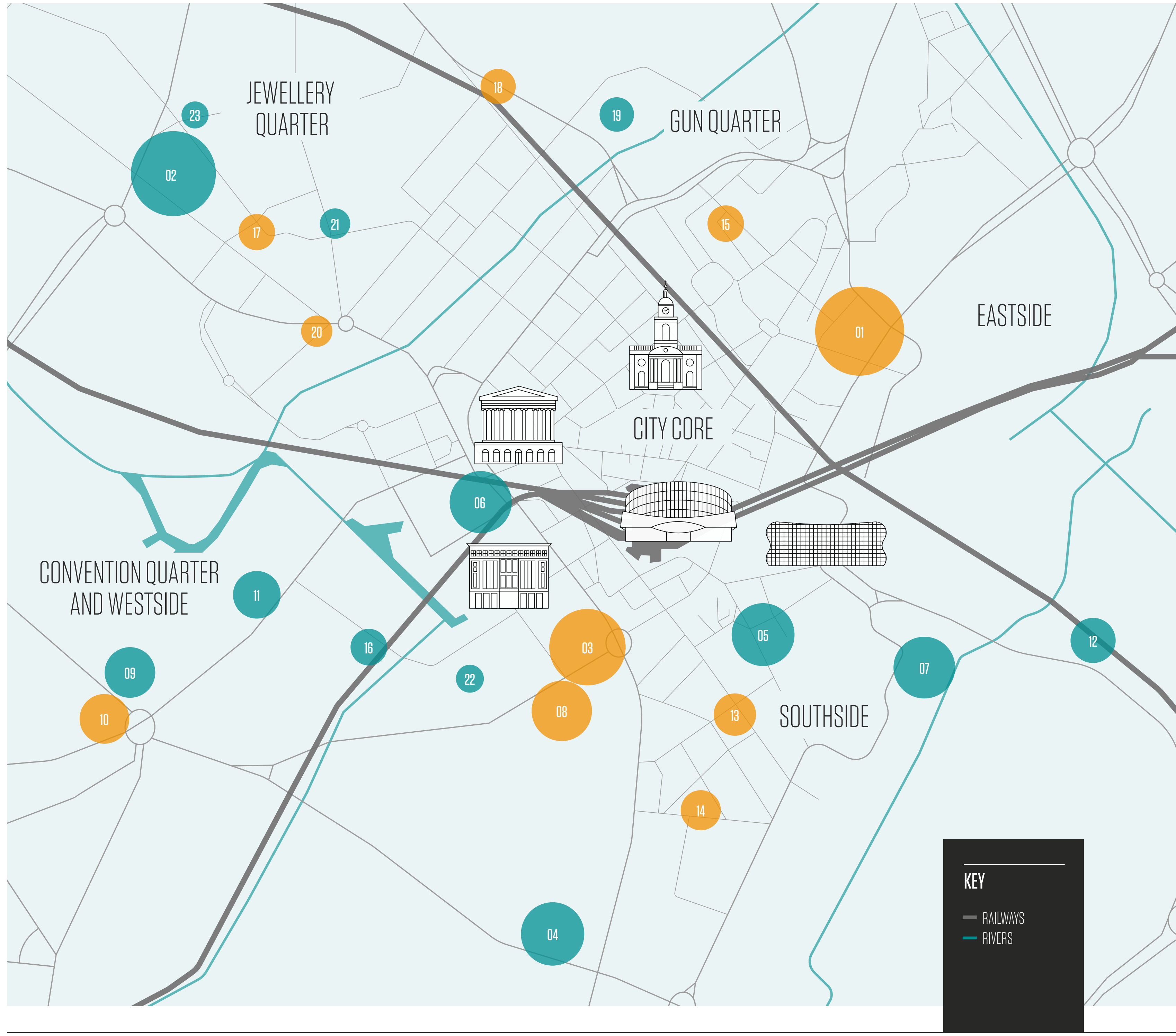
However, unlike some other areas of the UK, there is policy backing to augment housing supply in Birmingham.

