

# Focus on: West Midlands

Research 2021

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## Foreword



BY MARK EVANS,  
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Despite the challenges of the pandemic there is a renewed focus on the West Midlands which, as a region, is set to play an important role in the UK's economic recovery. New employment opportunities are emerging and driving forward new office and residential schemes. The profiles of major cities in the region are changing as it diversifies into new and exciting sectors, with Birmingham becoming a hub for finance and tech. At the same time, the region has retained its automotive heritage, with Coventry Airport in line for an electric car battery plant that could create 6,000 new jobs.

In Birmingham, commercial schemes such as Paradise and 103 Colmore Row are attracting high calibre occupiers which in turn is generating significant interest in residential property. Paradise is the most central regeneration scheme in the city and, at almost two million square feet, the scheme will bring new infrastructure improvements and new public realm including the revamped Chamberlain Square.

The build-to-rent market continues to evolve with demand strengthening and new entrants to the market appearing. There is a huge opportunity for BTR funders and developers in the region. Population growth has been steady, supported by new jobs and the region's eight universities, with nearly half of graduates from Birmingham's five universities staying on in the city after graduation.

Build cost inflation is a challenge but demand remains strong for well-located development sites close to infrastructure and amenities. Sales revenues remain high, allowing developers to maximise returns despite rising costs. There also remains strong demand from overseas buyers and we expect this to pick up substantially as travel restrictions ease.

The best performing schemes are high quality with good amenity space. We are seeing that buyers are prepared to pay for quality, and post-pandemic we expect a desire for more space to continue with developers already adapting designs to meet this demand.

Overall, the pipeline of potential development sites is extensive. We believe there will be a flight to quality. Well-built, well-managed schemes will stand the test of time.

# A REGION ON THE RISE

*Growth in new industries will power the West Midlands economy and fuel more investment into commercial space and homes for the region's expanding workforce*

The professional services, science and technology industries will be among the fastest growing job sectors in the West Midlands over the next decade, while the area's strength in logistics in an era of strong e-commerce demand, as well as its high concentration of universities and access to talent make it well positioned to pull ahead as the UK economy moves beyond the pandemic.

The region's economy is diversifying at a time of opportunity: its newly re-elected mayor Andy Street has secured substantial funding to regenerate brownfield land to create new homes and jobs across the West Midlands. Coventry is boosting its local economy through its City of Culture programme of events this year, while in Birmingham widescale regeneration is taking place ahead of the Commonwealth Games in 2022. It is the first UK city to host the international event since Glasgow in 2014.

The construction of the High Speed 2 rail link to London is further supporting residential and commercial property development and paving the way for blue-chip employers to open up offices, notably Goldman Sachs in Birmingham. Savvas Savouri, chief economist at Toscafund, explores the rise of new job sectors in the West Midlands and the future of the region's more traditional manufacturing industry in more detail on p.4.

This uptick in economic activity is also driving the construction of new homes. Analysis of the number of deliverable units in the pipeline in Birmingham suggests that the city will see around 12,000 new units reach completion over the next five years to go towards accommodating the region's growing population. The population of the West Midlands, currently 5.9 million, is set to grow by another 225,000 over the next decade, according

to Experian, while official forecasts suggest the number of households in Birmingham is expected to increase by more than 5%.

Estimated number of people living in the West Midlands now and in the future



Source: Experian

### Pricing and affordability

Historically, the region's growing population and strengthening economy has supported the housing market. Average prices across the West Midlands have increased 32% over the last five years, compared with 25% growth across the UK over that same period. House prices in Birmingham have risen 29%, the data shows. However, house prices in the city and wider region remain relatively affordable. In June, the average house price in Birmingham was £208,241, according to the Office for National Statistics, 59% lower than London's £509,566. For the wider region, the average West Midlands house price was £229,590.

Over the past year, the region's rental market has also remained resilient, with average rents rising 8%. In Birmingham, rents have grown 5% over the past year.

