THE BIRMINGHAM REPORT

Knight Frank

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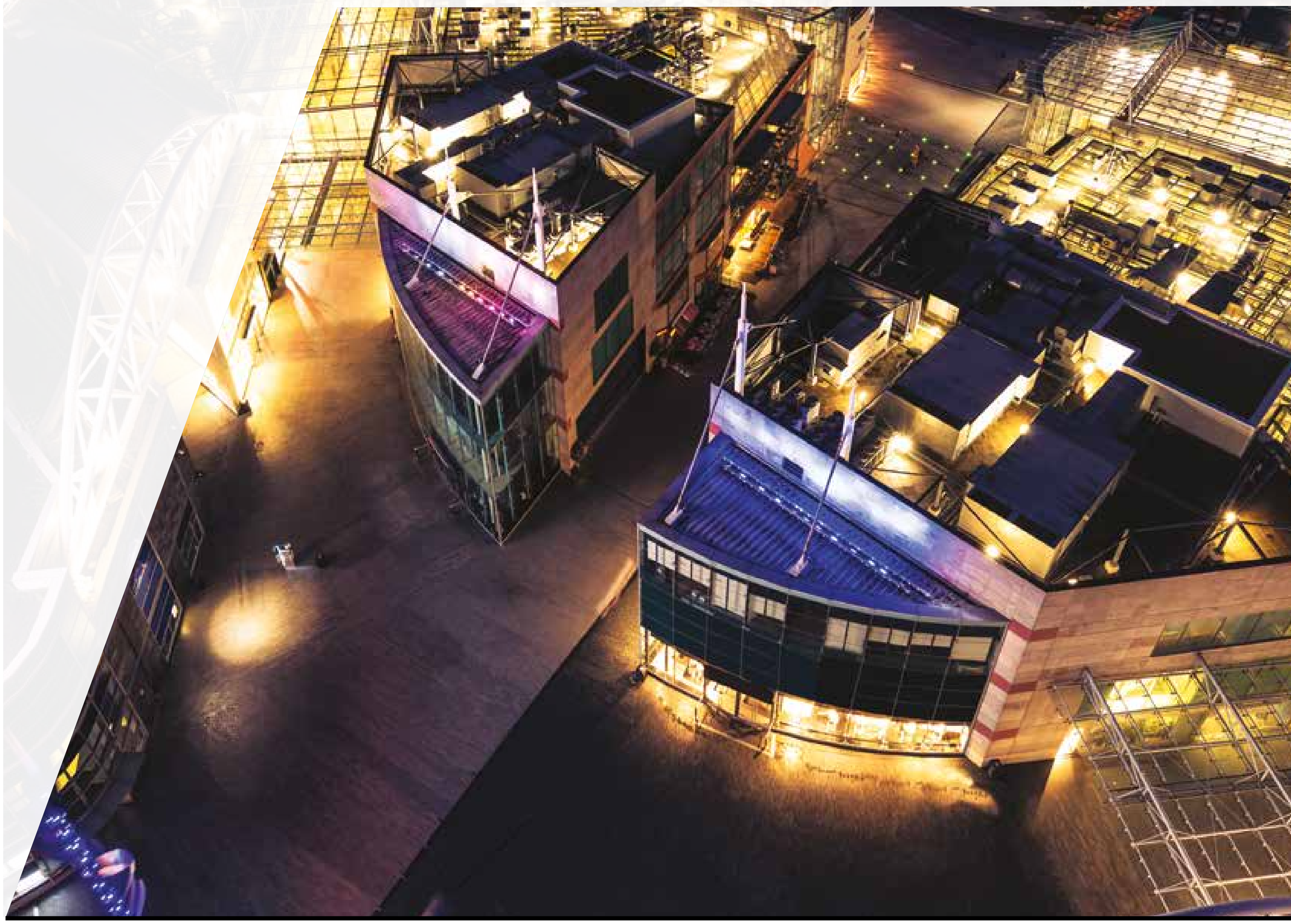


FOREWORD

Written by
Neil Rami
Chief Executive of the West Midlands Growth Company

The UK is undergoing a period of significant change, and a growing sense of optimism across the West Midlands region, will be critical to how we turn uncertainty into success.

Already, Birmingham is recognising and grasping new opportunities to reinforce its reputation as the UK's economic centre. Take the HS2 high-speed rail line. With two HS2 stations being built in central Birmingham and nearby Solihull, a wave of major regeneration projects are underway – stimulating housing schemes, office developments, and connectivity projects across the region.

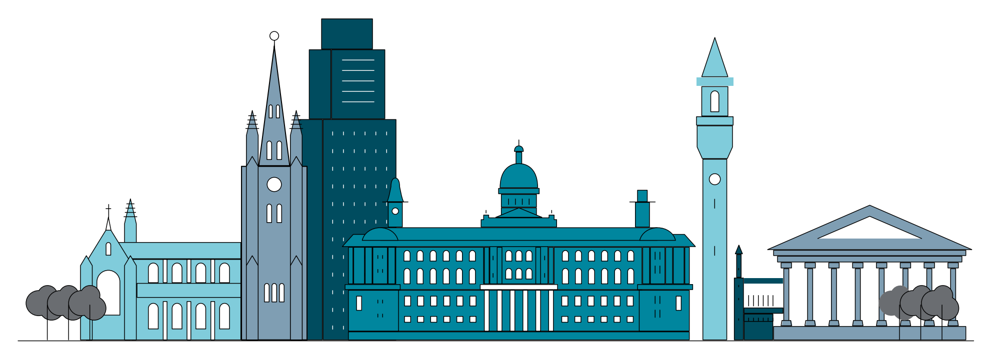
HS2 is a clear statement of confidence in Birmingham. The National College for High Speed Rail recently opened its campus here, while HS2 Ltd employs some 1,500 people at Two Snowhill. At the West Midlands Growth Company, we are working with a range of investors who are keen to take advantage of the huge supply chain opportunities triggered by HS2.

"It is the chatter at cafes, the youth and diversity of our business community and the vibrancy of our cultural scene that truly demonstrate the optimism felt here."

Public and private sector partners in the city, led by Birmingham City Council and the Greater Birmingham & Solihull LEP, have joined forces to ensure that the benefits of HS2 will be realised. The Curzon Masterplan, covering the area surrounding Curzon Street's HS2 station, is set to create 600,000 sq m of floorspace. Extensions of the Midlands Metro tram line are underway.

More generally, a strategy of targeting key sectors continues to attract investment into Birmingham. It boasts the UK's largest business, professional and financial services hub outside of London, and this is attracting global banks like HSBC. We are seeing a ripple effect of exciting fintech firms – such as Falanx and Oxygen Finance taking advantage of this huge client base and expanding into areas like Digbeth from their London heartlands.

During 2017, Birmingham also had its largest pre-let in a decade at 240,000 sq ft, demonstrating that the city remains a highly desirable investment destination. The UK Government is taking 3 Arena Central to house services including the Midlands regional hub for HM Revenue & Customs (HMRC).



Our advanced manufacturing sector continues to perform well, with German firm Guhring recently opening its new site at the Advanced Manufacturing Hub in Aston.

A critical component of Birmingham's ongoing success is its quality of life, with businesses confident that they can relocate and attract the best talent here. Whilst the cranes dotted across Birmingham reflect the city's progress, it is the chatter at cafes, the youth and diversity of our business community and the vibrancy of our cultural scene that truly demonstrate the optimism felt here. No wonder that Birmingham remains the most popular destination for Londoners who want to relocate from the South East.

"Birmingham boasts the UK's largest business, professional and financial services hub outside London."

Looking ahead, Birmingham's role across the wider region will underpin its economic and political future. The establishment of the West Midlands Growth Company, formerly Marketing Birmingham, in April 2017 reflects this – our stakeholders now include local authorities, LEPs, growth hubs, universities and businesses right across the West Midlands, as well the West Midlands Combined Authority itself. This way of working will continue to gather pace as the Midlands Engine's strength continues to grow.

We must work more closely with our regional allies to ensure that the West Midlands makes its voice heard clearly, embraces the Government's full devolution agenda, and ultimately attracts its fair share of investment. I have no doubt that Birmingham will continue to play a central role in ensuring that the West Midlands gets the recognition it deserves.

* Please see important notice on back cover

A LIFESTYLE CHOICE

Written by
Ashley Hudson
Head of Birmingham Commercial

Birmingham alive

Great cities are unique. The built environment, public spaces and vibrancy of a city should promote character and combine to create a sense of place.

GRAND CENTRAL / NEW STREET STATION

The phrase 'Place Creation' sounds like a sentence plucked from an 'Invest in' website, but this strategic aim has never been more important. A city now has to offer an 'all inclusive' package in order to attract new businesses. In this respect, Birmingham has undergone a renaissance in recent years.

Foremost, the arrival experience into New Street Station has been transformed following its redevelopment. The iconic railway station serves not just as an impressive entry point, but its innovative design is a major advance from the 'concrete heavy' structures of the past. Moving forward, the redevelopment of Snowhill station and the construction of the HS2 terminal at Curzon Street will further enhance the traveller's first impression of Birmingham.

From a lifestyle point of view, Grand Central is a dominant statement of a city's changed agenda. The shopping centre has attracted many new names including Cath Kidston, The White Company, Kiehls, Giraffe and Tapas Revolution. John Lewis, of course, is the anchor tenant, Birmingham is the only city outside of London to accommodate John Lewis, Debenhams, Selfridges, House of Fraser and a Harvey Nichols. Notably, today Birmingham has over 1,000 shops within a 20 minute walk of the city centre and sits fourth in CACI's UK Retail footprint ranking. This level of activity in retail is clear testament to the success of modern Birmingham.

"Prime ground floor rents have grown from around £20 per sq ft to in excess of £40 per sq ft."

Whilst the shopping experience has clearly improved, the food and beverage offer has exploded. New jobs created from economic growth and inward investment have supported an upward demand spiral for social interaction. This has revitalised city centre living, Birmingham is unrecognisable from 10 years ago.

The Birmingham dining experience is not just about 'high end' offerings. Whilst it boasts more Michelin star restaurants than any other English city outside London, it is also filling the missing mid-market by offering 'everyday' solutions. The new confidence in the city has encouraged the influx of names such as 200 Degrees, 1847, Urban Coffee, The Botanist and The Alchemist which are now being joined by Be at One, Gaucho, The Ivy and Las Iguanas.

Interestingly, the ubiquitous growth of coffee shops is serving to change culture, with the city having 323 coffee shops compared with 467 pubs*. Alongside the social trend of 'meeting' over coffee, the coffee shop is now an extension to the office environment offering high-speed Wi-Fi to accommodate working and business meetings.

