RESIDENTIAL RESEARCH

BIRMINGHAM REPORT

SPRING **2015**

ECONOMIC FUNDAMENTALS | THE "BUSINESS" CASE | HOUSING SUPPLY AND DEMAND

“Birmingham’s mix of regeneration, re-development and job creation, as well as the relatively lower entry price for property, means that its draw to homebuyers and investors will likely continue to grow in the coming years.”

GRÁINNE GILMORE
Head of UK Residential Research

BUILDING THE FUTURE

The UK economy bounced back strongly last year, delivering the highest level of growth seen in any country in the G8 nations. As the Eurozone struggles with more fiscal uncertainty, the UK is seeing job creation and starting to see wage growth, all in an ultra-low interest rate environment.

The country’s economic recovery from the financial crisis and resulting recession has started to spread to the regions, and Birmingham, the UK’s second-biggest city by population, has contributed with economic output from the city outpacing the average seen across the UK in both 2013 and 2014 (figure 1).

This is just one of the signs that Birmingham is enjoying a post-recession renaissance, not only in terms of jobs and business growth, but also in the fabric of the city. The Big City Plan, laid out in 2010, aims to ease the stranglehold that infrastructure such as key roads are placing around the city centre, thereby opening up large parts of the city.

The activity in Birmingham, in economic terms as well as public realm planning, is also helping feed the strong demand for housing, not only from the domestic population within Birmingham, but also from those from London and the South East looking to take advantage of the price differential on offer.

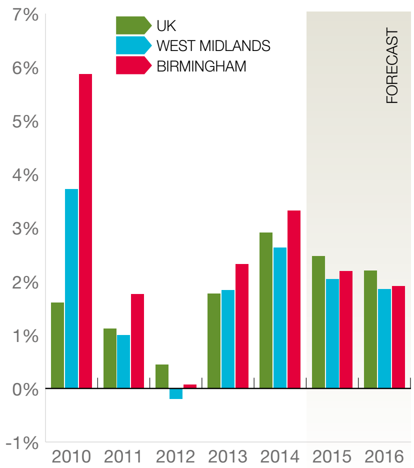
FIGURE 2
Annual economic output 2014

Source: UN

At present, the level of new residential stock coming to the market, especially in the City Centre, is limited. Our analysis of future housing supply in Birmingham suggests that supply will pick up from next year, but that there will still be a notable annual shortfall in our forecast period to 2019 (figure 8).

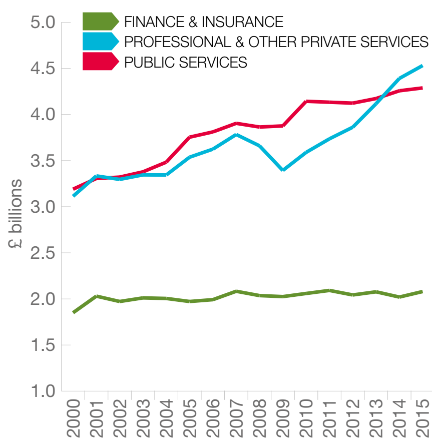
Birmingham’s mix of regeneration, re-development and job creation, as well as the relatively lower entry price for property, means that its draw to homebuyers and investors is likely to continue to grow in the coming years.

FIGURE 1
Total annual output (GVA)



Source: Experian

FIGURE 3
Birmingham: Output by industry
GVA, £bn



Source: Experian

Economic fundamentals

In terms of economic growth, Birmingham has outperformed the UK and the wider West Midlands region for the past two years. Annual Gross Value Added, a measure of economic activity, rose by 2.3% in 2013 and 3.3% in 2014, compared with 1.8% and 2.9% respectively across the UK. The pace of economic growth in Birmingham is expected to average a more moderate 2.1% per year over the next five years outperforming the wider West Midlands average (figure 1).

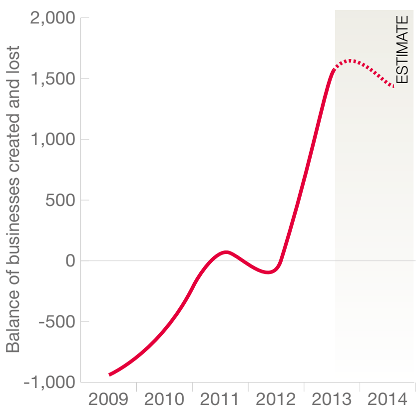
With a Gross Value Added (GVA), a measure of economic output, in 2014 of nearly £16.8bn, Birmingham's total is currently comparable to that of Estonia, which had a total output of £16.1bn in 2013, and some £7bn more than Iceland.