Birmingham City Council's 'Big City Plan' is delivering some striking infrastructure improvements to help open up the centre of the city, allowing its vibrancy to spread to other areas which have traditionally struggled with being separated by a 'concrete collar' of roads. Within the plan, there is room for residential development in the centre of the city, an area of Birmingham which saw very little activity in terms of residential development in the years after the financial crisis. Now, as the map shows, there are several key schemes underway or with planning in the central areas. A recent agreement between Birmingham Council and Chinese company Country Garden, underlines the global attraction of the city. The Joint Statement of Investment Commitment signed by both parties means that Country Garden will explore the potential for up to £2 billion of investment centred around HS2 and regeneration, including residential opportunities in the City centre.

Another feature of the Birmingham development market is the investment into the Build-to-Rent sector taking place. This market for large-scale investment into purpose-built rental accommodation is in its infancy across the UK, but is gaining real momentum and the key regional hubs such as Birmingham are attracting attention from global investors. Locality remains a key consideration for the development economics of such PRS schemes, and several build-to-rent blocks are already underway in the city.

Nearly one in five homes in Birmingham is in the private rented sector, according to the latest data from the 2011 census, accounting for more than 80,000 properties. This proportion rises to 45% in Ladywood, a ward which includes Brindleyplace and the International Convention Centre. The 'affordability gap' for many young people trying to climb onto the housing ladder, coupled with the popularity of the flexibility offered by the private rented sector, means that the demand for rented accommodation is growing. This trend, especially among young professionals, was highlighted this year in Knight Frank's Tenant Survey. The survey of 5,000 people living in the private rented sector across the UK asked tenants how and where they wanted to live.

The results for the West Midlands (figure 5, page 22) and for the UK, show that proximity to work or study is a key priority when choosing a property, underlining the attraction of city centre living.



DEVELOPMENT PIPELINE ABOVE 50 UNITS (NUMBER OF UNITS)

● UNDER CONSTRUCTION ● NOT STARTED

01	Exchange Square	Not started	619
02	St George's Urban Village	Under construction	606
03	Holloway Head	Not started	487
04	Park Central	Under construction	335
05	The Forum	Under construction	334
06	Arena Central Tower	Under construction	322
07	Fabric Square	Not started	313
08	Windmill/Bow St	Not started	304
09	Broadway Residences	Under construction	214
10	Two Hagley Road	Not started	206
11	Regal Tower	Under construction	189
12	St Anne's Court	Under construction	170
13	Unity & Armouries	Not started	162
14	Madison House	Not started	141
15	The Printing House	Not started	115
16	Granville Lofts	Under construction	112
17	20-21 Legge Lane	Not started	103
18	Constitution Hill	Not started	109
19	Honduras Wharf	Under construction	99
20	Edward House	Not started	82
21	The Jewel Court	Under construction	77
22	Ridley House	Under construction	65
23	The Foundry	Under construction	61

CONNECTED BIRMINGHAM

Birmingham sits at the heart of connectivity improvement within the UK, with major infrastructure investment further acting as a catalyst for regeneration within the city

WRITTEN BY

Darren Mansfield
Associate, Commercial Research

Known as the home of the British car industry and the city where Watt and Boulton developed the steam engine, Birmingham has a long kinship with innovation and transport. Today, the city continues to build on that proud heritage and arguably, is at the centre of one of the largest infrastructure projects ever proposed in the UK.