*Allegra World Coffee Portal

GUSTO RESTAURANT, THE GRAND HOTEL

"Birmingham has over 30 different coffee shop brands and more Michelin style restaurants than any other city outside London."


OPUS RESTAURANT, CORNWALL STREET

In Birmingham, coffee shops and bars used to be limited to the homogenised brands such as Starbucks and Costa Coffee. Back in 2004, there were just four chain coffee shops and a limited number of independents within the core. Today there is over thirty branded coffee shops. This, coupled with independent offerings such as the Digbeth Dining club and the plethora of Speakeasy Bars, Birmingham has cultivated a new urban landscape which is more vibrant than ever before.

The changing trends of the city have had a direct impact on demand for ground floor space, which traditionally would have been the domain of banks, estate agents and recruitment consultants. The demand base has diversified and includes a greater variety of occupiers including cycling shops, boutique retail and high end barbers. All of these business types are jostling for visibility in a crowded prime market. Consequently, prime ground floor rents have grown exponentially over the past five years from around £20 per sq ft to in excess of £40 per sq ft.

Whilst the lifestyle offer of a city extends beyond shopping, food and café culture, the social enhancement brought by this type of amenity has a central place. For businesses, employee well-being has become a principal consideration with the workplace, building and location, fundamental to the overall package. Occupiers are looking for locations that provide an attractive environment for staff to work, socialise and live. Birmingham is clearly aligning with the needs of modern living. 'Placemaking' has been the goal. The changing built environment is delivering in this respect.

BIRMINGHAM INVEST

Written by
William Matthews
Partner
Capital Markets Research

What a difference a year makes

A year ago, the EU referendum result was still very fresh. Little ground had been covered politically, so the focus was on economics, with many a gloomy prognosis shared.

A year later, however, the balance has shifted. The machinations of the 'leave process' have taken centre stage, while the economy has largely failed to provide the drama headline writers hoped for. In fact, the current consensus envisages economic growth of 1.6% for 2017 and 1.4% for 2018. This is somewhat below trend, but hardly disastrous. Indeed, recent news flow has been surprisingly positive: UK unemployment has fallen to the lowest level since the mid-1970s, while the West Midlands saw workforce jobs increase by 110,000 over the year to June 2017, the biggest rise in the UK by some margin. This chimes with recent data that shows that UK enterprise formation continues to grow at a healthy clip, but the picture for Birmingham is even more positive: the number of active businesses was up by 13.5% on 2016 levels, three times the UK growth rate.

"The West Midlands saw workforce jobs increase by 110,000 over the year to June 2017, the biggest rise in the UK by some margin."

55 COLMORE ROW, DEVELOPED BY IM PROPERTIES

The resilience displayed by the UK's economic environment has not been lost on real estate investors, who have continued to deploy significant amounts of capital. Our expectation is that UK investment volumes in 2017 will exceed the level recorded in 2016, and we can already see that, far from retrenching, the share of overseas activity has increased.

According to Property Data, in the 12 months to the end of September 2017, investment in Birmingham reached £1.1bn. This was down on the £1.6bn recorded in the previous 12-month window, but well within the realms of annual fluctuations in activity. The West Midlands saw total investment of £2.4bn over this period.

"The prospects for rental growth are high, particularly for new build."

The proportion of overseas investment has remained high, accounting for just under 30% of deals over the 12 months to September 2017. The source of overseas appetite is diverse, with Far Eastern, European, and Middle Eastern capital represented in recent transactions. Nonetheless, both foreign and domestic investor interest is intense with volumes only held back by a lack of available stock.

HSBC's £265m purchase of Brindleyplace was the largest office transaction of the past year and, along with deals such as Qatar-based Alduwaliya's £22.5m acquisition of 111 Edmund Street, typifies the broad international appeal. Domestic transactions included Kier Property's purchase of 19 Cornwall Street for £35.7m and West Midlands Pension Fund's purchase of 2 St Philips Place for £26.25m.

The mix of assets purchased has been diverse, however. Student housing has clearly been in favour, with Unite Students and Singapore's GIC buying the 3,000+ bed Aston Student Village in February for £227m, Knight Frank acted for the vendor.

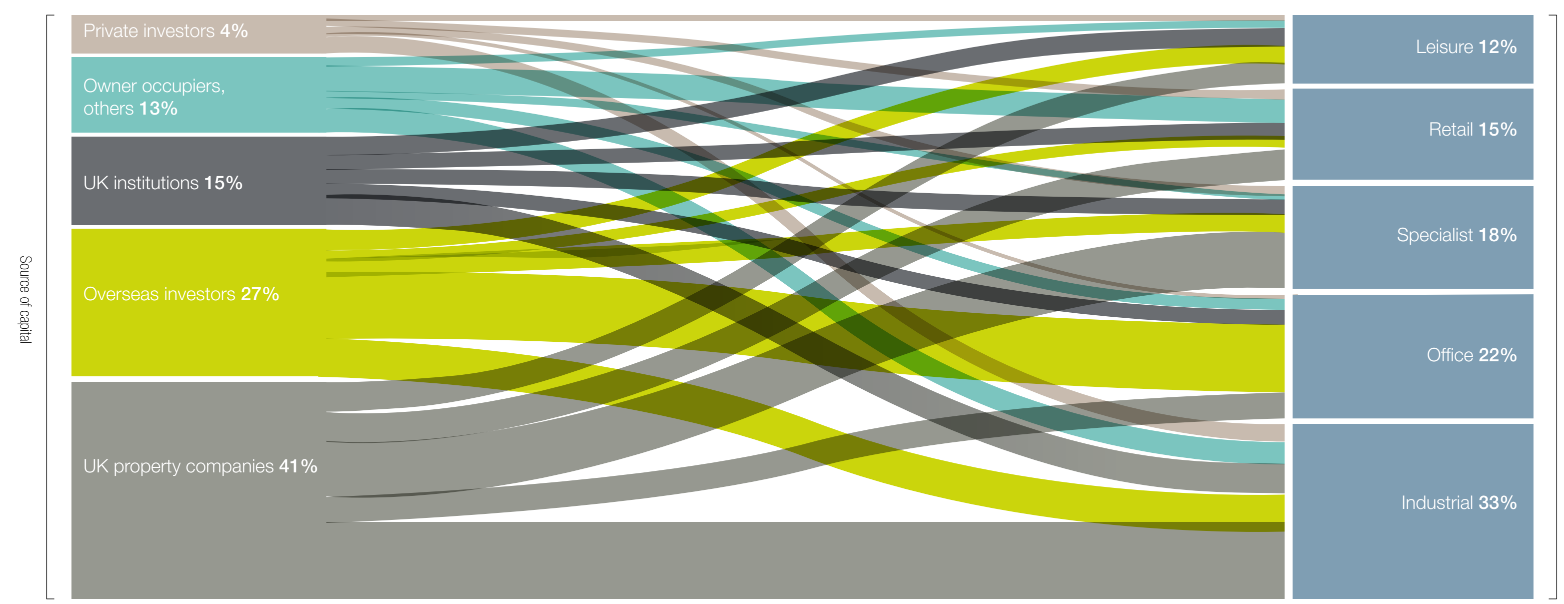
For context, the industrial sector, specifically logistics, has accounted for the greatest share of investment within the West Midlands. The largest such deal in 2017 was Knight Frank Investment Management's £102m purchase of a Sainsbury's distribution warehouse in Coleshill for a consortium of Korean investors. UK wide, the sector continues to see significant investor demand, with a combination of yield compression and rental growth pushing total returns to run at close to 20% in 2017.

The continuing weight of demand for assets in Birmingham bodes well for performance in 2018: the outlook for returns is positive, accepting that for most sectors, yield compression may slow, and therefore the double-digit returns of recent years will not be achieved. This is not to say that there will be no scope for further capital appreciation. The prospects for rental growth are high, particularly for new build, and this will support investor interest. Yet this will be on a selective basis and will clearly favour prime assets.

As capital growth temporarily becomes a less significant factor of total return, investors will be paying closer attention to income, and rightly so. After all, over the long-term, income is a more consistent driver of return than capital growth. This shift should benefit cities such as Birmingham, where investors can gain exposure to strong covenants in high quality buildings, but at yields that are usefully higher than in London.

BRINDLEYPLACE, ACQUIRED BY HSBC PRIVATE BANKING

West Midlands investment, 12 months to September 2017



Source: Property Data

OCCUPIER TRENDS

Written by
Dr. Lee Elliott
Partner
Head of Commercial Research

Written by
Jamie Phillips
Partner
Birmingham Commercial

Magnetic appeal

It feels somehow appropriate to refer to magnetism when reporting on a city that is renowned as the birthplace of heavy metal. A magnetic appeal is a long-established key attribute of successful cities.

As our Global Cities reports have shown, successful cities attract investment capital, public sector funding, talent and businesses creating cohesive, competitive and often cutting-edge environments. Sustaining this magnetic appeal enables growth.

When one assesses the physical, cultural and social development of Birmingham over the past decade, the magnetic pull has clearly extended. The city has become a destination for overseas capital, for development activity and for increasing government investment. Yet it is in the attraction of occupiers that the city has really begun to excel. In recent years, the city has seen HSBC, Advanced (formally Advanced Computer Software), Deutsche Bank, Beasley Insurance and now the Government Property Unit all secure space.

Underpinning this attraction is a recognition of the talent pool that Birmingham and its hinterland affords modern business. The city not only attracts highly talented students, but crucially, retains that talent post-graduation to provide the skills, technical competence and creativity to businesses. This is hugely important. Access to, and retention of talent, is the strategic priority of modern businesses, a point amplified in an era of near full employment. Labour is also the main cost to a business, representing around 55% of all operating costs and a huge variable cost if workers leave that business.

So where does this leave property? In recent years, the labour needs of the occupier (demand side) have become more influential in the creation of new spaces and places within the city (supply side).

The ongoing success of the city in attracting business is dependent on supporting them in winning the war for talent. Consequently, new office developments and the districts in which they stand must become talent magnets, places that appeal to talent as working and social environments.

We believe that talent magnets must embody, support or deliver the five key attributes below.

55 COLMORE ROW

CORNERBLOCK

Occupier insight

We asked a number of Birmingham occupiers to tell us how they are using their offices to attract and retain talent and how they rate Birmingham as a location for their business. Here are some of their key statements.

Ben Jackson
CEO, Oxygen Finance

To what extent has your office move in Birmingham enhanced your business's talent attraction and retention?