Brimingham's strong recovery from the UK recession has seen employment rise across the city over the last few years, once again outperforming the UK and regional annual growth rates in 2013 and 2014. Employment is set to continue to rise annually by an average of 1% across the next five years.

The surprise driver behind this economic resurgence has been the private sector – for the first time since 2001, the output from Birmingham's Professional & Other Private Service industries outstripped that of its Public Sector by an estimated £133 million, contributing around £4.4bn to the city's economy last year. In fact this segment of the Birmingham economy has been the star performer since the recession, growing by nearly 30% since 2009 (figure 3).

Evidence of the sustained recovery in the private sector can also be seen by net business creation data – in 2009 and 2010 the city lost more businesses than it gained, but in 2013 over 1,600 more companies were created than folded and provisional figures for 2014 suggest a similarly large net gain (figure 4).

FIGURE 4
Birmingham: Net Business Creation
2009 - 2014



Source: ONS 2013 Business Demography

"Intense competition, big price tags and low yields in London are forcing investors, both domestic and international, to widen their horizons. Turning their back on the capital for regional cities that offer less competition and higher returns, [in particular] well-run major cities with good local government; leadership is a key factor impacting business prospects. This includes cities such as Birmingham."

Source: PwC "Emerging Trends in Real Estate" – Europe 2015

CASE STUDY: DEUTSCHE BANK IN BIRMINGHAM

Paul Anderson
Head of Deutsche Bank Birmingham

Deutsche Bank has expanded its presence in Birmingham, with front and back office staff all based in Brindleyplace in the business district. Paul Anderson, Head of Deutsche Bank Birmingham, shares the reasons behind the bank's move, and explains the attraction of Birmingham for a large banking business.

"We have many roles within the Bank which do not need to be based in London, where our UK headquarters are, yet our teams need to be able to travel to and from there quickly if needed.

"Birmingham was an easy choice when it came to picking a location outside London. The key factor is the labour market here, there's a highly qualified talent base – with skills that are highly transferable. We have been able to recruit the highest calibre teams for compliance, technology and professional services.

"For our graduate scheme we have access to many smart young graduates from the major universities in the area. We find that these graduates value the opportunity to have a banking career without having to move to London.

"The disparity in the cost of living between London and Birmingham means that those working here can have a higher standard of living than those on the same salary in the capital.

"In terms of the lifestyle they can enjoy, the city is almost unrecognisable compared to 15 years ago, it is a lively and exciting place to be. Alternatively, our staff can choose to live in the countryside, and still be within a reasonable commute of the office.

"We can't discount the proximity to London however, and our staff can be there within two hours, and travelling there and back in a day is not arduous. We are very pleased with our choice of Birmingham as a location."

