

# BIRMINGHAM OFFICES

## MARKET UPDATE H1 2015

### Occupier market

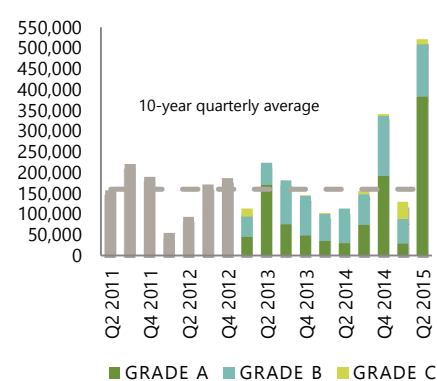
- After a relatively subdued start to the year and following a strong finish to 2014 which saw occupational demand finally surpass pre-recession levels, 2015 has seen a further surge in activity with take-up in the city core exceeding 650,000 sq ft across 70 reported deals in H1. The most significant of them being the pre-let of 212,000 sq ft to HSBC at Arena Central. Other notable deals include the 34,000 sq ft letting to Extra Energy at 54 Hagley Road and a 22,500 sq ft letting to Shakespeares at 1 Colmore Square.
- Total office take-up in Birmingham city centre rose from 129,403 sq ft in Q1 up to 521,136 sq ft in Q2, bringing total take-up to 650,539 sq ft in H1, up 30% on H2 2014 and three times the level of take-up over the same period last year. Activity was mainly driven by Finance & Banking (38%) followed by the Public Sector (22%) and Professional Services (10%).
- This trend is set to continue with total active requirements approaching the one million sq ft mark. With demand soaring and availability of Grade A space dwindling, unsurprisingly we are seeing continued growth in net-effective prime rents as incentives are being reigned in significantly. New Grade A space currently stands at an alarmingly low 162,000 sq ft, down by 21% on the start of the year.
- In line with the increase in take-up, availability has fallen across the board. The particular shortfall in Grade A space has given rise to a number of significant refurbishment schemes in the city core aiming to capitalise on this dynamic and doing just that, particularly amongst SME occupiers seeking urgent occupation.
- As well as facilitating refurbishment, the return of rental growth is boosting speculative development with the delivery of approximately 900,000 sq ft of new space now forecasted by 2018.
- An early indication of appetite for new build space in the city is the pre-completion letting of 46,000 sq ft to Birmingham City University on phase one of the Eastside Locks development which had begun speculatively late in 2014.
- Arguably the most high profile scheme in the pipeline is the redevelopment of the former Natwest tower at 103 Colmore Row which will bring approximately 196,000 sq ft of Grade A space to the market.

### Agent's view

The outlook for the Birmingham office market is extremely positive, as evidenced by the inflow of investment for existing prime and secondary stock.

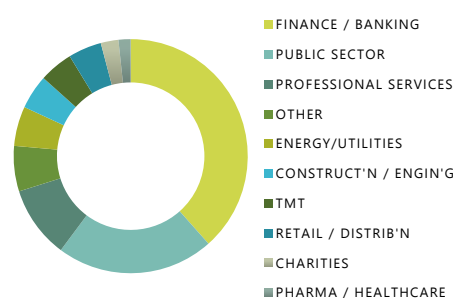
With occupational demand showing no signs of abating, we anticipate relatively sharp rental growth in the short-medium term with a further narrowing of the Grade A/Grade B rental differential. We expect this to continue until development catches up with the market as the current schemes start to reach completion in 2018 and beyond.

FIGURE 1  
City centre take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2  
H1 2015 take-up by sector

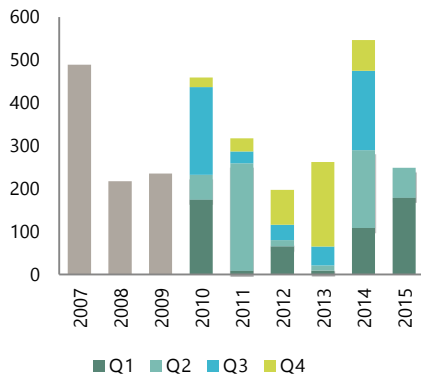


Source: Knight Frank LLP



FIGURE 3

## Birmingham offices investment turnover (£m)



Source: Knight Frank LLP, Property Data

## Investment market

- Investor appetite for Birmingham offices has continued unabated. Over the past 18 months Birmingham has seen exceptionally strong investment activity, with total investment turnover approaching £800m over this period.
- The total volume of investment activity reached £248m in H1 2015.
- H1 was boosted by the sale of 7,8 & 10 Brindleyplace to VGV in February, which at £131m accounted for over half of all the transactions in the first half of the year. Another notable transaction in H1 was 54 Hagley Road, which was acquired by Opus Land, Palmer Capital Partners in June for £23m, at a NIY of 7.8%.
- Since then 1 Colmore Square has been acquired by Legal & General Property for circa £87.3m, at a NIY of 4.00%.
- Recent activity includes the proposed sale of Aberdeen Asset Management's office building 63 Temple Row at circa £11m. Birmingham's landmark mixed use development, The Cube, has also come to the market and the owners, Tristan Capital, are seeking offers in excess of £55m. Ashby Capital is also under offer to purchase Colmore Plaza in a deal worth around £140m from Carlyle Group.
- Sentiment continues to be very positive, and if current trends continue then 2015 looks set to equal 2014.

TABLE 1

### Selected investment transactions in H1 2015

Date	Address	Purchaser / Vendor	Price	NIY(%)
June-15	85/89 Colmore Row	Fidelity UK REF/Real Estate Investors Plc	£7.8m	6.4
Jun-15	Hagley Road, 54	Opus Land, Palmer Capital Partners / Westbrook Partners	£23.0m	7.8
Feb-15	22 & 35 Gas Street	Brydell Partners / Cube Real Estate, BP Pension Fund Staffordshire CC Super F	£10.92m	8.0
Feb-15	7,8 & 10 Brindleyplace	VGV /Tritax Assets Ltd	£131m	5.75

Source: Knight Frank LLP



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