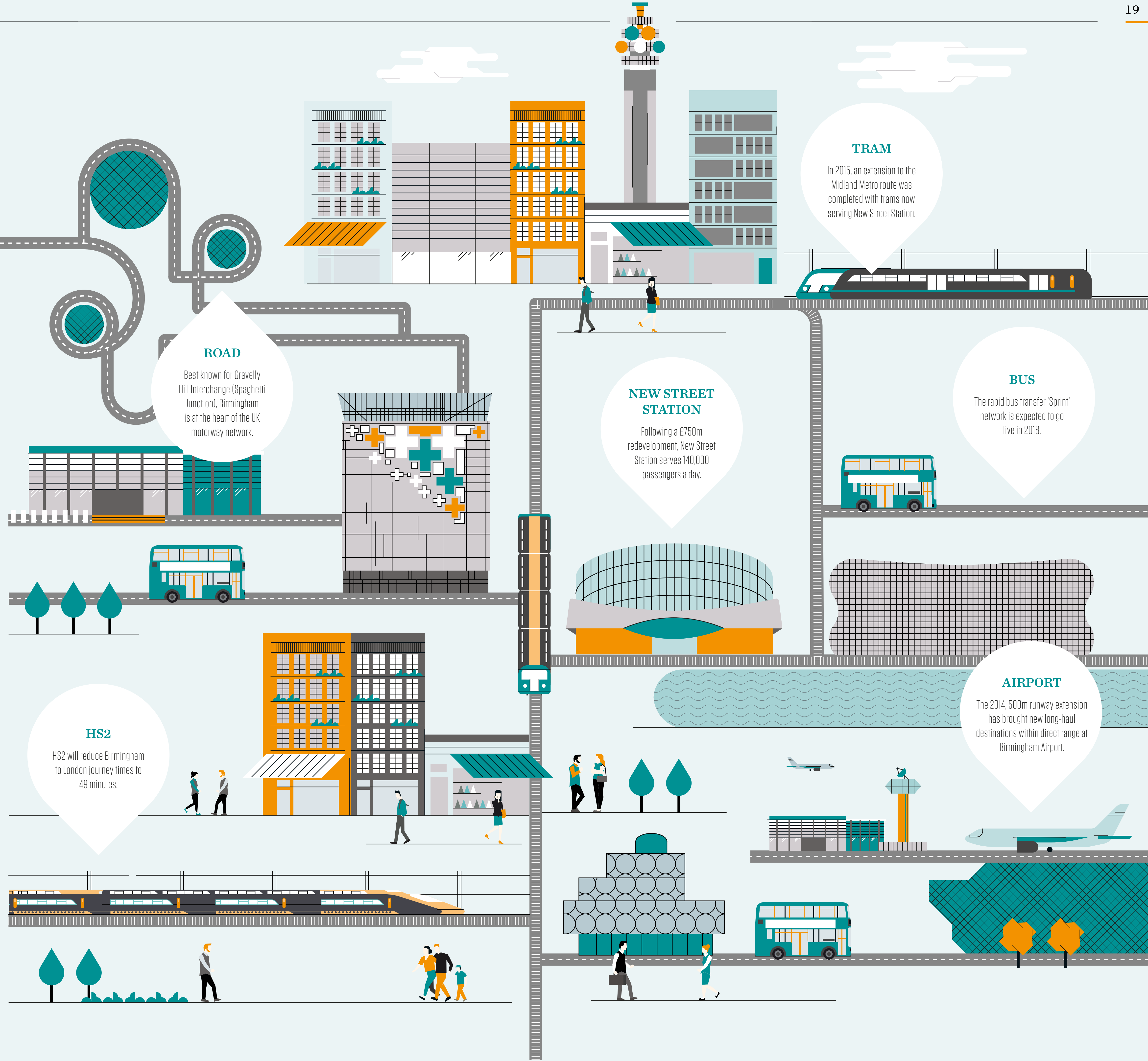
Once built, the first phase of HS2 will connect London Euston to a new rail terminus at Curzon Street in the centre of the city. Importantly, the new station will be a catalyst for major regeneration of the surrounding area. The Curzon Masterplan spans a 30-year period and includes plans for 4,000 new homes and 6.5m sq ft of commercial space alongside improvement to the public realm. The economic boost to Birmingham will be around £3.1bn.

A second HS2 ‘interchange’ station is to be built near Solihull. This will serve Birmingham International Airport, which in 2014 completed a £200 million extension to the runway. As a result, Birmingham has opened up to a wider global audience with the capacity to serve long haul flights greatly increased. Passenger numbers will rise to 15 million a year by 2020, with the extra capacity also bolstering the position of Birmingham as a major UK logistics hub. In October 2016, plans for further expansion plans have resurfaced with Birmingham considered as the part of the Governments longer-term airports strategy.

The arrival of HS2 will also enable a further extension to the Midland Metro. In operation since 1999, an extension to the route opened in 2015 enabling trams into the heart of the city arriving at New Street Station. A second route, a loop between the airport interchange and Lea Hall, is now proposed. Importantly the route incorporates both the existing rail station at Moor Street and the proposed HS2 terminus at Curzon Street. This will improve both mobility into and out of the city centre, and further connect Greater Birmingham to areas of employment, leisure and education.

In tandem with the connectivity that the Metro will bring, the Sprint network will further enhance mobility across the city centre. Latest estimates suggest that Sprint could go live in 2018. The proposed cross-city routes will offer rapid transfer across the city with a route to the airport due by 2021.