Being based in Birmingham has opened our recruitment up to a whole new range of diverse candidates – including young professionals just starting out who have come from various backgrounds in Birmingham and the surrounding universities.

What importance do you place on well-being and how is that reflected in your office space?

The well being of our staff is a big part of our culture. We aim to make sure the Oxygen office provides various spaces for our staff to work individually and as a team. The office space is key to the way we work – we have designed the office with all desks on the same floor – to ensure collaboration while working and an atmosphere in the office. We also provide ample space for people to relax during their breaks to encourage relief from staring at a computer screen all day.

What three words would you use to describe Birmingham as a business location?

Fresh. Evolving. Diverse.

Robert van Zyl
Partner, Cundall

To what extent has your office move in Birmingham enhanced your business's talent attraction and retention?

Moving office within Birmingham to a more central location helped us to attract and retain people. We grew by 80% (to 85 people) in the three years since we moved, even managing to tempt highly talented people out of London. I had feared that moving to a central location where car parking is limited would alienate some of our people, but we did not lose even one person for that reason, and a staff satisfaction survey showed that most of our people were delighted to be so close to public transport.

What impact does a Birmingham location have on your staff's well-being?

Being centrally located on Colmore Row, staff have ready access to a wide range of amenities. The outlook onto the wonderful green space of St Phillips Square was a key consideration when choosing the office. Anecdotal evidence suggests that this lifts the spirits of our people, which helps to safeguard mental health too. Locating centrally and breaking our reliance on cars has helped our people to live more active lives.

What three words would you use to describe Birmingham as a business location?

Friendly. Easy. Quality.

1. Well-being:

With the modern workforce more health aware, places and spaces must support well-being and vitality. Provision of gyms, cycle storage and changing facilities are now common. As the workforce becomes multi-generational, health related facilities such as drop-in surgeries, dentists and physiotherapy will add to this agenda.

2. Amenity:

The work-life balance and sociability of staff can be positively enhanced by place and space. Offices that provide ground floor retail or easy access to F&B, bars, and, in time, educational facilities will be more appealing to an office occupier faced with the challenge of supporting staff beyond the immediate office environment.

3. Connectivity:

Effective workplaces are connected spaces. Foremost, the accessibility of an office through fast and efficient transport infrastructure is vital for staff, clients and suppliers. Digital connectivity however, underpins a robust and resilient technology platform which ensures business continuity and enables flexible working.

4. Community:

A great quality that the co-working phenomenon has brought into office space is community and collaboration. Spaces that promote shared experiences have risen in appeal. In the future, dependence on a deeper yet more fragmented supply chain will mean this sense of community will only grow in importance.

5. Strong Brand Identity:

Office space has become a key device in making a corporate statement of intent. Traditionally confined to external signage or the occupation of trophy buildings, occupiers are now using innovative fit-outs to convey their brand identity not just to the market, but also to their existing and future staff. There is a simple, virtuous circle at work. Commercial property investors create spaces that resonate with the needs of talented workers. Occupiers gravitate towards those spaces as part of their strategy to attract and retain talent.

RESIDENTIAL TRENDS

Written by
Gráinne Gilmore
Partner
Head of UK
Residential Research

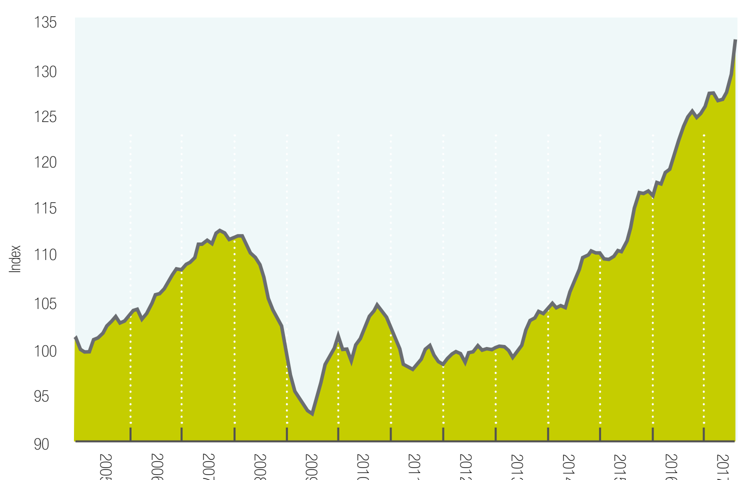
Outperforming market

The annual growth rate for average house prices in Birmingham has averaged between 5% and 10% since mid-2015, and has outperformed the wider UK market for more than a year, according to official data from the ONS.

In the year to the end of Q2, Birmingham, along with Manchester, recorded the strongest house price growth in any city in England, including London.

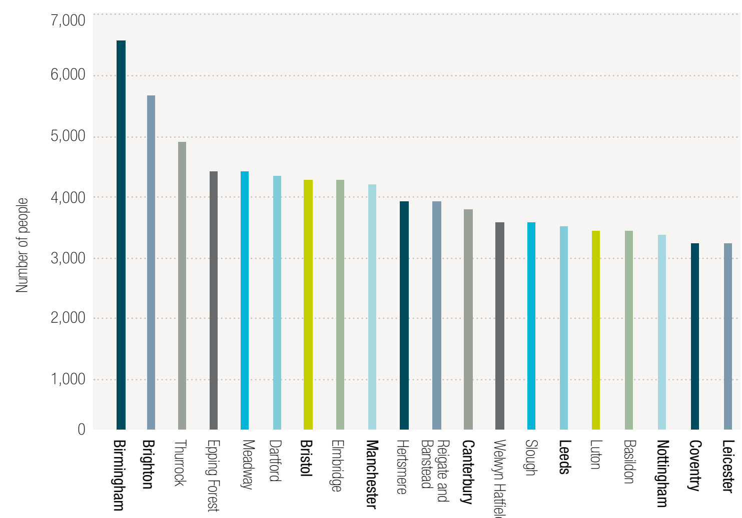
The strong growth rate in prices seen in the past few years has contributed to a 43% rise in average residential property values since the post-crisis trough in the market in 2009. Even with this level of growth, the average price in Greater Birmingham is around £175,000, lower than the UK average of around £243,000.

Figure 1 **Birmingham average house price performance**
(Indexed, 100=03/2004)



Source: Knight Frank Research / ONS

Figure 2 **Top destinations for those leaving London, 2016**
Total outward migration by destination



Source: ONS / UK Migration Statistics

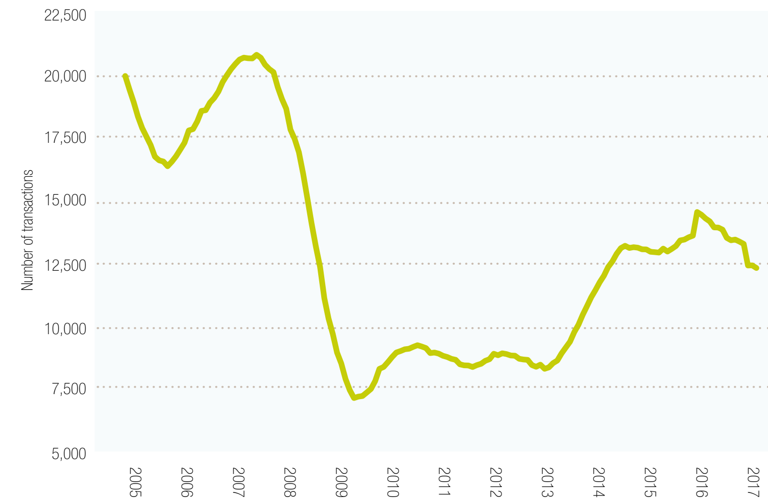
This price differential underlines just one of the key drivers of the Birmingham market – its relative affordability compared to other markets in the UK, especially those in the South of England. As the UK's second-biggest business hub, Birmingham draws comparison with London, the financial centre of Europe. However, when looking at residential property prices, the difference is striking, with new-build development prices in some central zones of the capital ranging from £1,000 to £2,000+ per sq ft, compared to around £300 to £450 per sq ft in central Birmingham.

As examined on pages 4 and 5, the affordability trend dovetails with the improvement in amenity and lifestyle in the city, making it a destination for young workers and families alike. Just as in 2015, Birmingham was the most popular city destination for those migrating from London in 2016, as shown in figure 2, ahead of cities such as Manchester, Leeds and Bristol. The age breakdown of those arriving from London is also significant, indicating that while a large number of those of student age are attracted to the city due to its high quality universities, a significant number of movers are also young workers and families, as shown on figure 5 (page 26).

The number of home sales taking place in the city has dipped over the last year (figure 3), reflecting a wider trend seen in the country as 'churn' in the second-hand housing market has fallen, with less movement up and down the housing ladder. However, overall activity in the residential market in Birmingham remains well above the levels seen in the four years after the financial crisis.

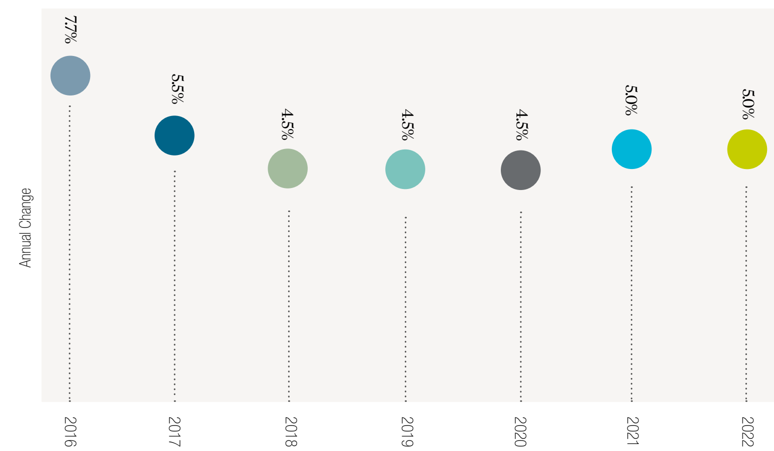
Looking to the future, households in the West Midlands expect that average house prices in the region will continue to rise in the coming year. The IHS Markit Future House Price Sentiment Index (HPSI) measures what households expect to happen to property prices in the next year. While the level of growth expected has moderated in recent months, it is still in positive territory. Any reading over 50 on the index indicates that prices will rise. A chart of this data can be seen on figure 3 (page 26).