### Economic expansion: major companies move to Birmingham

Growing residential demand in the region comes as it attracts highly-skilled new workers from areas including government, finance and life sciences, with new employers starting to offer more attractive roles with higher salaries. Birmingham is currently the most popular destination for those moving out of the capital, ahead of other major cities such as Bristol and Manchester, according to the Office for National Statistics (ONS).

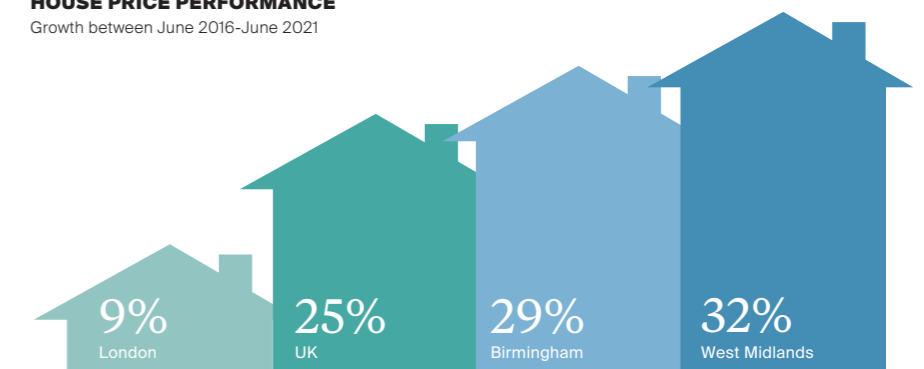
The public sector remains particularly active in the city with the Government Property Agency set to open a 200,000 sq ft civil service hub at Arena Central.

The transport department is also due to open a second HQ in Birmingham, while the energy department is creating 175 new roles in the city. Nearby, the government has also opened a second HQ for the Department for Levelling Up, Housing and Communities in Wolverhampton – its first ministerial base outside London.

Birmingham is also repositioning itself away from traditional manufacturing to become a hub for finance and tech. One high-profile example of this is Goldman Sachs taking 11,500 sq ft of space at WeWork's 55 Colmore Row in June on a two year lease. In total, there are currently 122 financial technology companies in the wider region with a workforce of more than 7,000 people, according to the West Midlands Growth Company. Europe's largest asset management fintech innovation hub, The Engine Room, is based in Birmingham.

### HOUSE PRICE PERFORMANCE

Growth between June 2016-June 2021



Source: Knight Frank Research / ONS

# ECONOMY AND TALENT

*Which job sectors will see the fastest growth in the West Midlands?*

Employment opportunities are strengthening in the region, which is leading to more investment into residential development. The growth of new sectors - from life sciences to tech and logistics - is set to power the region's economy as it moves away from its manufacturing heritage.

The fastest growing sector in the West Midlands overall will be arts, entertainment and recreation, forecast to increase by 21%. For example, the BBC is creating a new production centre in Birmingham as part of a huge shift in resources out of London.

Growth in new industries has translated into more jobs: by 2030 employment in professional services, science and tech is set to grow by 10%. Outside Birmingham, Coventry has access to key research and development centres, including the Mira Technology Park which is developing the latest automotive technologies, and the Advanced Manufacturing Centre, which has over 700 employees. In the tech space, Birmingham was recognised

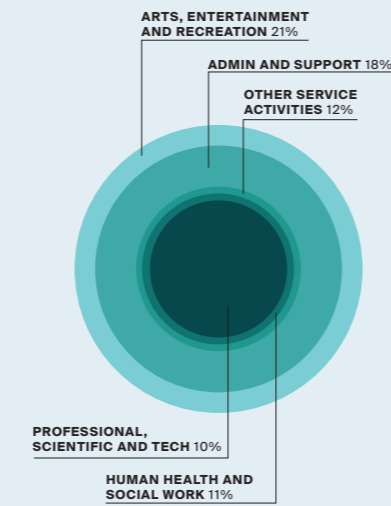
as the UK's regional start-up capital for the seventh year running. In total 18,394 new enterprises started life in the city throughout 2020, according to UK think-tank Centre for Entrepreneurs.

High growth in these skilled job markets also means that higher earners are moving into the region. Indeed, average earnings across the West Midlands have grown 14% over the past five years, while in Birmingham they have increased 16%. Average household disposable income is forecast to grow by nearly 40% by 2030, according to Experian.