FIGURE 5 **Changing face of Birmingham City Centre**

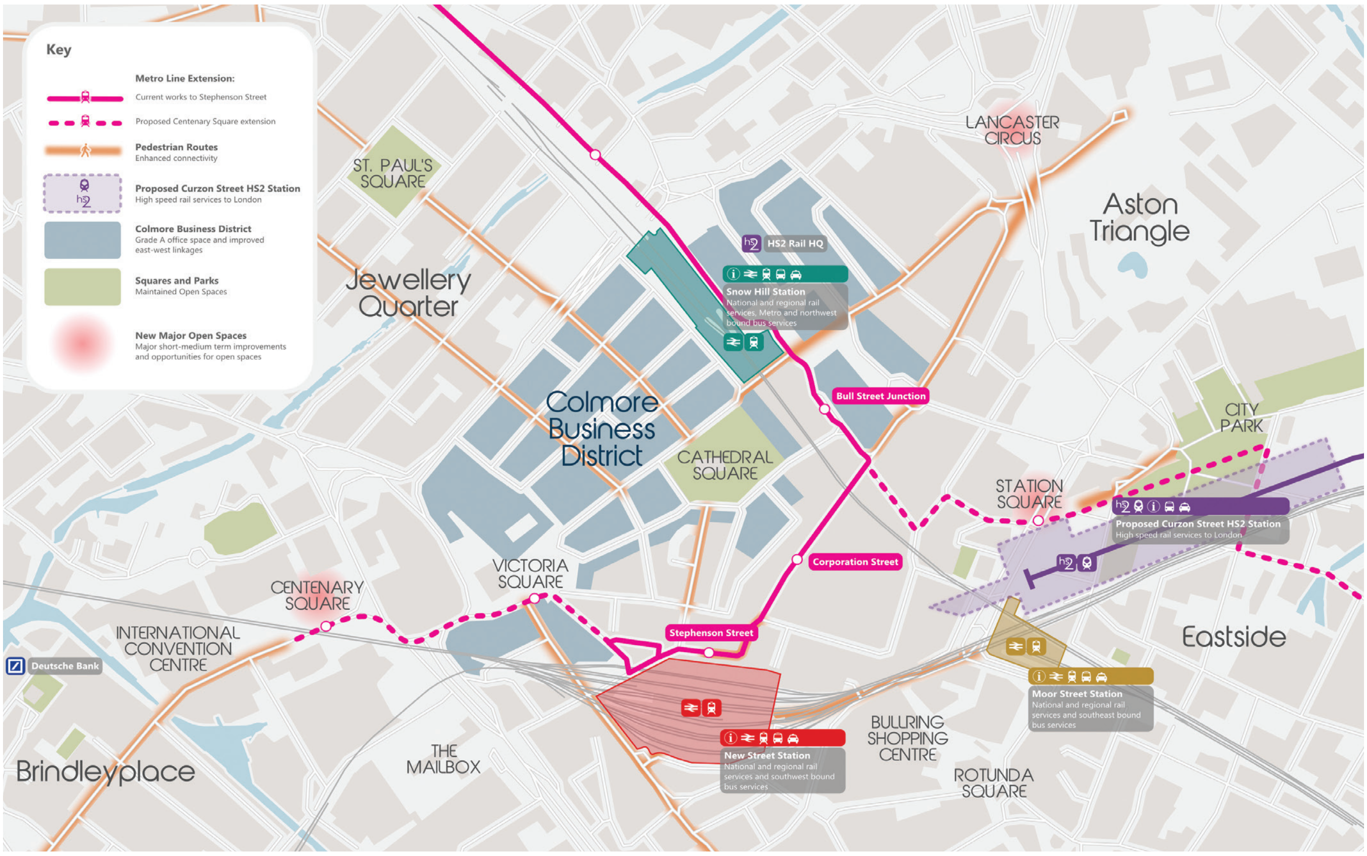
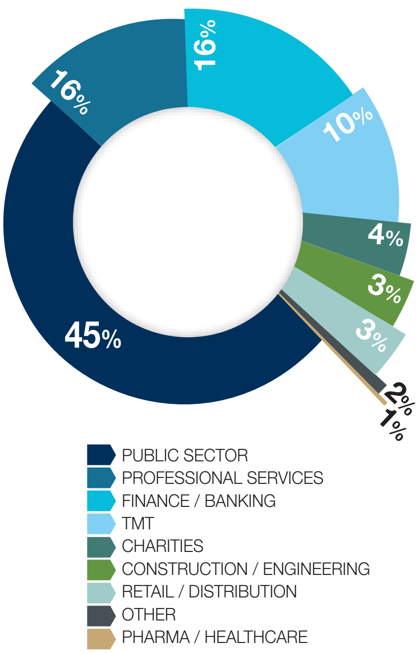


FIGURE 6
Birmingham office take-up, by sector H2 2014



Source: Knight Frank Research

Private sector investment in the city is becoming mainstream, with a report on emerging trends in real estate, from PwC, ranking the city the 6th best in Europe for investment, four places above London, and 7th for development.

There are increasing numbers of examples of corporate investment in the city. Deutsche Bank made a landmark decision in 2013 to further expand their operations in Birmingham renting an additional building on Brindleyplace and relocating around 2,000 staff from London to create a 'HQ Campus' (interview page 3).

More recently HS2 Ltd, the vehicle behind the construction of the new high-speed rail line between London and Birmingham and the North of England, rented nearly 100,000 sq ft of office space. The decision to base the headquarters of HS2 in Birmingham marks a further vote of confidence in the city.

The "Business" Case

The strength of Birmingham's economy is echoed in the activity in its office market.