It is clear that planning to improve the connectivity of Birmingham are extensive. The future looking schemes described are of course in addition to the well-established road, rail and air provision that is already in place. The long term future planning acknowledges the critical role that transport plays in sustainable economic growth. Success in this aim will mean Birmingham will support the current and future aspirations of residents and businesses alike.



PREDICTIONS

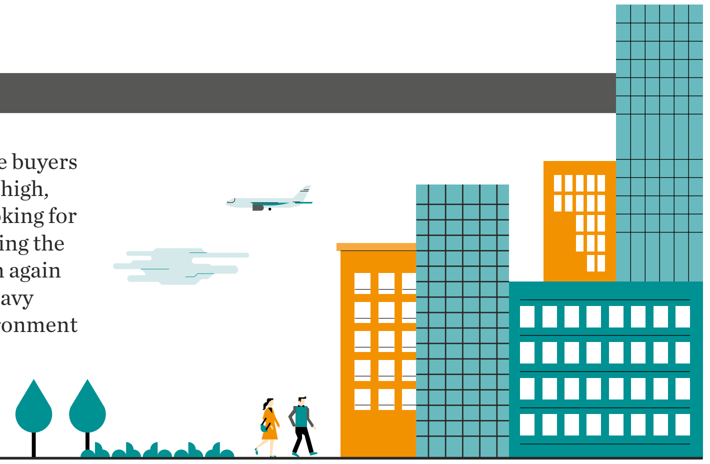
Undeniably, the Birmingham of today is unrecognisable from the city of 30 years ago. This transformation, however, is work in progress. Large-scale regeneration and new development continues at pace, opening up new areas and changing the very fabric of the city

RESIDENTIAL

WRITTEN BY
Mark Evans,
Partner, Head of
Birmingham Residential

01. DESIGN REQUIREMENTS RISE

Buyers' expectations have increased significantly in the last year or two. With more buyers relocating to Birmingham from London, where design specifications are generally high, similar requirements are now moving into the Birmingham market. Buyers are looking for apartments and developments of a better quality than ever before, effectively shifting the emphasis from price to quality and environment. We would expect this to move on again with a number of the larger mixed-use schemes that are in the pipeline having a heavy residential mix, developers will need to meet the challenge of creating a built environment that caters for both commercial and residential uses.

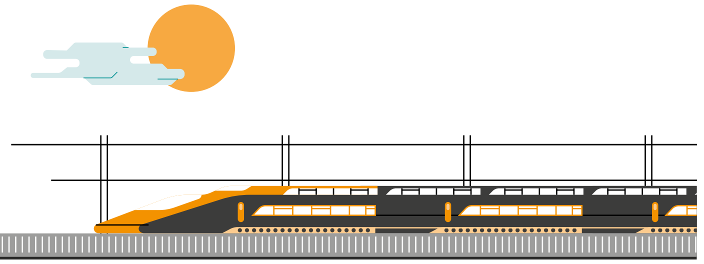


02. THE SUPPLY OF HOMES IN THE EMERGING BUILD-TO-RENT SECTOR WILL AVERAGE 500 UNITS A YEAR IN THE CITY CENTRE BY 2020

Birmingham is one of the key regional cities where rents and values are at a level which make Build-to-Rent an attractive option. The focus on Birmingham from institutions is set to intensify with the city being recognised as the youngest in Europe, home to approximately 1,900 international companies and the largest Professional Services Sector outside of the capital offering a diverse tenant pool from which occupiers can be attracted. With continued pressure on housing supply in to the Birmingham market the private rental sector will have a key role to play in the dynamics of the city's residential offering over the next five years and beyond.

03. PRIME VALUES WILL HIT £500 PER FT BY 2020

The foundations of the city centre market will be underpinned by transport infrastructure projects, major mixed use schemes and continued demand for housing as the city continues to attract those relocating from London, the South East and further afield via the city's flourishing commercial property market and education offering. As a result, pricing at some top-end schemes could reach £500 per sq/ft in prime locations driven by a balanced approach to well-proportioned living space, specification and built environment.