Figure 3 **Birmingham residential transactions**
Rolling annual average



Source: Knight Frank Research/Land Registry

Figure 4 **Forecast: Birmingham house prices**



Source: Knight Frank Research / ONS Data

Last year, we forecast 7.1% uplift in prices in 2016, and 5.5% in 2017. Average values rose 7.7% in 2016, and we are keeping our forecast for 5.5% growth this year, followed by 4.5% in 2018. Cumulative price growth from the start of 2018 to the end of 2020 is expected to be around 14%.

Industry insight

Angus Michie
Divisional Chairman at
Berkeley Homes

Why Birmingham?

In short, Birmingham is going places. This is the first time we have been active in the Birmingham market in more than 10 years, and the change in the city is striking. There has been huge investment in the city, there is a 'can-do' attitude among policymakers and the arrival of the HS2 high-speed link to London will only serve to further cement the city's standing.

In this market there is also the opportunity and scope to combine place-making with good quality housing, something which we aim to do.

How does Birmingham fit in with the wider housing trends in the country?

The pricing of homes in Birmingham is an added attraction of this market. There is a relative discount compared to some markets in London and the South East. But this, importantly, is coupled with the employment and lifestyle opportunities in the city.

In recent years, the opening or expansion of financial service and legal firms in the city means that the opportunity for careers within Birmingham has grown. Lawyers, bankers and accountants can develop their career, move firms and progress to very senior positions, all in the city centre. The same will be true for civil servants, given the huge movement of staff to Birmingham recently announced by HMRC. These factors underpin the domestic demand for high quality housing, especially in the centre of town where there has been a dramatic uplift in the quality of amenity on offer.

What would you like to see in the future?

The best housing can be delivered when there are good levels of investment in infrastructure. Continuing to ensure that infrastructure is provided to serve new communities, and allow new places to be created, should be a priority.

Describe Birmingham in three words

Vibrant, 'Can-do', Potential.

OFFICE DEVELOPMENT

Written by
Jamie Phillips
Partner
Birmingham Commercial

Written by
Darren Mansfield
Associate
Commercial Research

The next wave of transformation

"If you build it, they will come" is a phrase often used in the property industry, but with each passing year, the accuracy of this expression becomes more outdated.

The reason: the needs of the modern occupier have changed. Space procurement now extends beyond just sourcing a well presented and suitably sized office building. Occupiers are looking for a more comprehensive 'lifestyle' package. Amenity, flexibility and well-being have become a central part of occupational strategy, acting as vital components in attracting and retaining the best talent. Consequently, for the best chance of securing tenants, today's developers need to take a customer centric approach on their offer.

Evidence of this shift can be found in the transformation of Birmingham's city centre. The city has been the subject of major regeneration in recent years, shedding its outdated concrete jungle image to develop one of a forward-looking business hub. Major development areas such as Snowhill, Paradise Circus and Arena Central all identified in the Big City Plan have progressed, with these schemes aimed at the creation of place on a micro and macro scale.

But the lifestyle offer goes further than just being located close to connectivity, shopping and leisure facilities. The fit-out and amenity contained within the development, is an essential part of creating an environment appealing to the needs of staff and business. Bruntwood's comprehensive back to frame development of 2 Cornwall Street is a good example of this. The 110,000 sq ft building, now branded Cornerblock, houses a gym, bike storage, fresh-air cooling, large spacious communal outside space, changing facilities and a customer facing reception. Other recent completions further evidence the push toward offering an 'all inclusive' package. L&G's 113,000 sq ft Lewis Building for instance, boasts of spaces 'Designed for People' and includes features aimed toward achieving a high sustainability rating. The 200,000 sq ft One Colmore Square meanwhile, offers a concierge service and cites a 'Platinum Wired Score,' the latter feature recognising that high quality digital connectivity is now a principal consideration of occupiers.

"Amenity, flexibility and well-being have become a central part of occupational strategy, acting as vital components in attracting and retaining the best talent."

This type of building product is now not unique in Birmingham, despite the shackles of the financial crisis slowing the pace of transformational development activity, particularly new build. However, the next three years will see the development pipeline move to the next level. At the time of writing, 1.6m sq ft of Grade A stock was under construction, 90% of which will be via ground up new schemes. Importantly, around 66% of the current pipeline is speculative build, which indicates both the strength of confidence in the leasing market and an occupier flight to quality.

The delivery of One and Two Chamberlain Square will be first of the next wave of new space brought to the market. These two buildings form phase one of the Paradise Circus development, a scheme that will extend the CBD area. Importantly, the masterplan for this scheme also promises new civic, retail, leisure and hotel space as well as improvement to infrastructure and the public realm. This is another example of how the creation of a community feel is central to making new locations attractive to occupiers and their employees in Birmingham. PWC has already taken a pre-let of 90,000 sq ft at One Chamberlain Square.

In 2019 and 2020 respectively, Ballymore/M&Gs Three Snowhill and Sterling Ventures/Rockspring construction of 103 Colmore Row will be complete. Alongside extensive wellbeing, and innovative working space, Snowhill also benefits from the new tram system that links Snowhill to New Street Station and Grand Central.

When launched, 103 Colmore Row will become the tallest office building in Birmingham and comprise 206,000 sq ft office space and 15,000 sq ft of leisure space. The scheme boasts of public realm improvement, large restaurant facilities and full height glazing. The latter feature is a good example of recognising the effect natural light has on employee well-being.

"HS2 will widen the accessibility of the entire city."

With HMRC agreeing terms on 3 Arena Central and the HS2 project now in receipt of royal assent, the transformation of Birmingham will only quicken over the coming years. The new rail capacity is significant, creating not just opportunities around Curzon Street, but also serving to widen the accessibility of the city. Access to a wider employment pool will be the result, firmly aligning Birmingham to the first consideration of businesses. Furthermore, it is clear that public and private investment past, present and future is in the pursuit of creating schemes attuned to the changing requirements of businesses and residents. The balance of business and community is the strategy, a plan that will serve Birmingham well.

LEWIS BUILDING

PARADISE

CORNERBLOCK

DEVELOPMENT PIPELINE

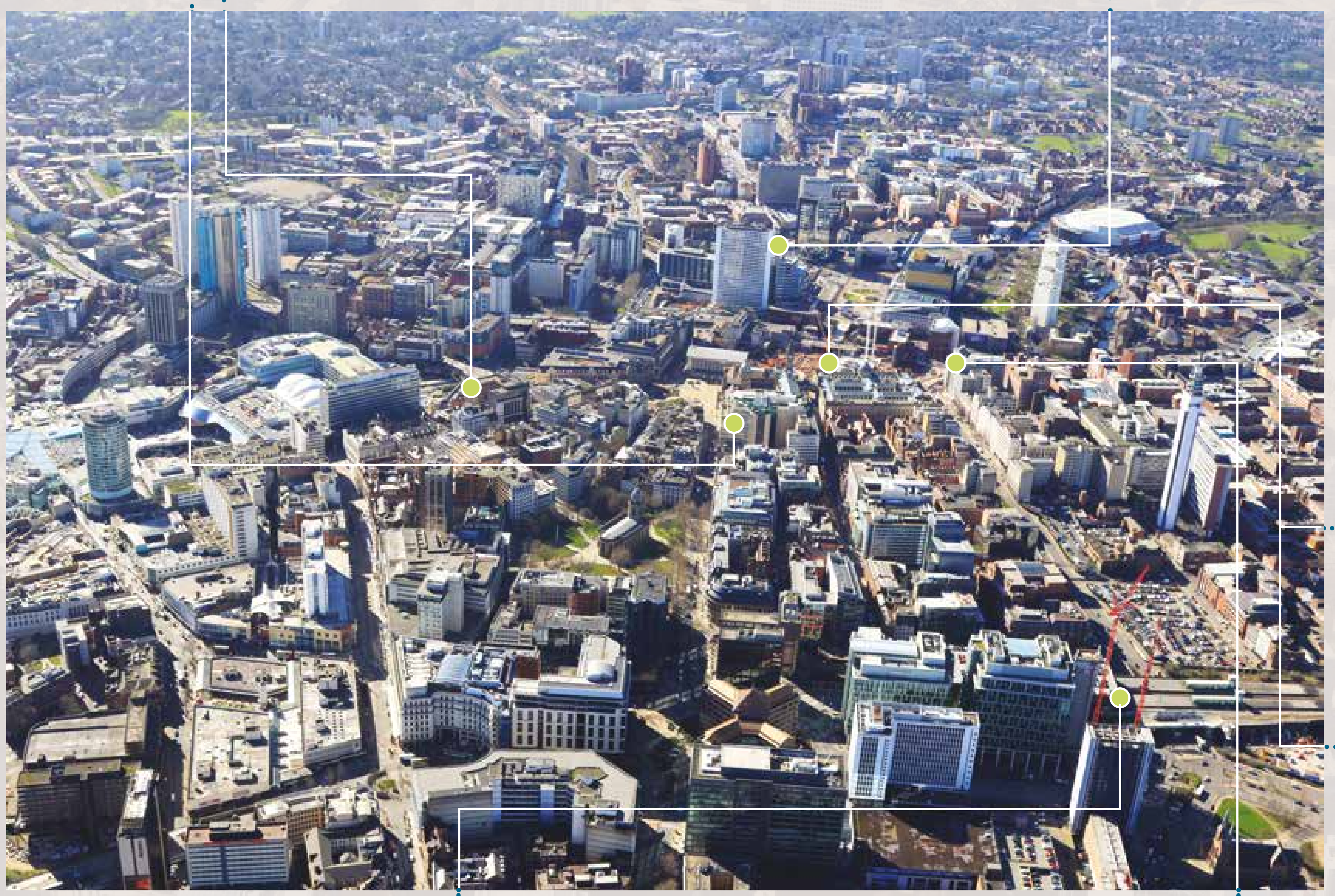
2017-2020

Platform 21
Size of scheme: 112,000 sq ft
Developer: LIM / Evenacre
Start – Q1 2018 / PC – Q4 2018

1 Centenary Square
Size of scheme: 212,000 sq ft
Developer: Miller Developments
Start – Q2 2015 / PC – Q4 2017

3 Arena Central
Size of scheme: 240,000 sq ft
Developer: Miller Developments / L&G
Start – Q3 2017 / PC – Q1 2020

103 Colmore Row
Size of scheme: 221,000 sq ft
Developer: Sterling Property Ventures / Rockspring
Start – Q1 2018 / PC – Q1 2020



One Chamberlain Square
Size of scheme: 172,000 sq ft
Developer: Argent / Hermes
Start – Q2 2016 / PC – Q4 2018

Two Chamberlain Square
Size of scheme: 183,000 sq ft
Developer: Argent / Hermes
Start – Q3 2016 / PC – Q1 2019

3 Snowhill
Size of scheme: 404,000 sq ft
Developer: Ballymore / M&G
Start – Q4 2016 / PC – Q1 2019

Crossway
Size of scheme: 76,254 sq ft
Developer: Dunedin Property
Start – Q2 2016 / PC – Q4 2017

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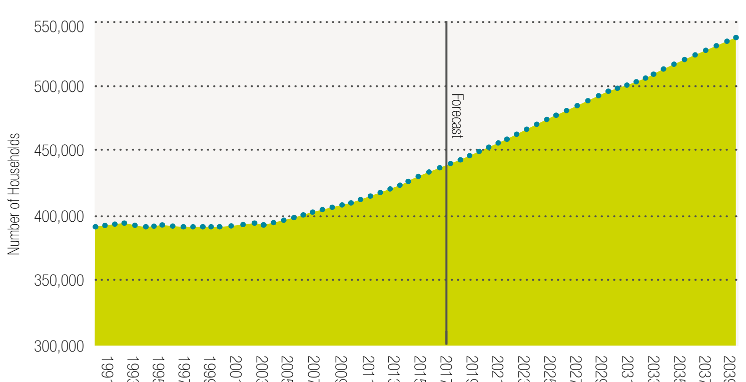
Written by
Mark Evans
Partner
Head of Residential Regional Development

An evolution

A growing population, improved transport and a step-change in amenity, career opportunities and lifestyle underpin the demand for new homes in the city. While delivery has grown in recent years, there is a historical shortfall in the number of new homes.

