



# BIRMINGHAM OFFICES

Market update Q2 2012

**Knight Frank**

## Key highlights

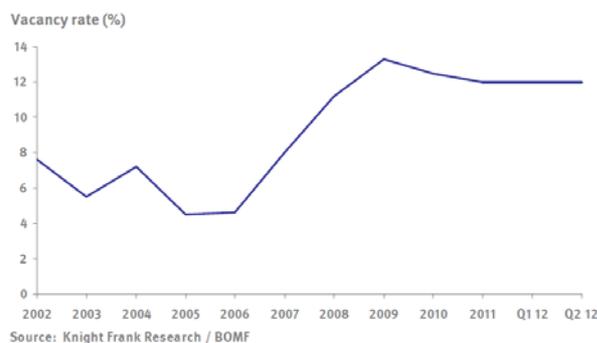
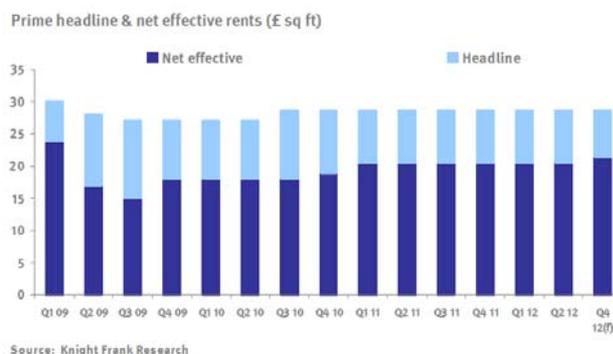
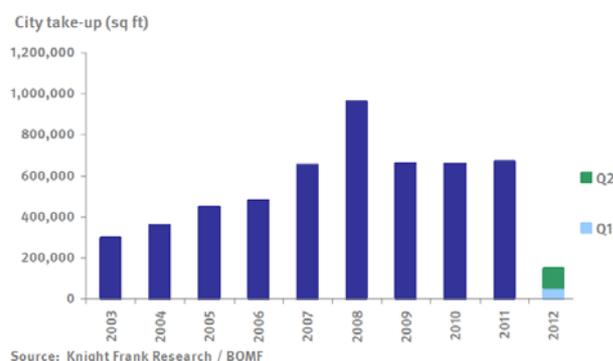
- While Q2 take-up was relatively subdued, at 93,081 sq ft, it was nevertheless a substantial improvement on Q1's level. As with Q1, there was an absence of large transactions, with the largest of Q2's 35 deals comprising Clement Keys' lease of 14,628 sq ft at 8 Calthorpe Road, Edgbaston.
- The Clement Keys deal was also one of just seven deals involving Grade A space in the quarter. The largest Grade A deal in the city core was QBE Insurance's 6,500 sq ft lease at 45 Church Street (Part of 5th floor).
- The only other deal exceeding 10,000 sq ft in Q2 took place in the city core. Monarch Recruitment leased 10,500 sq ft on the 8th and 9th floors at Temple Point, on Temple Row.

## Office gossip

- Knight Frank has been retained by an established TMT client to acquire 20,000 sq ft to 30,000 sq ft of office accommodation within the city core.
- The Tribunals Service is expected to exchange on c.30,000 sq ft at Centre City in Q3.
- Ballymore is rumoured to have agreed terms with two occupiers for the remaining space at One Snowhill.
- Westinghouse Rail has identified Maple House as their preferred option, while Capita is understood to have selected Aviva's Colmore Gate scheme for their requirement, totalling 10,000 sq ft.

## Looking ahead

- Despite the improvement in activity in Q2, the first half of 2012 has been an extremely subdued period for the Birmingham market. However, with c. 260,000 sq ft of enquiries in Q2, we anticipate a stronger second half of 2012.
- While prime headline rents are unlikely to increase from their current level of £28.50 per sq ft before the year end, we do anticipate rent free incentives to harden slightly.
- Encouragingly, Birmingham Science Park (BSP) has had the go ahead for the new £35 million Digital Plaza Development, and has selected Thomas Vale as its JV partner. BSP aim to be on site during the latter part of 2012 and the first phase will see the delivery of 30,000 sq ft of speculative offices.