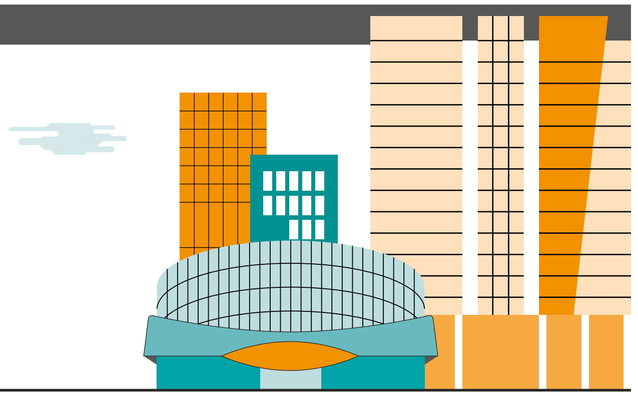


COMMERCIAL

WRITTEN BY
Ashley Hudson,
Partner, Head of
Birmingham Commercial

04. RENTAL GROWTH

Birmingham has undergone a seismic change over the last 5 years with high quality infrastructure and development planning unshackling the CBD and generating traction for the evolution of the core office market. The regeneration programme is continuing supporting a current office development pipeline of 1.7m sq ft, the largest on record. This delivery of high quality, modern office stock to the city is already serving to attract new business to Birmingham. The offer of Birmingham is changing quickly and for the better. With this in mind, we anticipate that prime rents in the city core will reach £35.00 per sq ft by the end of 2018.

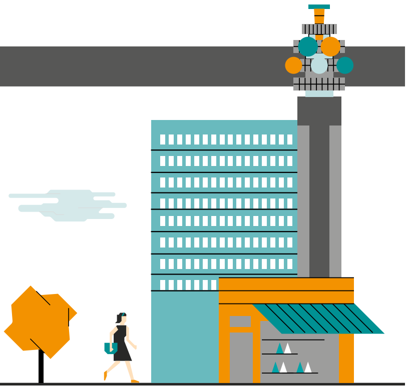


05. OCCUPIER GROWTH

The need to attract and retain talent has led to a rise in 'footloose' occupiers and we anticipate this trend will support demand growth in central Birmingham. Importantly, Birmingham is attracting the growth sectors such as Technology, Media and Telecoms with this group representing 20% of deals completed so far in 2016. This percentage we expect to rise with FinTech, Media and Biomedical occupiers predicted to feature strongly as the city's reputation grows both regionally and internationally. This rise will compliment demand from the Professional Services and Financial Occupiers, Birmingham's mainstay, who continue to target prime areas.

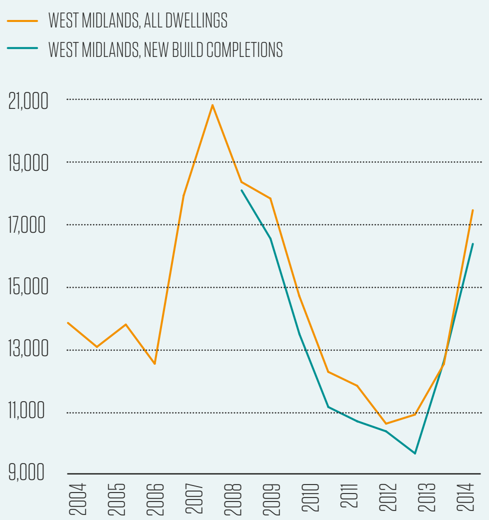
06. INVESTMENT

With market sentiment wavering in both the run up and following the result of the EU referendum, it is unsurprising that deal numbers in 2016 have suffered. We should remember that this dip in activity is from a very high base. Total office investment in 2015 was the highest on record for Birmingham. Importantly, the principal driver that led to this record year has not changed; the strength of the occupier market. We anticipate that the appetite for quality stock will remain robust and as such, pricing will stay keen. Yields for prime products we expect to stay around 5.25%. A significant amount of equity, particularly overseas money, continues to target opportunities in Birmingham. The low value of sterling should serve to bolster this although the level of deliverable quality stock may restrict transaction numbers.



RESIDENTIAL AND COMMERCIAL STATS

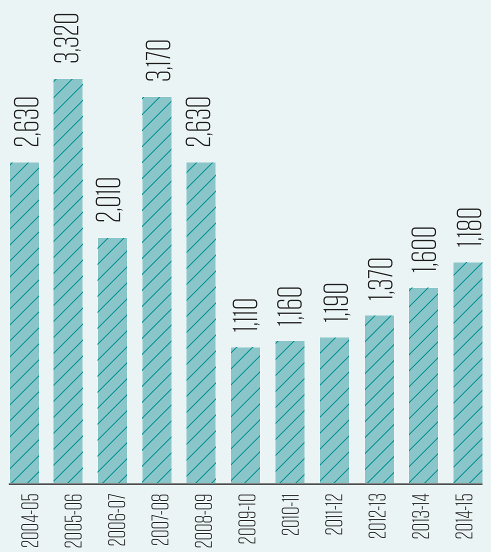
FIGURE 1: NET SUPPLY OF HOUSING AND NEW-BUILD COMPLETIONS, WEST MIDLANDS, ANNUAL



Source: Knight Frank

The number of net additional new homes being delivered in West Midlands is rising.