The number of people living in Birmingham will rise by 171,000 to 1.3 million by 2039, according to the latest official population projections. This translates into nearly 100,000 additional households being created over the next two decades or so, as seen in the chart below.

Figure 5 **Growth in households, Birmingham**



Source: DCLG

The undersupply of housing across key locations in England is well documented, but a more nuanced picture emerges in Birmingham.

While there was strong development activity before the financial crisis, as shown in figure 6, development levels were then muted for a prolonged period. In the year or two after the financial crisis, the lack of activity may well have been due to an overhang of supply and more modest economic activity.

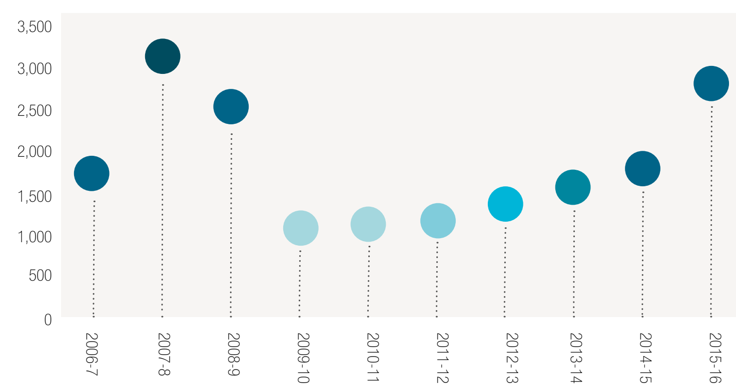
However, there has been significant economic growth since 2013, and the market is still in 'catch-up' mode when it comes meeting potential demand. Official data shows that around 8,000 homes were completed in Birmingham between the start of 2011 and the end of 2016, while household projection data suggested that demand was closer to 20,000. However, the number of housing starts increased significantly last year, indicating an uplift in the level of new home completions in the coming two to three years.

This data also breaks down the type of delivery and shows that while new-build properties helped boost the supply of new homes, the uplift was also due to an increase in the units delivered by 'change-of-use', typically where offices were turned into new homes, under 'Permitted Development Rights'.

There is currently a discussion among policymakers around how much housing is needed across the country, including Birmingham. A recent consultation published by DCLG on calculating housing need suggested that rather than an additional 4,461 new homes a year, as indicated by household growth projections, the city needs 3,577 new homes a year. The new calculation takes into account other factors such as affordability.

Looking to the future, the most recent planning data suggests that around 13,850 private residential units are in the development pipeline – either under construction or with planning granted. Of these, schemes which will deliver 6,800 private units are currently active on site. However, it is important to note that not all schemes with planning will come to fruition, and some larger schemes may take many years to complete.

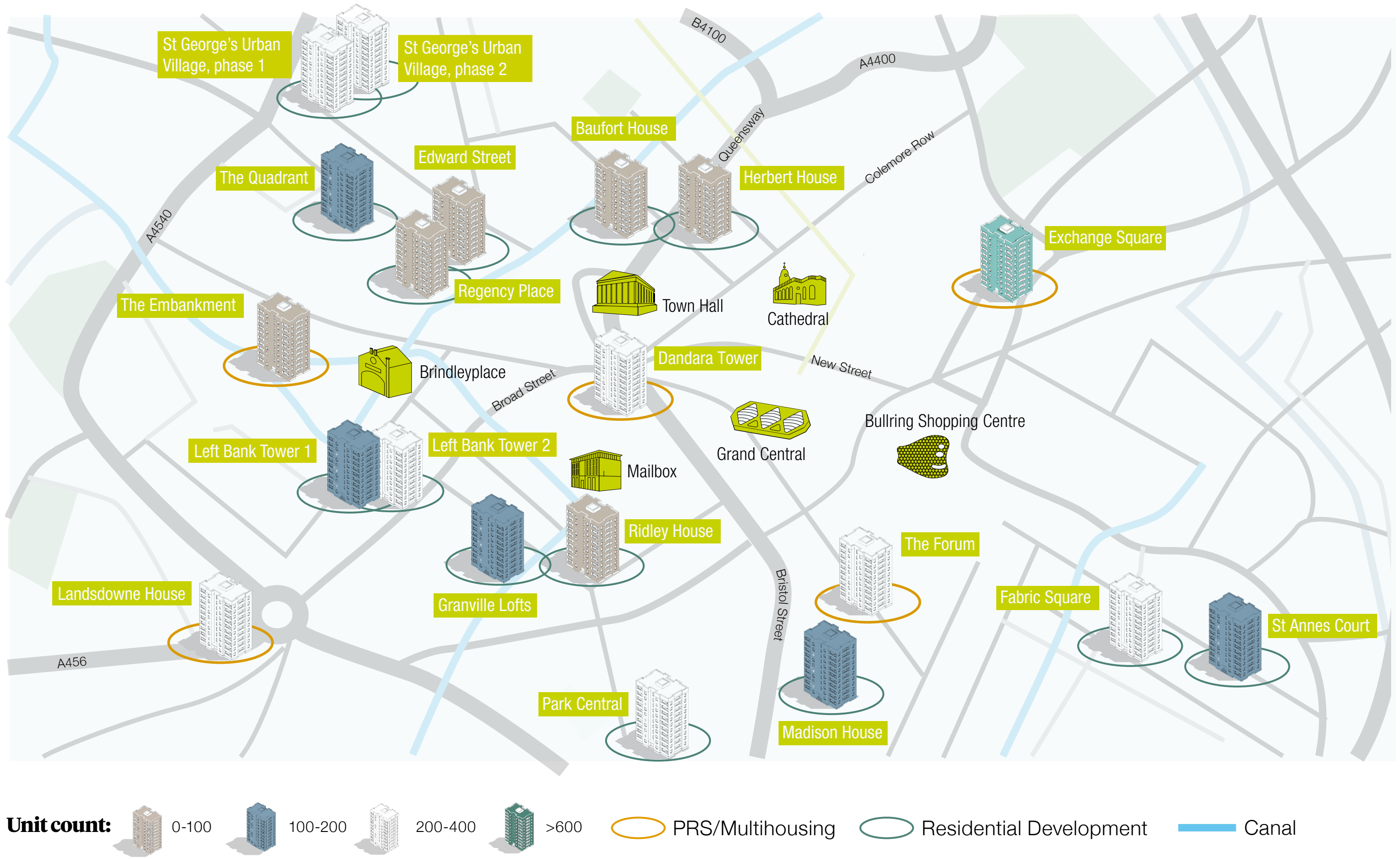
Figure 6 **New housing supply, Birmingham**
Net additional dwellings



Source: Knight Frank Research / DCLG

Birmingham Pipeline

Residential units under construction, city centre



Focusing on central Birmingham, the development market has been very active in this area in the last few years, with just over 4,000 units under construction, as shown on the map. However, it is worth noting that some 1,500 units under construction are Build-to-Rent and are therefore not available for open market sale, although they will still meet housing need under rental tenure (The Build-to-Rent, or Multihousing market is examined in more detail on pages 18 and 19). In addition, off-plan sales for schemes currently under construction have also been high, so the number currently available to buyers is significantly lower than the total pipeline delivery figures suggest. In a market where development activity is robust, best-in-class schemes will be the best positioned to outperform.

The activity and demand for housing in Birmingham, especially in the city centre, has acted as a driver for land prices. Knight Frank's urban brownfield land index – which tracks the values of a basket of sites in five cities including Birmingham and outer London has risen by 22% since December 2014, and much of the growth in the last year has been spurred by the Birmingham market.

Given the uplift in job creation and amenity in the city centre, examined elsewhere in this report, the demand for city-centre living is expected to continue to grow, and the improvement of transport infrastructure both within the city and between Birmingham and other key UK cities, is likely to further augment this trend.

4,461
Forecast household growth per annum
(DCLG 2014 - 2039)

3,577
Housing need per annum, Birmingham
(DCLG consultation) on calculating housing need

MULTIHOUSING GAINS GROUND

Written by
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Written by
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Partner
Residential Development
Capital Markets

A growing market

Birmingham is among the 'youngest' major cities in Europe. Some 46% of the population is aged 30 or under, with the number of those aged 20 to 30 jumping by more than 25% between the censuses in 2001 and 2011.

Changing trends in housing tenure, and in the city centre in particular, reflect the growth in a young, professional population attracted by the improving jobs market and career opportunities within the city.

The majority of households in the city centre are in the private rented sector, according to Knight Frank analysis, around 60% of those living there are under the age of 35, and around half are single-person households. Many households within the city centre also have higher than average household incomes.

The proportion of households in the private rented sector (PRS) across the city as a whole has nearly doubled since 2001. Census data shows that some 12% of households were privately renting in 2001, rising to around 20% in 2011. Knight Frank analysis shows that this proportion has now risen to 23%, accounting for nearly one in four households.

This trend looks set to continue. Data from Knight Frank's annual Tenant Survey showed that more than two-thirds of tenants living in the West Midlands expect to still be living in the private rented sector in three years' time.