There was particularly strong occupier activity in Birmingham city centre in the second half of last year, with take-up in Q4 alone totalling 341,164 sq ft, more than doubling the preceding three quarters (figure 7).

Total take-up for 2014 was 713,460 sq ft, up 7% year-on-year. Activity in these markets is being driven by the public sector, professional services and banking & insurance sectors, which accounted for 72% of total activity in the second half of 2014.

The buoyancy of the office market, as well as the investment confidence in Birmingham is perhaps captured by the fact that construction work has begun on Birmingham's most anticipated new commercial development scheme – the transformation of 17 acres at Paradise Circus in the heart of the city centre.

The £500m scheme is aimed at revitalising this part of Birmingham; creating a substantial number of jobs, office and retail space and helping to attract significant commercial investment.

Infrastructure boost

Birmingham is well positioned to attract further investment – with the 20-year 'Big City Plan' launched in 2010 aiming to completely revitalise and expand the city centre. The plan aims to deliver change in the city centre, by breaking up the restrictive post-war urban environment, such as major roads cutting through residential and commercial areas. This will expand the city centre by 25% to cover 800 hectares, including far-reaching improvements to the urban environment and connectivity.

Key infrastructure and transport projects have been adding to this sense of revitalisation and transformation.

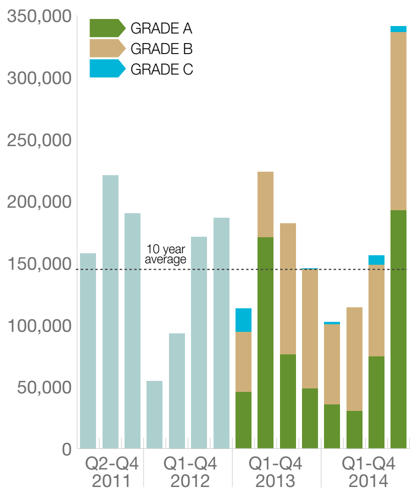
Increased connectivity is therefore at the centre of the plans for Birmingham's future – better links nationally, regionally and internationally. The improved local connections at the heart of the city will play a key part in providing a long-term boost to residents and business alike.

Opening up the city centre will bring improved pedestrian and Metro access to the central business and retail districts, particularly from the Jewellery Quarter – the city's most vibrant residential neighbourhood.

Recent residential development has focused on rejuvenating the canalside area to the South West of the city Centre. The catalyst for regeneration in this area began with the Mailbox development which was completed in the early 2000s. More recently, The Cube is the most notable residential scheme of the past five years. However focus is now switching to the opportunities offered by the Jewellery Quarter, with a number of new developments and Victorian warehouse refurbishments in the pipeline.

FIGURE 7

Sharp rise in Birmingham office take-up By grade (sq ft)

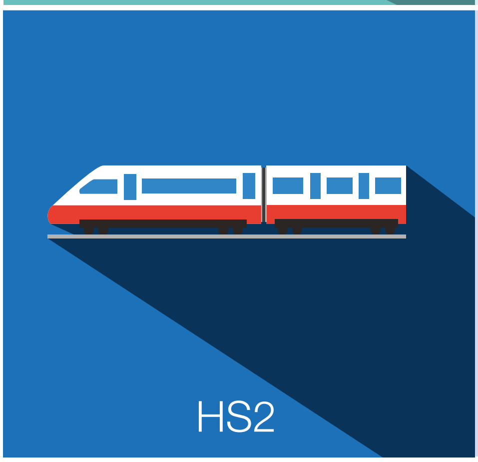


Source: Knight Frank Research

Better connections for Birmingham

- Birmingham International Airport offers direct access to over 100 destinations and is only a 9 minute train journey from the city centre. However the creation of a £40 million runway extension last year created the potential for expanding the list of long-haul destinations. Birmingham now hosts the only direct UK to China air route outside London.
- American Airlines also announced new direct flights from New York to Birmingham would begin in May 2015 – a decision which may be partly based on the West Midland region having the largest trade surplus with North America of any UK region, thanks in part to global brands such as JLR, JCB, Cadbury and Kraft trading both locally and in the US.