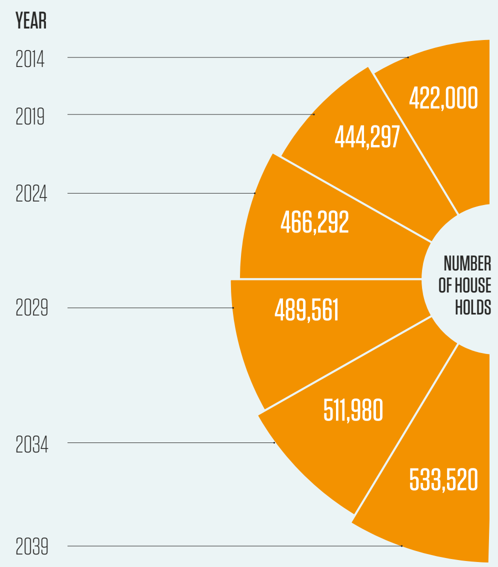
FIGURE 2: NET ADDITIONS TO HOUSING, BIRMINGHAM



Source: Knight Frank

There is a similar rise in Birmingham, but delivery remains well below historical levels.

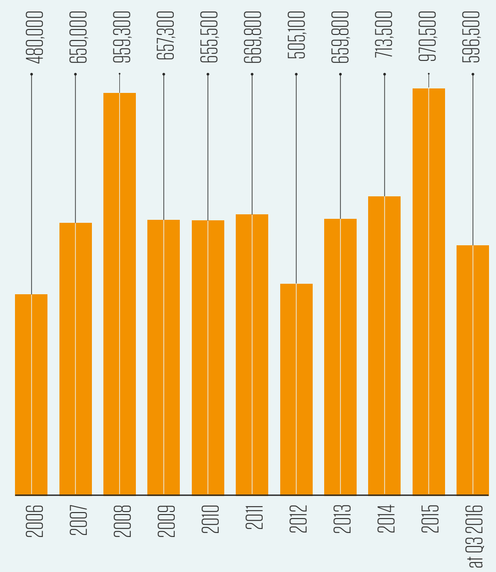
FIGURE 3: HOUSEHOLD GROWTH IN BIRMINGHAM



Source: Knight Frank/DCLG

Housing delivery is also not keeping up with the projected growth of the number of households in Birmingham.

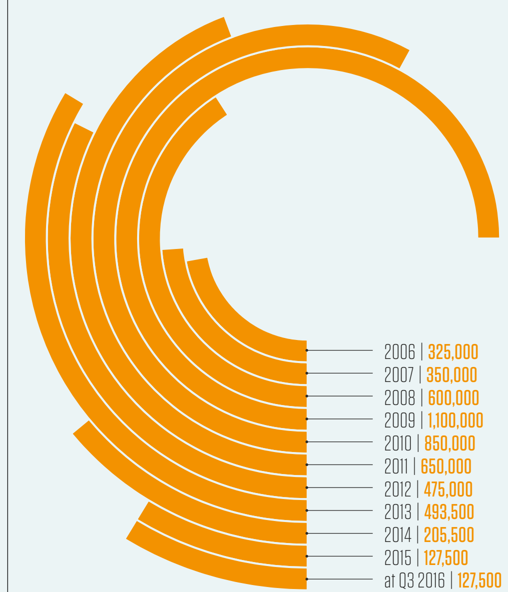
TAKE-UP (SQ FT)



Source: Knight Frank

Total take-up in 2016 (Q1 - Q3) has reached 596,500 sq ft, 18% above the long-term trend for the period.