Multihousing

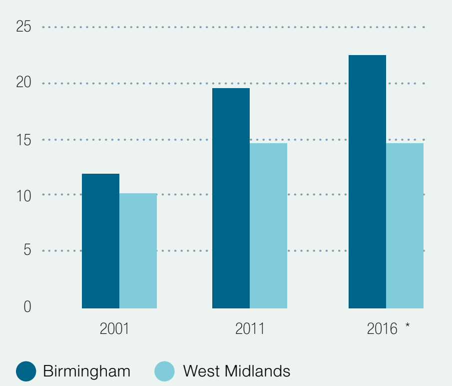
The growth of the rented sector has been taking place over the last decade and a half in Birmingham. However, the emergence of the Build-to-Rent or Multihousing sector (residential schemes designed with the retention and evolution of tenants in mind) in the city has been relatively slow out of the starting blocks.

However, five multihousing schemes are currently under construction – indicating the delivery of around 1,560 such units in or around the city centre in the coming years.

In terms of rents, the growth in average asking rents in Birmingham has outpaced that in the wider West Midlands, as shown in the chart below. Average asking rents across the city have risen by 23% since the end of 2009, giving an average growth of more than 3% a year.

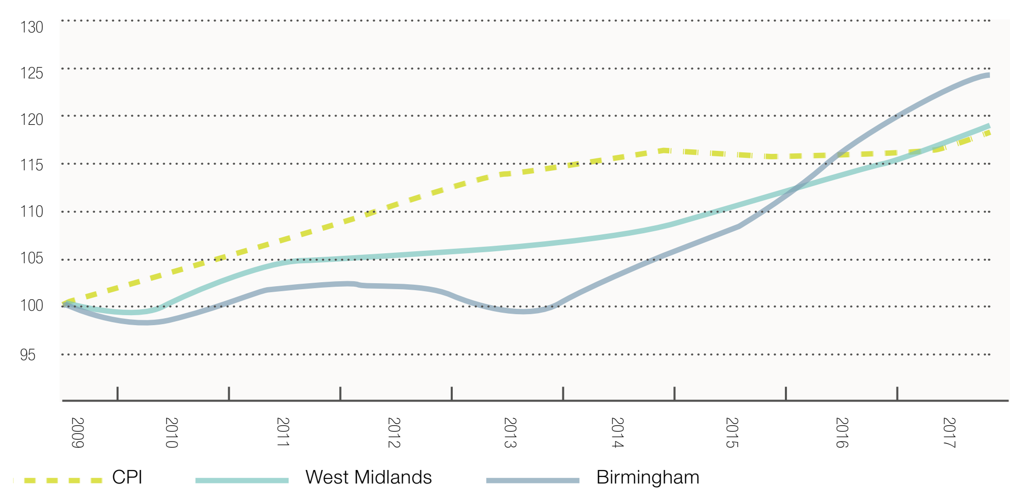
For central Birmingham, this level of rental growth is expected to continue in the coming years.

Figure 8 **% of households privately renting, Birmingham**



Source: Knight Frank Research / ONS *estimate

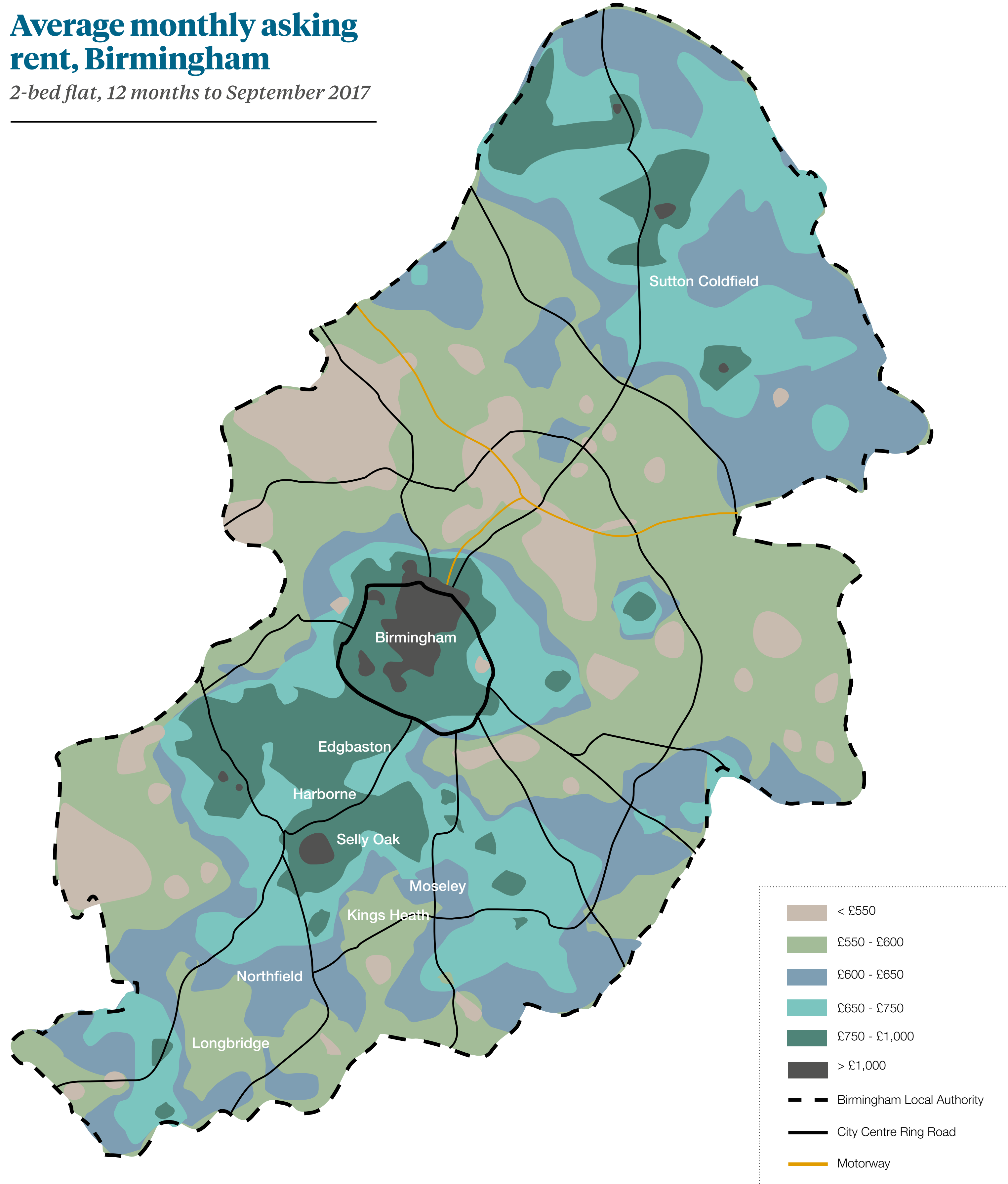
Figure 7 **Rental growth in Birmingham**
Average asking rents, 2 bed flat (indexed, Q42009=100)



Source: Knight Frank Research / ONS / Rightmove

Average monthly asking rent, Birmingham

2-bed flat, 12 months to September 2017



Source: Knight Frank Research / Rightmove

BIRMINGHAM INDUSTRIAL

Written by
Jon Ryan-Gill
Partner
Logistics and Industrial

Midlands engine

Background

Birmingham was once dubbed "The City of a Thousand Trades." Business may have changed since this title was bestowed, but today, the city remains a heartland for British industry.

Since the 16th century, economic growth in Birmingham and the West Midlands has been very much dependent on a buoyant industrial backbone. Born out of textile and metalwork manufacturing, this industrial nucleus has continually morphed over time to create a diverse industrial heartland known as the 'Midlands Engine'. Currently, the Midlands region acts as host to around 50% of the UK's industrial stock.

Particularly important was the opening of the Austin car plant in 1905 at Longbridge. This set in place the foundations for a long relationship between Birmingham and the automotive industry. Despite the decline and subsequent reinvention of Longbridge to a mixed-use centre, the success of Jaguar Land Rover (JLR) across the West Midlands supports a strong list of original engineering manufacturers (OEMs).

The geographical position of the region has also meant that the area was quickly established as the UK's pre-eminent logistics hub. Midlands-based supply chain companies enjoy access to six major motorways which bring over 90% of the UK population within 4.5 hours drive. This leading position is gaining even more significance, with Greater Birmingham a vital component in the growth of retail and e-commerce.

Whilst the industrial sector continues to evolve, the West Midlands retains its position as a global centre for industry, with manufacturing and the automotive industry forming vital components. However, it is the rapid structural change in retail that is shaping the next chapter of Birmingham's industrial journey.

Birmingham was once dubbed "The City of a Thousand Trades."

Automotive

The ubiquitous growth of the motor car continues to support expansion of the industrial sector in Birmingham and the West Midlands.

Despite the inevitable peaks and troughs, the West Midlands today remains loyal to its automotive heritage, with JLR, MG, Aston Martin, BMW and London Taxi Company all based in the region. The most prominent success story has been the growth of JLR. The company has a turnover in excess of £22bn and more than 40,000 employees. Across the West Midlands, JLR now has significant property holdings with over 15 million sq ft of accommodation at Castle Bromwich, Minworth, Solihull, Wolverhampton, Coventry, Leamington and Gaydon. This is set to grow by an additional one million sq ft via the expansion of its Solihull plant and a creation of a further 1,600 new jobs.

"Despite the inevitable peaks and troughs, the West Midlands has retained its central position in the automotive world."

The influence of JLR's presence in the West Midlands extends beyond just its immediate operational facilities. Central to JLR's success is the positioning of its suppliers. Importantly, the 'Just in Time' (JIT) supply chain revolves around Tier 1 component and parts suppliers being situated within approximately 30 minute drive time from the main operations plants. This enables a production rate of one car per minute with JLR; only holding approximately five hours of finishing products on site at any time. It is estimated that eight jobs in the supply chain are created per single job at JLR, a clear example of the importance of the sector in the region.

It is notable that twelve years after the collapse of MG Rover, the West Midlands remains the largest UK export market for automotive goods. Notably, exports in H1 2017 reached over £8bn, 15% higher than at the same juncture in 2016. The journey of 'Midlands Motor' clearly has many more miles to run, with new models coming on line and the evolution of electric and hybrid technology.

E-Commerce logistics

The retail and industrial sectors have long been bedfellows, but rapid change in consumer trends is seeing the relationship become progressively more entwined.

Total returns for industrial property eclipsed all other property asset classes in 2016 and 2017. The clamour of retailers to improve supply chain infrastructure has underpinned this outperformance, with both traditional and pure online retailers expanding distribution capability to accommodate a more demanding customer.