- A key plank of the long term vision of Sir Albert Bore, head of Birmingham City Council, has been to open up the city centre and break the 'concrete collar' imposed on the central business district by the 1960's Queensway ring roads. Phase One of the extension will extend the current Metro Line from its current terminus at Snow Hill station to Birmingham New Street by the end of 2015 (see map). Funding for a further phase to extend the line to Centenary Square to tie in with the Paradise Circus re-development has also been approved with the long-term goal being for the route to run to Five Ways and/or Edgbaston.
- A further Metro extension eastwards to the future HS2 station at Curzon Street and beyond, ultimately to Birmingham Airport and perhaps even Coventry is also in the pipeline, with the Curzon Street extension slated for completion by around 2020.



- This high speed rail link will cut the travel time between London and Birmingham from 1hr 21 minutes to 49 minutes. Phase 1 will connect London and Birmingham, as well as going slightly further north to Hansacre, while Phase 2 will have two "legs" going further north, one to Manchester and one to Leeds via Nottingham and Sheffield. The construction of the line alone, with the rail links and infrastructure around it, could create 22,000 jobs in the West Midlands and further Birmingham's position as the regional hub for the heart of England. The HS2 Paving Act, authorising expenditure in preparation for the creation of the new rail network, received Royal Asset in November 2014. A final decision on the exact route is expected after the General Election in 2015 with the HS2 Hybrid Bill, currently at the Commons Select Committee stage, following soon after.
- According to a KMPG / DfT 2013 Regional Impact Study, the West Midlands metropolitan region stands to see direct productivity gains valued at between £1.5 billion and £3.1 billion per year; equivalent to between a 2.1% and 4.2% increase in total local economic output once HS2 is ready in 2037.

BIRMINGHAM

Education

Birmingham is home to five universities and over 50,000 undergraduate students, of which more than 6,000 are from overseas. Two of its schools are ranked among the top 15 in the country in terms of A-Level results. Some 38 secondary schools in the city are classed as "Outstanding" by Ofsted.

Culture

Birmingham Hippodrome is the most popular theatre in the UK with over 520,000 visitors every year. The city also has more than 500,000 works of art in one square mile with Birmingham Museum & Art Gallery home to the world's largest Pre-Raphaelite collection, including some 2000 art works. Its music and event venues such as the National Indoor Arena, LG Arena and Symphony Hall are also world-class.

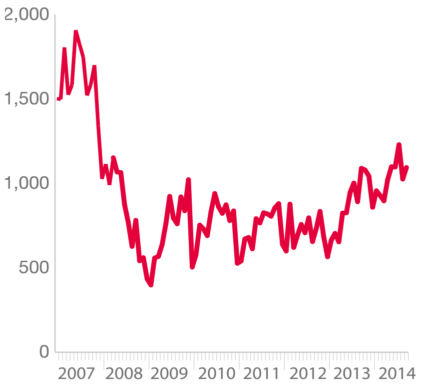
Birmingham has the most Michelin starred restaurants of any city in the UK outside London, with four restaurants boasting 1 star.

Recreation

The city is in the top three most visited places to shop in the UK. The Bullring shopping centre alone is the size of 26 football pitches. Over 400 specialist businesses in the 250 year old Jewellery Quarter are responsible for manufacturing around 40% of the UK's jewellery.

Birmingham is also one of the greenest cities in the UK with around 600 designated parks and open spaces, including the Botanical Gardens in Edgbaston that first opened in 1832. Famously the city also has more miles of canal than Venice.

FIGURE 8
Birmingham residential sales volumes Monthly Sales 2007-2014



Source: Land Registry

Housing demand and supply

Population projections from the ONS suggest that Birmingham will see organic population growth of 3.6% between 2015 and 2020; equating to just under 40,000 new residents over the next five years.

Birmingham is forecast to see a growth in the number of households from 422,022 in 2014 to 440,529 by 2019 – a rise of around 18,500 households. This equates to an average annual increase of approx. 3,680 households each year.

By looking at all the current residential planning consents across Birmingham, using construction timing estimates provided by Glenigan, together with the assumptions that; all sites with planning consent as at February 2015 will be realised; that the units are made available for sale halfway through the construction process, and; an average monthly sales rate of 3.5% across each site, we have attempted to illustrate the annual supply of new homes versus the predicted growth in households.

We must note that it is hard to second-guess the details how and when developers will choose to bring forward their schemes, which can affect supply timings. However, our forecast shows that across Birmingham as a whole, the expected supply of new homes is set to fall short of the potential growth in households by an average of nearly 2,000 a year between 2015 and 2019.

