RESEARCH

BIRMINGHAM OFFICES

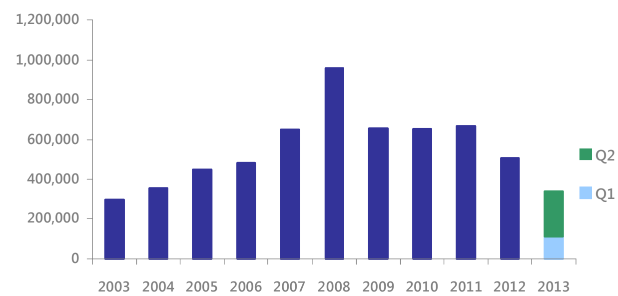
Market update Q2 2013

Knight Frank

Key highlights

- Birmingham's occupier market had a very strong Q2, with take-up of 223,611 sq ft – almost double the Q1 total and the highest quarterly figure since Q3 2010. However, the Deutsche Bank deal at 5 Brindleyplace accounted for around 60% of this.
- As a result, the amount of available Grade A space declined sharply to 360,000 sq ft. This represents a 67% fall since Q4 2009 – the second highest fall in percentage terms (behind Aberdeen) of the eleven key regional office markets.
- Office yields hardened in Q2 to 6.00%, although there is limited evidence of activity at the prime end. While investor interest has improved, recent activity in the office sector has focused on higher-yielding secondary stock.

City take-up (sq ft)

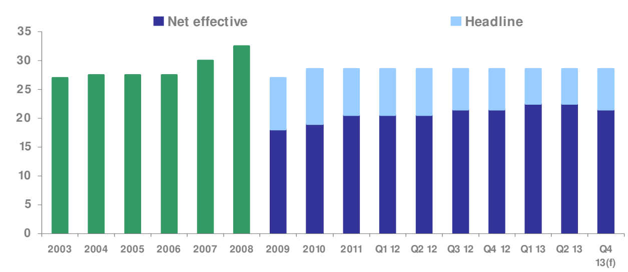


Source: Knight Frank Research / BOMF

Office gossip

- Deutsche Bank has finally committed to 5 Brindleyplace, taking the full 134,000 sq ft at the Hines and Moorfield redevelopment and relocating around 2,000 people to the city from London.
- DWF has committed to take 22,000 sq ft at One Snowhill. DWF's existing space space at 1 Colmore Square will be refurbished following their relocation, providing 40,000 sq ft of much-needed Grade A space to the market.
- Although DAC Beachcroft recently pulled out of taking 2 Colmore Square, Allianz and i2 are both expected to finalise their respective deals in the next quarter.

Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Looking ahead

- Indications earlier in the year of increasing occupier activity have been borne out in recent months, with a significant jump in take-up in Q2. Sentiment is undoubtedly improving and leasing volumes for 2013 should reach a five-year high, with major corporates clearly back in the market.
- With 5 Brindleyplace now taken, this leaves Two Snowhill as the only new build office option in the city centre. Indeed, availability has fallen sharply and there are questions for the city as to the source of the next wave of supply.
- While headline rents are not expected to see growth this year, the low levels of supply are putting net effective rents under pressure.

Vacancy rate (%)

Source: Knight Frank Research / BOMF

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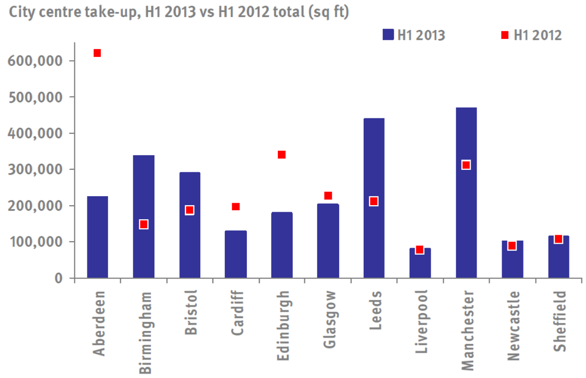
UK REGIONAL OFFICES ROUND-UP