Logistics is another growth area thanks to soaring demand for online retail, with more than ten million sq ft of warehouse space taken in the first half of 2021, up 59% year-on-year, Knight Frank data shows.

Birmingham is also well-placed to attract and retain graduate talent. According to the results of the 2021 Knight Frank/UCAS Student Accommodation Survey, 46% of final year students studying in Birmingham said they intended to stay in the city after they graduated, up from 40% last year.

**Which job sectors will see the fastest growth in the West Midlands?**



Source: Oxford Economics, Knight Frank Research

The West Midlands has a high concentration of universities – eight in total including the University of Warwick, Birmingham and Coventry, which each placed 9th, 16th and 15th respectively in the Guardian University Guide 2020.

## Why healthtech is booming in the region



BY JENNIFER TOWNSEND, PARTNER, COMMERCIAL RESEARCH

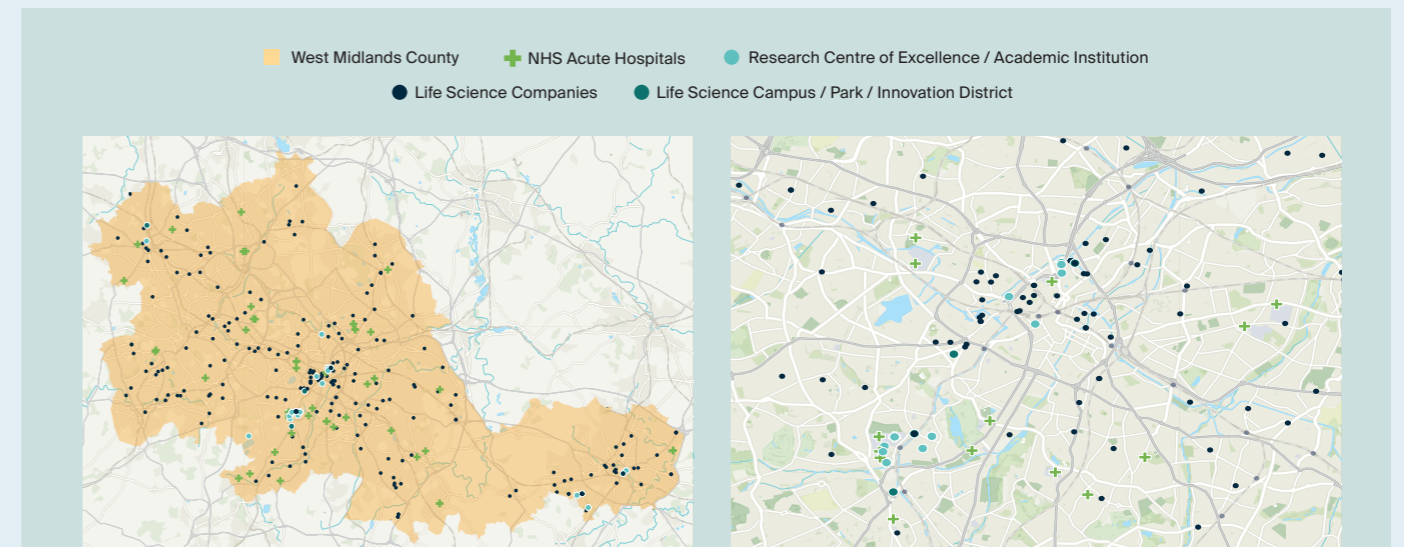
The West Midlands is poised to capitalise on the growing UK healthtech sector, emerging as a hub for health innovation and life sciences businesses.

A new state-of-the-art life science hub is under development in Birmingham, in the latest sign of the

region positioning itself as a key player in the UK healthtech space, which attracted £1.12bn in investment in 2020, according to the latest report by Tech Nation.

The 657,000 sq ft Birmingham Health Innovation Campus, being developed in partnership with

Bruntwood Sci-Tech and the University of Birmingham will contribute to an already thriving ecosystem of businesses: as our map below shows, there are already 298 life sciences companies based in the wider region.