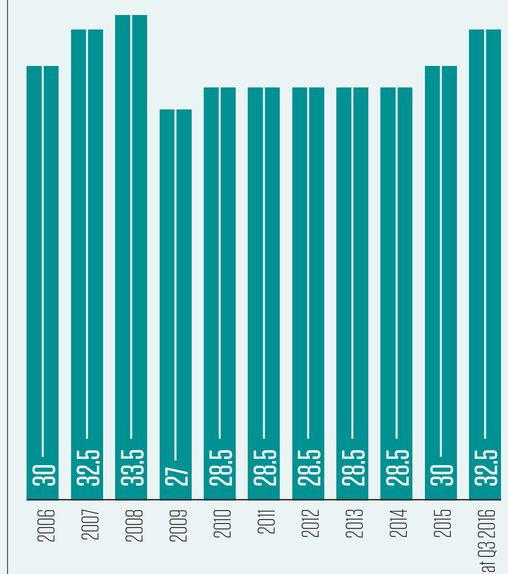
GRADE A SUPPLY



Source: Knight Frank

Grade A supply dipped below 130,000 sq ft in Q3 2016, this is the lowest level on record for the city.

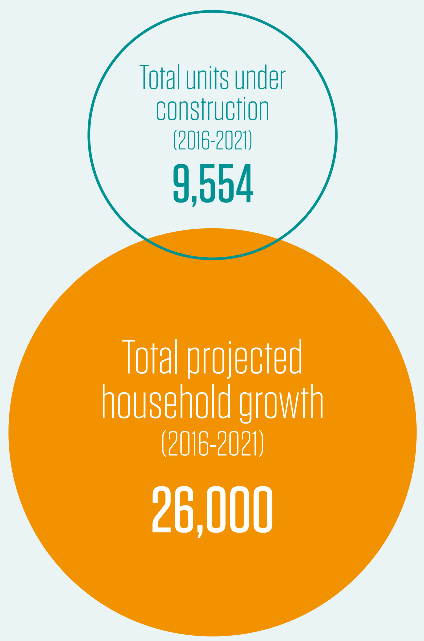
RENTS



Source: Knight Frank

Prime rents have increased by 8% in 2016 reaching £32.50 per sq ft in Q3.

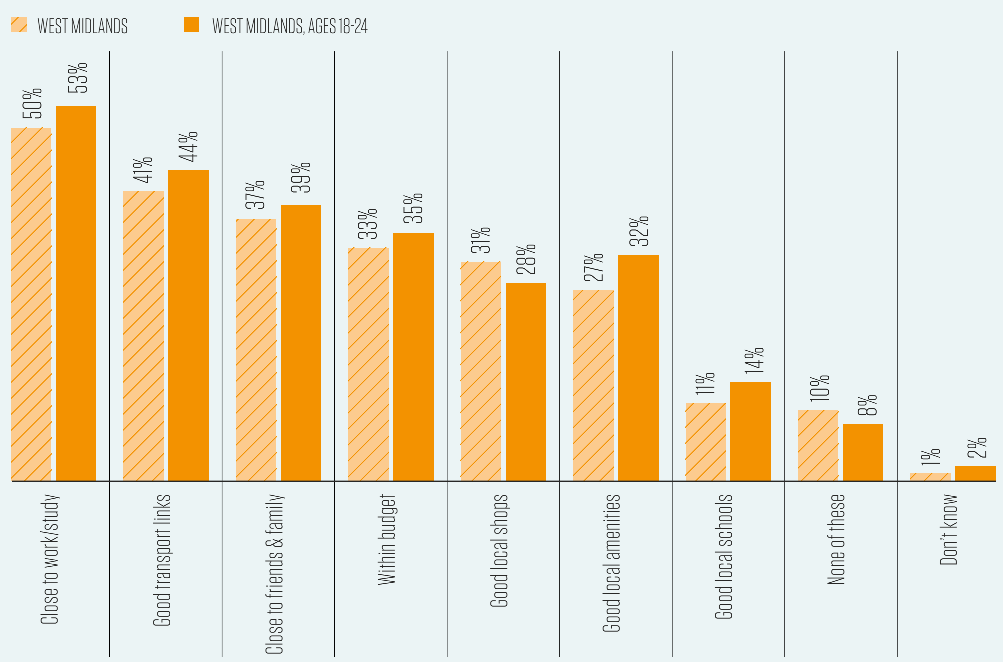
FIGURE 4: PIPELINE SUPPLY



Source: Knight Frank

This shows the discrepancy between the number of homes currently under construction, and projected household growth over the next five years.