Q2 2013

Occupier demand

- The regional office markets received a welcomed boost in Q2. Demand is relatively robust for the regions, with a growing list of sizeable requirements, mainly from corporate occupiers in the legal and financial sectors.
- The 11 markets combined recorded total take-up of 1,376,023 sq ft during Q2 – up 16% up on Q1 2013. Whilst overall total take-up for H1 2013 stands a modest 2% higher than H1 2012, this was largely due to Aberdeen's exceptional performance in 2012. Indeed, H1 2013 take-up in England's major regional markets has rebounded sharply from H1 2012, namely Birmingham (up 128%), Leeds (up 106%), Bristol (up 54%) and Manchester (up 51%).
- Whilst there was a healthy level of activity, similar to previous quarter, transactions continued to be predominantly characterised by smaller deals.

City centre take-up, H1 2013 vs H1 2012 total (sq ft)

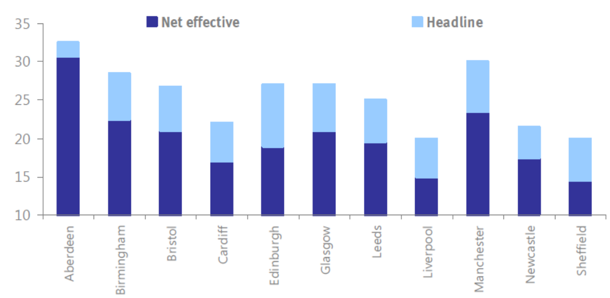


Source: Knight Frank Research

Supply and rents

- Availability of Grade A space slipped to 2,831,975 sq ft in Q2 2013 – 15% down on Q2 2012. This reflects the continuing erosion of Grade A space in most markets in the absence of new completions/development activity. A year-on-year double-digit fall was seen in Birmingham (-44%), Leeds (-32%), Glasgow (-17%), Manchester (-13%), Sheffield (-13%), Newcastle (-11%) and Liverpool (-10%), with the exception of Bristol (+31%) and Cardiff (+29%).
- There are signs that sentiment in the occupier market is improving. Headline rents and incentives have been largely stable, with only Aberdeen showing an increase in headline rents (from £31.50 to £32.50). While further significant growth in regional headline rents is unlikely over the remainder of 2013, net effective rents may harden as Grade A supply continues to decline.

Q2 2013 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.£346m turnover, 42% down on Q1.
- Strong investor interest in prime office stock in the regions has been maintained, although a shortage of suitable product (prime and long-income assets) remains a major barrier to activity. In the secondary spectrum, investor interest is highly selective, confined to good quality secondary stock where there is potential to add value through asset management.
- Generally, prime yields were largely stable in the regional cities, albeit Q2 saw signs of improved sentiment for prime stock. Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow and Leeds saw prime yields move in by 25bps.

Prime office yields

	2012		2013		Yield sentiment
	Q3	Q4	Q1	Q2	
Aberdeen	6.50%	6.50%	6.50%	**6.25%**	→↘
Birmingham	6.50%	6.50%	6.25%	**6.00%**	→↘
Bristol	6.50%	6.50%	6.50%	**6.25%**	→↘
Cardiff	6.50%	6.50%	6.50%	**6.25%**	→↘
Edinburgh	6.50%	6.50%	6.50%	**6.25%**	→↘
Glasgow	6.50%	6.50%	6.50%	**6.25%**	→↘
Leeds	6.50%	6.50%	6.50%	**6.25%**	→↘
Liverpool	7.50%	7.50%	7.50%	**7.50%**	→↘
Manchester	6.50%	6.50%	6.25%	**6.25%**	→↘
Newcastle	6.75%	6.75%	7.00%	**7.00%**	→↘
Sheffield	7.25%	7.25%	7.25%	**7.25%**	→↘

Source: Knight Frank Research