Sources: Life Science Companies: Office for Life Sciences Company Data 2019. Life Science Campus/Park/Innovation District: UKSPA and Knight Frank. Research Centre of Excellence: Global Research Identifier Database. NHS Acute Hospitals: NHS England.



### Q&A with Savvas Savouri, chief economist at Toscafund

**How well positioned is the West Midlands to benefit as the economy moves beyond the pandemic?** You have to look at the economic DNA and how that aligns with sectors that are growing and sectors that have seen better days. In the West Midlands, you've got higher education, automotive, logistics, as well as the region's proximity to transport networks and the fact its topography is incredibly favourable.

**What do you see supporting growth in new job sectors in the region?** We will see a renaissance in the automotive sector because we need to manufacture green cars and battery facilities. Arts, entertainment and sciences wouldn't exist if the region didn't have a healthy network of universities. The evolution of wealth in China will have an impact, as over the next few years many more millions of Chinese will be very affluent. That's likely to result in more Chinese students coming to the UK to study and live; with the Midlands a beneficiary.

**How will rising automation fuel new growth areas in the region?** There are factories making cars across the Midlands which will need lots of re-engineering and retooling. This will require the reskilling of the same workers doing 'dirty engine' cars to do cars with clean engines and making batteries for them. We'll need lots of factories each

employing thousands of workers with refined skills and good incomes.

**What will drive housing markets in the West Midlands?** The rising number of students from overseas will need to live somewhere so we'll see growth in the private rental sector. There will also be net inward migration of families, so there will be a housing demand uplift there. In terms of prospective house price inflation, the West Midlands is where you want to be. From the borders of Shropshire all the way to East Anglia – that strip of land across central England will see the fastest house price growth. The pace of house price inflation will be weaker in London than the Midlands. House prices will continue to rise, doing so as a result of strong fundamental demand – improving net new household formation and rising employment opportunities.

## 5 catalysts for growth

Looking forward the West Midlands' life sciences sector is set to expand further with up to 10,000 new and replacement life sciences jobs needed within the region by 2030, according to the Greater Birmingham and Solihull Local Enterprise Partnership. There are several important catalysts to this growth:

### 1. Significant new funding sources

The West Midlands Recovery Action Plan proposes public investment of £137m into healthcare innovation. The Midlands

Innovation Commercialisation of Research Accelerator also plans to raise £300m over the next five years to seed investment in university spin-outs.

### 2. The strength of its life sciences ecosystems

According to the United Kingdom Science Park Association, there are already eight science parks in the West Midlands. Recent and planned expansion includes the £54mn Biomedical Research Building at Warwick University and the planned Birmingham Health Innovation Campus.

### 3. New technology

The West Midlands is already the second largest cluster of healthcare technology SMEs

in the UK and the third-largest MedTech cluster in the UK.

### 4. Open collaboration

The West Midlands is home to a number of organisations that bring collaborative partners together to get treatments to the market faster. Birmingham Health Partners, for example, brings together the University of Birmingham and two NHS foundation trusts to enable cross-functional collaborations.

### 5. Real-world evidence and value-based contracts

The West Midlands has one of the largest clinical trials bases in Europe.

# A STEP CHANGE IN HOUSING DELIVERY

*The region's growing population has led its mayor to focus heavily on creating new homes and jobs*

The West Midlands is set to unlock further land opportunities for development as it sets its sights on meeting ambitious housebuilding targets. The WMCA has won government funds to invest in cleaning up vast swathes of former industrial land and put forward alternative use proposals for the sites, before bringing on board development partners.

Andy Street's role, as Mayor of the West Midlands, sees him drive housing policy across a core group of councils with full membership and voting rights, which include Birmingham, Coventry, and Solihull, as well as setting housing delivery targets for this group and non-constituent members, such as Shropshire and Warwickshire.