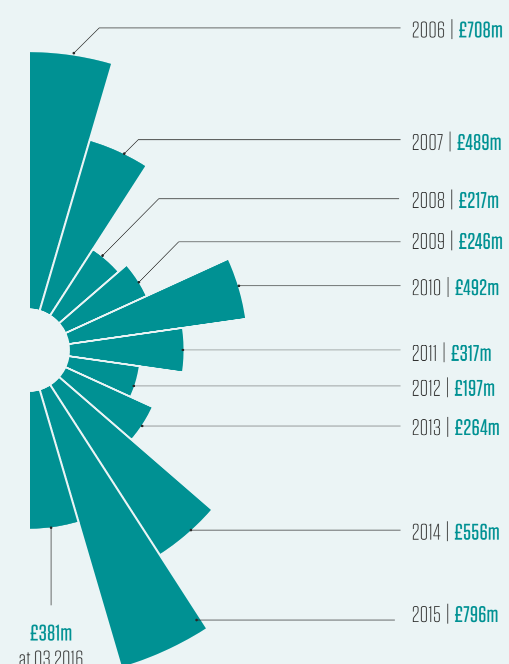
FIGURE 5: KEY PRIORITIES FOR TENANTS IN PRIVATE RENTED SECTOR WHEN CHOOSING PROPERTY



Source: Knight Frank Tenant Survey 2016

Living close to work or a place of study is a key priority for renters.

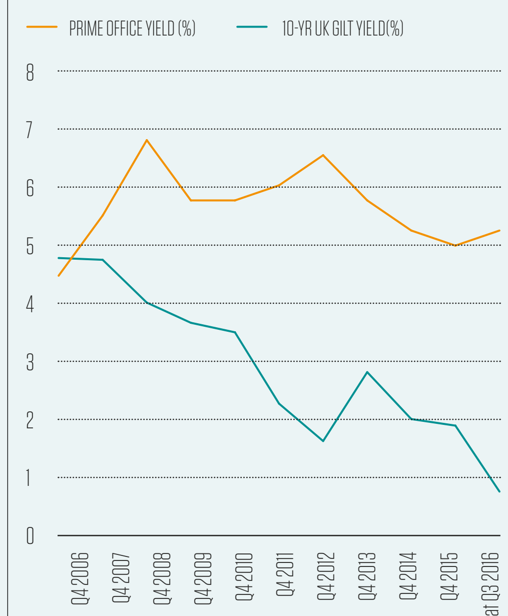
INVESTMENT VOLUMES



Source: Knight Frank

With £796m of stock sold, Birmingham recorded the highest level of office investment of any major regional UK city in 2015.

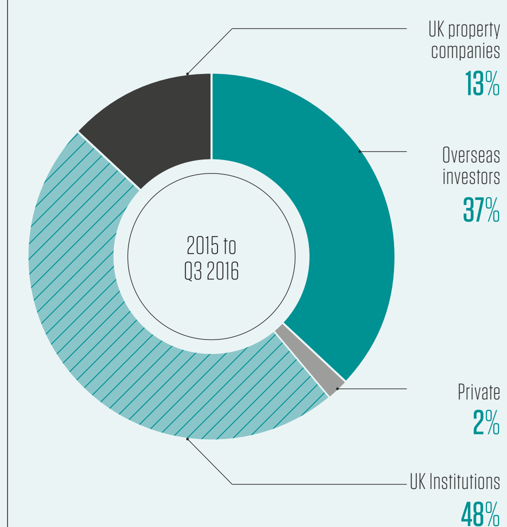
YIELDS



Source: Knight Frank

Prime office yields in Birmingham are holding firm at 5.25%, around 425bps above 10 year UK Gilt yields.

INVESTOR TYPE



Source: Knight Frank

Since the beginning of 2015, overseas money has accounted for accounting for 37% of investment turnover.

DISCLAIMER

House price forecasts were computed using time series analysis of historic house price movements and local economic drivers of house price changes, and evaluated to account for unique macro-economic factors. The recently launched LandRegistry/ONS index for the Birmingham Metropolitan area was used as the underlying series for forecasts as this represents the most robust measure of house price changes for the area in question.

DISCLAIMER

These numbers are correct as at Q3 2016.

Source: Knight Frank Research, Property Data

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IMPORTANT NOTICE