In the Midlands, this has resulted in demand for large industrial units (>50k sq ft) growing sharply, with total take-up in 2016 reaching 14.3m sq ft, 12% above the five year average. Of this total, 49% can be slotted under the 'retail logistics' umbrella. This shift in demand has carried into 2017, where the representation of retailers rises to 51%.

Greater Birmingham's proximity to major motorway routes has been critical in its appeal to this type of business. The city's location allows convenient access to both target UK markets and distribution points, as well as a significant labour pool. Birmingham has a population in excess of one million people, a number which grows to over five million people within a 30-minute drive time of the city, just under 10% of the UK population.

These attributes have meant the region has become home to a number of high profile retailers with on-line capability such as John Lewis, TK Maxx, Argos and Amazon as well as food retailers such as Sainsbury's, Lidl, Aldi, Tesco, Ocado and Co-Op. The area also has a number of major parcel and sortation hubs, with Hermes, Royal Mail, UK Mail and DPD all having a large presence. The logistics firms enable 'last mile' delivery around the major conurbations, a service ever more critical due to the popularity of same day delivery for online customers.

This structural evolution of the retail sector is driving change in the logistics world. The shift to online retailing in particular shows no signs of abating, with current figures indicating that over the next five years, 30% of retail sales will be generated online compared with 15% today. This means that more retailers will accelerate the alignment of their supplier network to differentiate from the competition. The result will be further demand for industrial space in major distribution centres, with the West Midlands and Birmingham heading the list of target locations.

"Total industrial investment at the Q3 mark reached £483m, the highest total on record for the period."

Industrial investment

Whilst the low level of interest rates still supports the case for property investment in the UK, the lower yielding environment has meant that investors are having to work harder to find the right opportunity.

Industrial property has quickly become the panacea for investors, offering attractive returns underpinned by a robust occupational market. UK industrial and logistics property has attracted just under £7bn of capital in 2017, this being the highest total on record for the asset class.

Investor activity in the West Midlands has grown in tandem. Total industrial investment at the Q3 mark reached £483m, the highest total on record for the period. Prime yields are now in the order of 4.75% for a 15-year income and 5% for a 10-year income, the lowest level since 2007.

The recent sale of the Sainsbury's distribution hub at Hams Hall epitomises market strength, with a private Korean client of Knight Frank Investment Management (KFIM) acquiring the unit in April for £102m. The 700,000 sq ft property was bought from IM Properties.

From an investor perspective, the returns achieved and promised on industrial property in the West Midlands make a compelling case. In 2017, the total return of 13.5%* is forecast, topped only by London and the South East. Looking ahead, forecasts indicate a total return on industrial property in the West Midlands will be circa 7.7%* pa between 2018-2022, growth largely driven by a strong income return.

Although the market faces a number of self-limiting factors, not least the loss of industrial land to the HS2 project, the fundamentals are strong. In particular, the growth in retail distribution centres is significant, with a presence in the West Midlands a vital component of service delivery. This sustained higher level of demand will support both rental and capital growth and add further pressure to the dwindling supply of available land, an enticing prospect for investors.

*Source: Real Estate Forecasting Ltd / Experian

PREDICTIONS

Written by
Mark Evans
Partner
Head of Regional Residential Development

Residential

Design drives demand

Expectations from buyers continue to rise and this will prompt developers to consider the quality of schemes that are being delivered. The increased focus on design, from layout to finishes, is being seen across the board, from the more compact flat to larger apartments.

Buyers are also coming from further afield, with the expectations that accompany such moves – we are seeing significant numbers of buyers from the South East looking to purchase in the city. The top quality schools and universities in and around Birmingham continue to be a draw for buyers from across England, and further afield.

Build to Rent gains ground

The level of Build-to-Rent in Birmingham has been more modest than in other cities such as London and Manchester in recent years, in some part due to development economics and viability. However this picture is now changing. There is great focus from developers looking at the city with build-to-rent models and institutions looking for funding opportunities. As examined in this report, more than 1,500 build-to-rent apartments are currently under construction in Birmingham, and over the next year, we forecast that more than 1,000 more will commence building. With Birmingham being one of Europe's youngest cities, and approximately 80% of city centre residents being tenants, there appears to be considerable room for growth in the sector – as the benefits of professionally managed Build-to-Rent over the private rented sector begin to be realised by the end user.

Prime values hit £500 by 2020

A year ago we suggested values for the highest quality bespoke residential schemes in central Birmingham would reach £500 psf by 2020. We now have evidence of some niche schemes hitting £425 to £450 psf, so we are sticking with this forecast.

Assessments for some prime schemes are now being looked at with an eye on £450 per sq ft in the future, and we expect this direction of travel for prime property to continue, especially with current and future infrastructure and amenity uplifts taking place in the city.

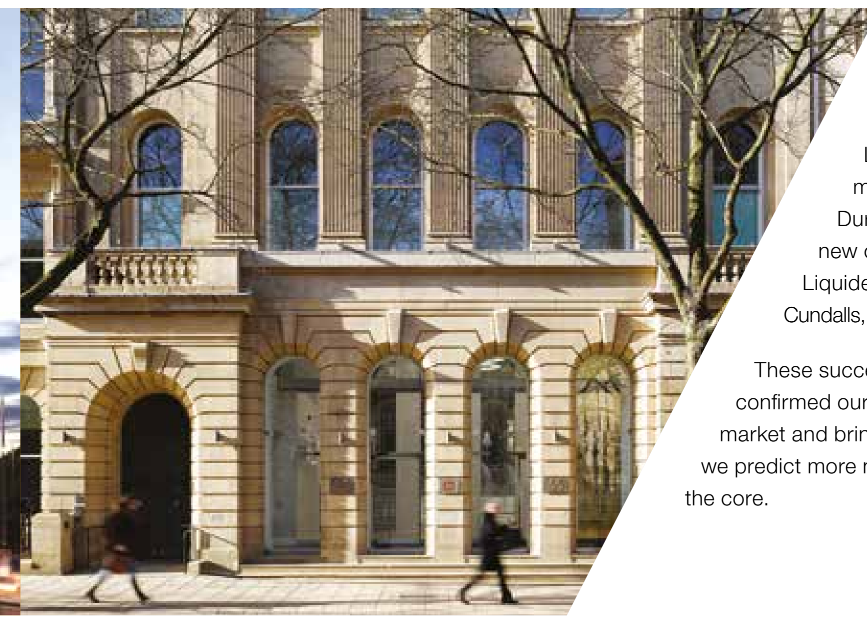
Written by
Ashley Hudson
Partner
Head of Birmingham Commercial

Commercial

Rental growth

Last year we talked about the vast improvements in infrastructure and high quality development unshackling the CBD and generating growth. A year on and schemes are underway and well advanced or completed. Moreover, developers are adapting their buildings in terms of amenity and design for management in the pursuit of high quality occupiers.

We predicted that this would result in rental growth, and it has. Previously sub £30 per sq ft buildings have been improved to achieve £30 plus; examples include One Colmore Square, The Colmore Building and the Cornerblock. Meanwhile new builds, including back to frame refurbs such as 55 Colmore Row and One Chamberlain Square, are now pushing towards the mid-thirties rents. We forecast that rents in the city core will continue to improve and the £35 per sq ft threshold will be achieved in this cycle.



Occupier growth

Last year we talked about the growth in fintech, media and telecoms with major professional services and financial occupiers targeting prime areas. During the past 12 months, the city has been successful in attracting many new occupiers including, Lombard Risk Management, Beasley Insurance, Air Liquide and Keyence. Others have expanded significantly including Hogan Lovell, Cundalls, Network Rail and Axa Insurance.

These successes, alongside other major occupiers such as RICS and HMRC confirmed our prediction that Birmingham would break the mould of the churn market and bring in new blood. The city continues to evolve and improve and we predict more new occupiers clamouring to take the new space created in the core.

Investment

In 2016, as a consequence of the stagnation in the run up to the Brexit vote, deal volumes were down. This year, the politicians created yet more potential economic turmoil in the form of the general election which was closer than anticipated and resulted in a hung Parliament.

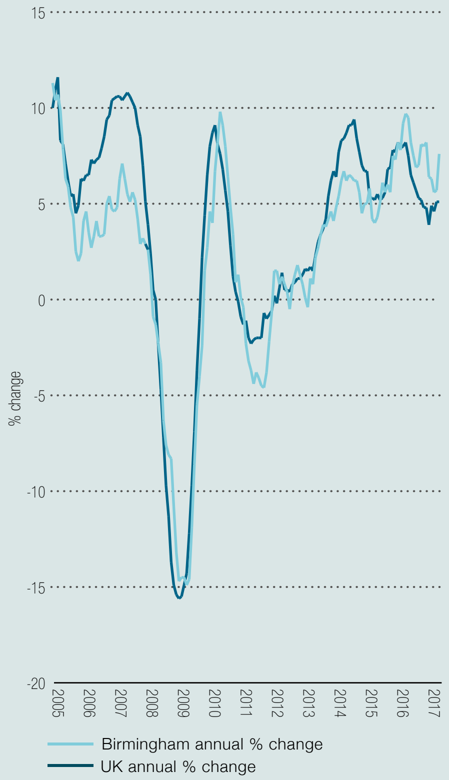
However, the markets didn't react negatively. Although, once again core deal volumes have been hampered with £427m of office assets traded. Prime city centre yields have hardened to 5% although we believe this will be beaten if a prime asset is traded in the next 12 months. The pool of buyers has never had so much depth with UK institutions vying with core plus private equity houses and overseas buyers. We therefore predict sub 4.75% yields to be achieved by the end of 2018.