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# UK REGIONAL OFFICES ROUND-UP

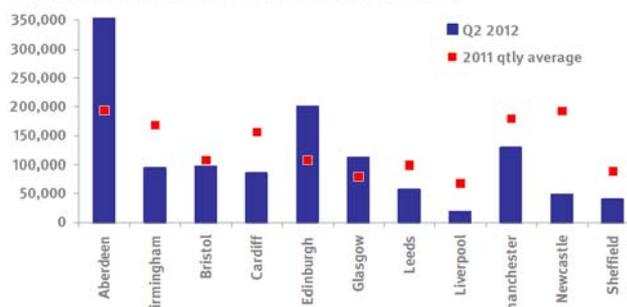
Q2 2012



## Occupier demand

- Total Q2 take up in the eleven cities combined was 1,423,646 sq ft, 32% up on Q1. However, Q2 was somewhat skewed by Aberdeen's record take-up level of 547,926 sq ft.
- Given the economic backdrop, it is unsurprising that most markets experienced lower take-up in Q2 2012 compared with the 2011 quarterly average. The three exceptions are Aberdeen, Edinburgh and Glasgow, which all experienced above average activity during the quarter.
- Despite the challenging economic environment, occupier demand has held up better than expected. Demand is anticipated to remain at current levels over the summer, although a number of active requirements provide a source of optimism.

City centre take-up, Q2 2012 vs 2011 quarterly average (sq ft)

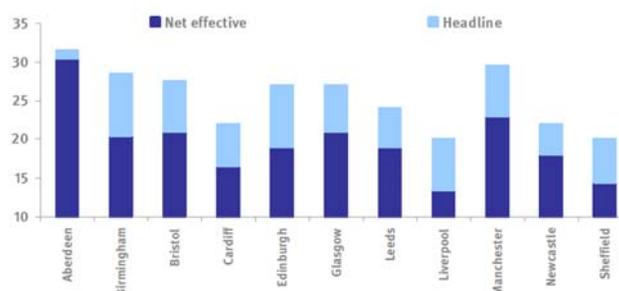


Source: Knight Frank Research

## Supply and rents

- The lack of new development has meant that Grade A supply has continued to fall in most regional centres.
- The on-going lack of debt funding is still hampering new development, while more secondary property is becoming available. Speculative development activity remains limited, confined to only four of the 11 regional markets as at the end of Q2. Moreover, only two cities, namely Birmingham and Manchester, have in excess of 100,000 sq ft underway.
- Nevertheless, prime rents were broadly stable during Q2 and vary between £20.00 per sq ft in Sheffield and £31.50 in Aberdeen. Looking forward, prime office rents in most regional cities are not expected to change significantly for the rest of the year, although upwards pressure on net effective rents may be seen in some areas.

Q2 2012 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

## Investment market

- Investment turnover for offices outside London and the South East was subdued in Q2. The latest figures from Property Data suggest c.£374m turnover, 4% down on Q1.
- Investor demand is still very much focussed on prime property. However, we believe that both prime and secondary pricing has softened, with the yield gap increasing as prices for secondary product continue to soften faster than those for prime stock.
- The prevailing uncertainty in the Euro zone and its impact on the UK economy has resulted in weak demand for secondary property.
- According to the latest Knight Frank ROMP Confidence Index, a majority of our agents are expecting to see little change to investor sentiment in the prime office market, with the outlook remaining generally cautious.

Prime office yields

|            | 2011  |       | 2012  |       | Yield sentiment |
|------------|-------|-------|-------|-------|-----------------|
|            | Q3    | Q4    | Q1    | Q2    |                 |
| Aberdeen   | 6.00% | 6.25% | 6.25% | 6.50% | ◀ ▲             |
| Birmingham | 5.75% | 6.00% | 6.25% | 6.50% | ◀ ▲             |
| Bristol    | 6.00% | 6.25% | 6.25% | 6.50% | ◀ ▲             |
| Cardiff    | 6.25% | 6.25% | 6.25% | 6.50% | ◀ ▲             |
| Edinburgh  | 6.00% | 6.25% | 6.25% | 6.50% | ◀ ▲             |
| Glasgow    | 6.00% | 6.25% | 6.25% | 6.50% | ◀ ▲             |
| Leeds      | 6.25% | 6.25% | 6.25% | 6.50% | ◀ ▲             |
| Liverpool  | 6.75% | 7.00% | 7.00% | 7.25% | ◀ ▲             |
| Manchester | 6.00% | 6.00% | 6.00% | 6.50% | ◀ ▲             |
| Newcastle  | 6.50% | 6.50% | 6.50% | 6.75% | ◀ ▲             |
| Sheffield  | 6.75% | 7.00% | 7.00% | 7.25% | ◀ ▲             |

Source: Knight Frank Research

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