The shortage of stock in the city has been reflected in price growth in recent years, especially as buyer confidence and interest started to rise in the wake of the financial crisis. Average residential property prices rose by 7% between the beginning of 2013 and the end of last year according to the latest data from the Land Registry.

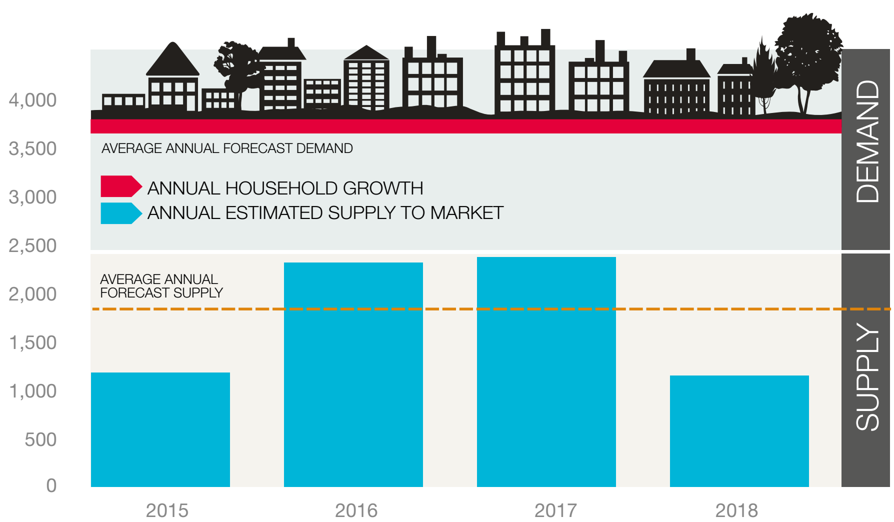
The competition to live in the centre of town, coupled with a lack of stock availability due to lack of development activity in the wake of the downturn, is also reflected in rental prices, with average rents carrying a premium, as shown in figure 11.

This chimes with the findings of our Tenant Survey, the largest survey of its kind ever conducted in the UK. We asked 3,000 tenants across the UK about their choices when deciding on a rental property.

It showed that while affordability was the key priority, proximity to transport and place of work was particularly important to younger tenants. In fact, the results showed that this was particularly true for the West Midlands.

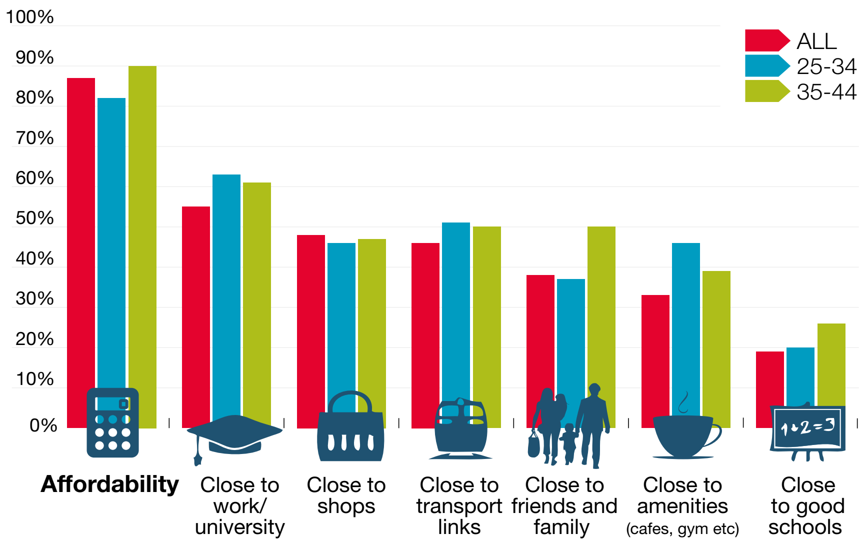
Some 40% of those living in the West Midlands said they would choose a studio flat if the rent was affordable and if it was located in a "perfect" central location, this is higher than the wider country average of 36%. This rises to 42% for those aged 35 to 44.