RESIDENTIAL STATS

Figure 1 **Residential transactions, Birmingham**
Monthly, unadjusted

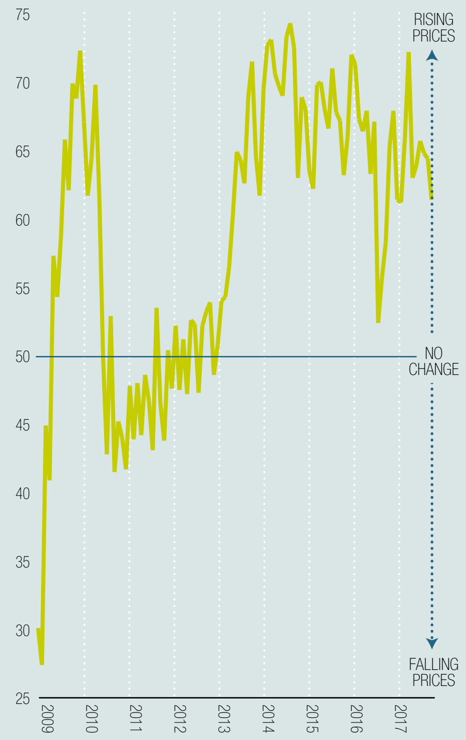
Source: DCLG

Figure 2 **Annual change in house prices**



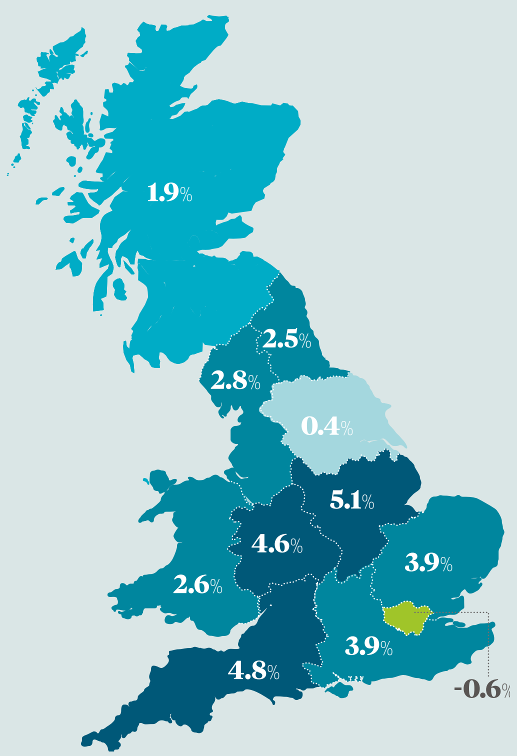
Source: ONS

Figure 3 **Future House Price Sentiment Index, West Midlands**



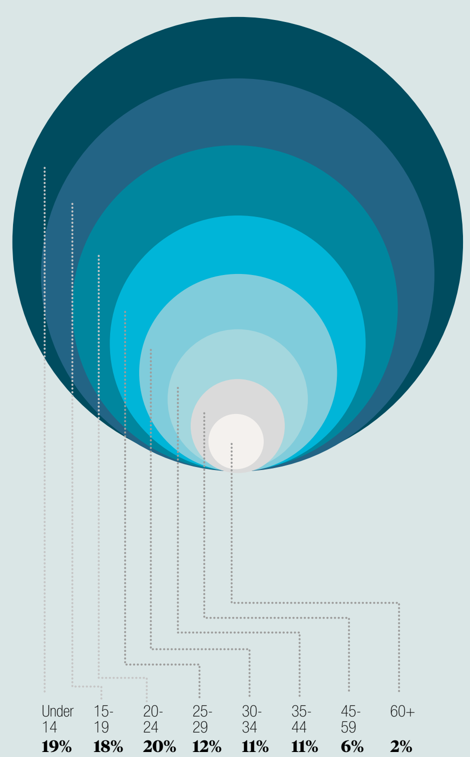
Source: IHS Markit

Figure 4 **Annual price growth, year to Q3 2017**



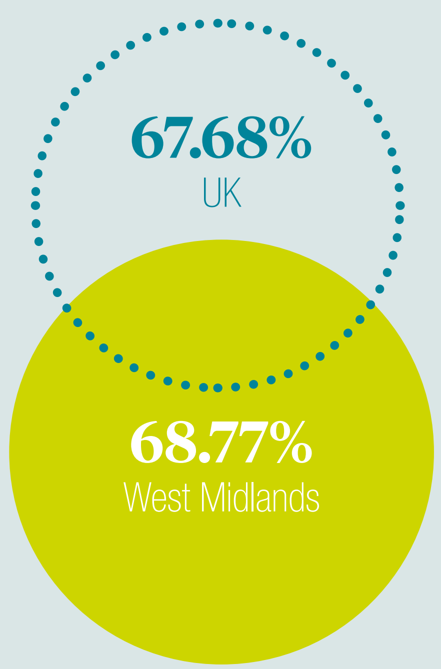
Source: Nationwide

Figure 5 **Age of those moving to Birmingham from London** UK Migration data, 2016



Source: Knight Frank Research / ONS

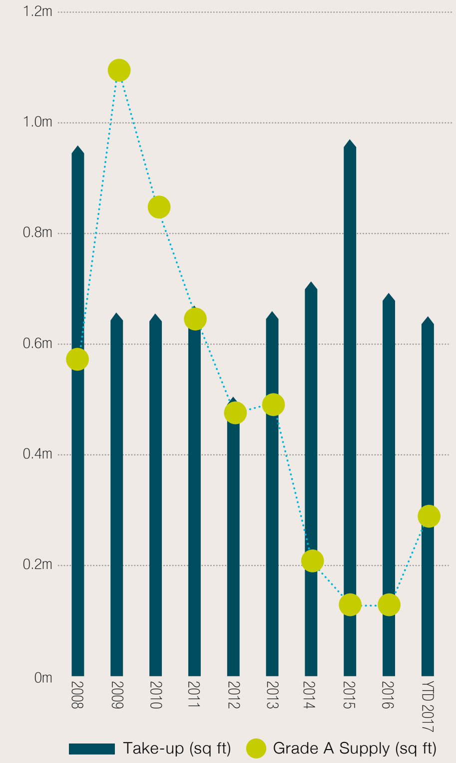
Figure 6 **Knight Frank Tenant Survey**
% of respondents who said they expect to be renting in three years' time



Source: Knight Frank Tenant Survey

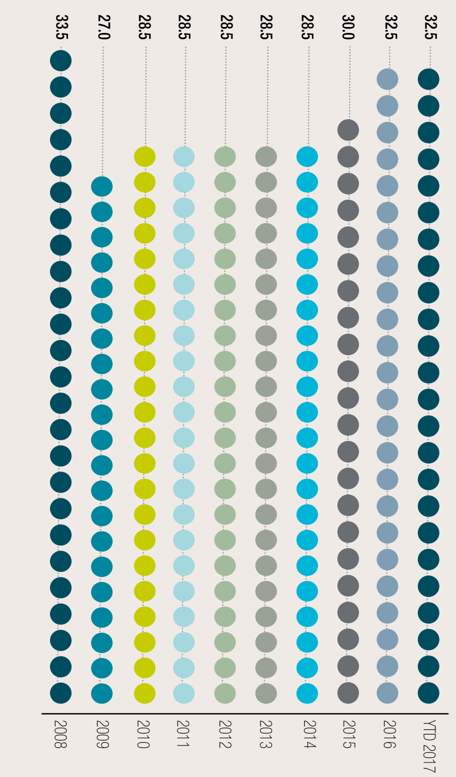
COMMERCIAL STATS

Birmingham office take-up (m sq ft)



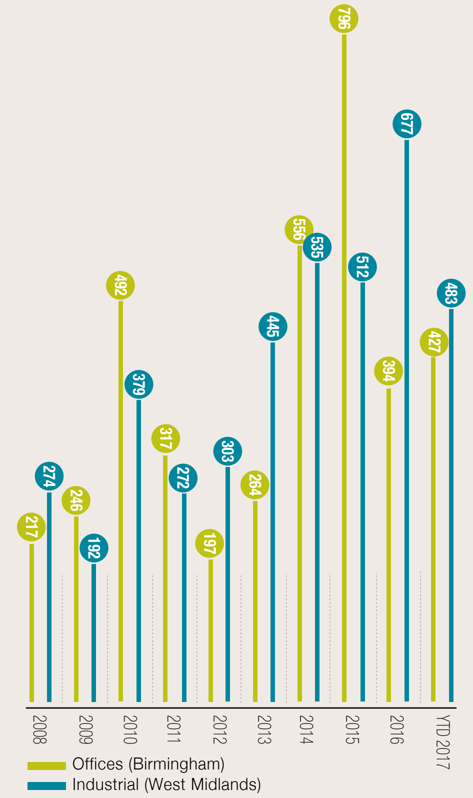
Source: Knight Frank Research

Prime office rents (£ per sq ft)



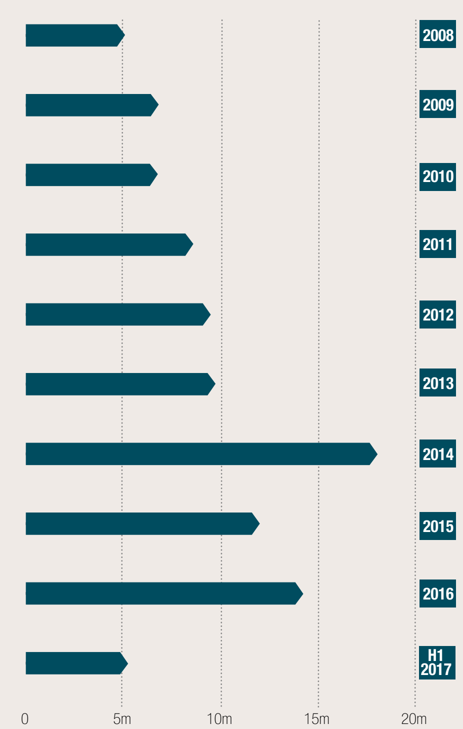
Source: Knight Frank Research

Investment (£m)



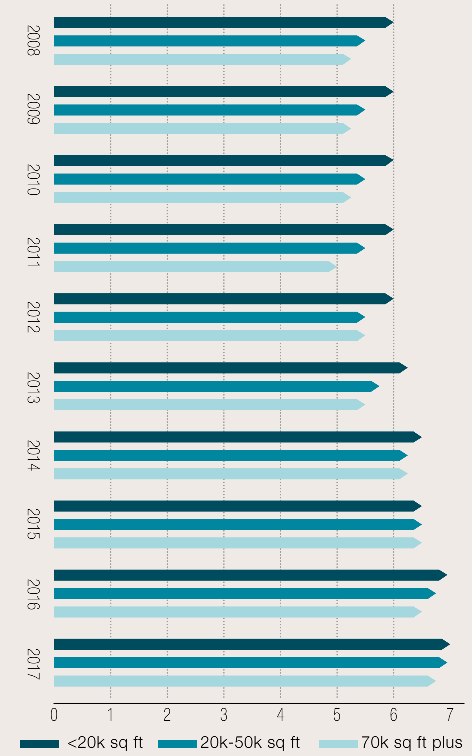
Source: Knight Frank Research / Property Data

Midlands industrial take-up (m sq ft)
Units over 50,000 sq ft



Source: Knight Frank Research

Prime Industrial rents (£ per sq ft)



Source: Knight Frank Research

Prime yields (%)

Source: Knight Frank Research

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