In 2018 the West Midlands Combined Authority set out a target to deliver 215,000 new homes by 2031. The most recent government data available suggests that since the target was set, it has delivered some 33,465 homes up until March 2020, exceeding this target trajectory. This means the WMCA will need to deliver around 16,460 homes per year up to and including 2031 to meet its target. As the UK's second largest city, Birmingham will be key to meeting these goals. Analysis of pipeline data shows the city is on track to deliver

around 12,000 new units over the next five years. Given the city's annual target of 4,829 new homes, this suggests that it may need to deliver more units in the outer suburbs and release more greenfield land to meet delivery targets. However, this strategy is not currently favoured by the West Midlands Combined Authority, who say they are continuing to pursue a brownfield-first approach to housing by using government funds to unlock derelict industrial land for development. Birmingham's annual housing target rose by 35% in December 2020 as part of a wider central government strategy to increase the supply of housing in urban centres.

Currently, over 6,000 units are under construction in the city while 11,461 have secured planning permission.

A key strategy for the authority is to regenerate brownfield land across the region to provide new homes and jobs. There are also opportunities for developers outside of key city centres like Birmingham and Coventry. A big focus is on brownfield land in the Black Country, covering most of the Metropolitan Boroughs of Dudley, Sandwell, Walsall and Wolverhampton, where the authority says there is an opportunity to use industrial land no longer in use for new homes and commercial space. The WMCA is also



**ANDY STREET**  
MAYOR OF THE WEST MIDLANDS

We know the West Midlands will need 215,000 new homes by 2031 and we are on track to deliver that. However, this must be done with a brownfield-first approach, which also looks to build more affordable and more zero-carbon homes through the use of modern methods of construction. The West Midlands Combined Authority is not a planning authority but we are doing all we can to achieve this, including using government cash to clean up polluted former industrial sites, and introducing a unique definition of affordability linked to people's income rather than the housing market.

looking at regenerating and adding more residential into town centres which have lost their former use as primarily commercial, and retail led areas.

The WMCA has been successful in building a track record of delivery to secure more than £450m in government funding to co-develop proposals to boost residential development. Since the

£100m brownfield fund was given to the authority as part of its housing deal in 2018, the WMCA secured a further £84m from the national brownfield housing fund for the next three years. It also secured a further £24m for housing and to bring forward mixed-use schemes.

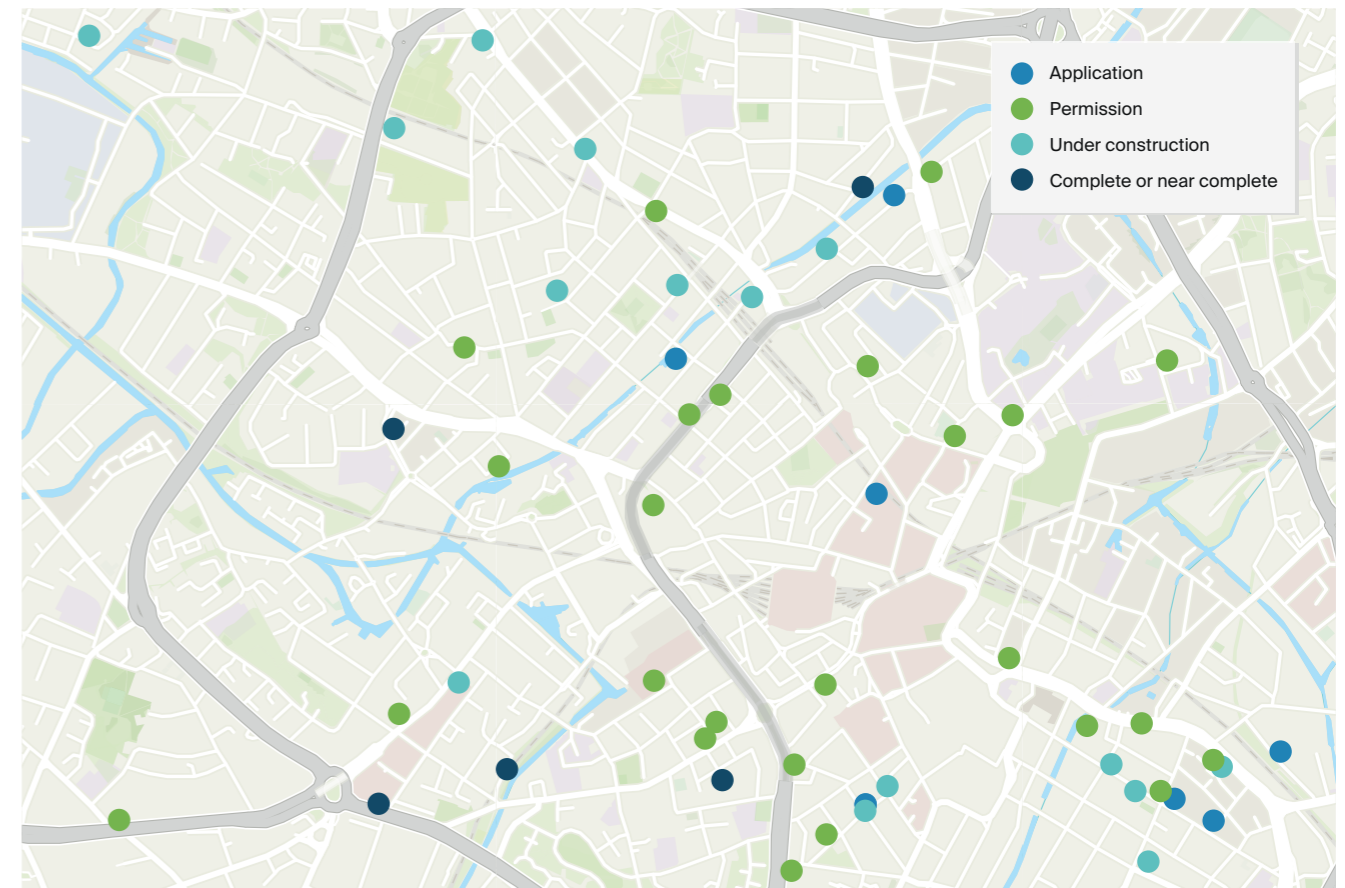
As a result, more brownfield sites will be coming forward over the next three years as the region seeks to optimise