FIGURE 9 **Estimated supply/demand dynamic**
2015 – 2019 Birmingham Housing Supply vs Demand



Source: ONS 2011-based Subnational Household Growth Projections, Glenigan, Knight Frank Residential Research

FIGURE 10 **PRS: Tenant priorities – West Midlands**



Source: Knight Frank Residential Research

Average prices in Birmingham's residential market last peaked in July 2007 a month that saw over 1,800 transactions totalling nearly £306m worth of property, equating to an average sale price of £167,607. Sales volumes hit a low in early 2009, in the aftermath of the financial crisis, with the average sale price dropping to its lowest point a few months later in May. Volumes plateaued for the following two years, but have started to pick up since mid-2013. Recently the average sale price passed the previous 2007 peak, with the pace of growth outperforming that in the West Midlands.

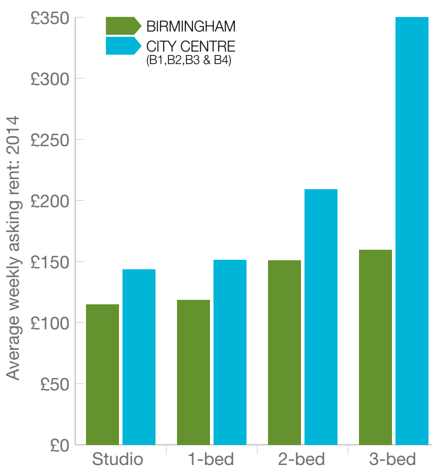
As of December 2014 (latest figures) Birmingham was the local authority with the sixth highest number of completed equity loans under the Help-to-Buy Scheme that began in October 2013, which may have partly helped to re-energise the local market in the last 18 months.

Our forecasts suggest a further 17% growth in prices between 2015 and 2019 in the West Midlands, and we acknowledge the potential for outperformance in some local markets, for example central Birmingham.

FIGURE 11

PRS: Average weekly asking rents

Birmingham, 2014

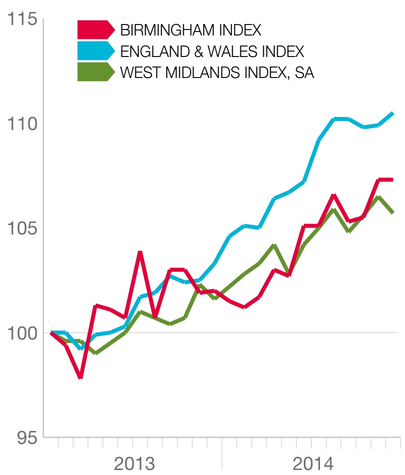


Source: Knight Frank Residential Research, Zoopla

FIGURE 12

Price change

Jan 2013 = 100



Source: Knight Frank Research

"The Birmingham residential market has matured over the last eight years. As a consequence buyer profiles and requirements have changed significantly from the 'peak' of the market in 2007. We are seeing a trend with buyers looking for better and larger space with more emphasis on quality, rather than being driven purely by capital values.

"This transformation has gathered pace over the last 18 months, and is directly linked to the improvement of infrastructure in the city alongside the relocation to the city of businesses such as Deutsche Bank.

"Demand has grown at a time when supply is restricted. The traditional market of buy-to-let investors has expanded to include owner-occupiers, including many professionals working in the city, as well as homeowners looking to downsize. We have also seen the arrival of students from overseas who have shown a preference for living in high-quality residential developments.

"There will be challenges around stepping up delivery of new homes, especially in central Birmingham in the coming years, so we expect price growth in this market to be underpinned by that supply and demand imbalance."

MARK EVANS

Head of Regional New Homes Sales, Knight Frank Birmingham

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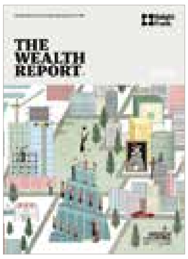

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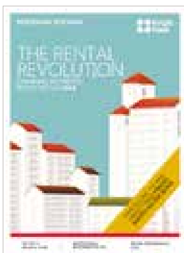
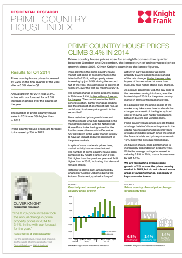
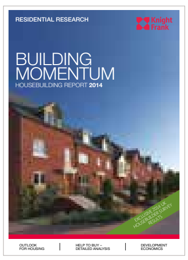


The Private Rented Sector 2014

UK Housing Market Forecast Q1 2015



Prime Country House Index Q4 2014



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