former industrial land to meet its wider housing delivery target. The authority has already accelerated its plans having secured the £84m funding initially for a five-year period. It convinced the government that it could deploy the funds in three due to sufficient availability of land.

The WMCA and its partners are working with government to secure

funds to invest in commercial land, with a view to mirroring its housing delivery programme with a commercial real estate delivery strategy. Plans include accommodating existing companies in the region looking to relocate to new premises, co-working hubs, as well as new logistics spaces, from big scale industrial premises to small units for new ventures.

## BIRMINGHAM: WHAT'S IN THE PIPELINE?



The pandemic has also led to the authority rethinking some of its housing delivery strategy.

**“It continues to make us reconsider the purpose of what we are trying to achieve, not just housing delivery numbers but what people now need out of new housing and developments,” says Rob Lamond, strategic planning manager at the WMCA. “We understand people are reconsidering what they need from a home and we are looking to take a wider approach as to what makes a good place. We are thinking about that in conjunction with skills and transport our communities need.”**



**215,000**  
Target homes by 2031



**33,465\***  
Homes delivered so far  
\*Between March 2018 - March 2020

Source: WMCA



### Commonwealth Games

Birmingham's Commonwealth Games is viewed as a 'catalyst' for the city's

post-pandemic recovery. Despite the pandemic causing a construction slowdown and leading to the cancellation of the £500m athletes' village, alternative plans to house athletes are going ahead.

A new three-site campus model for Birmingham 2022 athlete accommodation will be delivered within the overall Games budget of £778 million, with the Games remaining on track to be delivered on time and on budget.

A draft consultation paper has been published outlining Birmingham City Council's proposed regeneration masterplan

for the city's Perry Barr district. The proposals aim to deliver 5,000 new homes to the region north of the city by 2040.

This council-led residential scheme was accelerated due to the Birmingham 2022 Commonwealth Games and has been made viable with additional investment from central government.

Overall, the WMCA has also identified Birmingham 2022 Commonwealth Games alongside HS2, and this year's Coventry City of Culture as opportunities to unlock an estimated 33,000 jobs with an investment of £306m.

**We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.**

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