

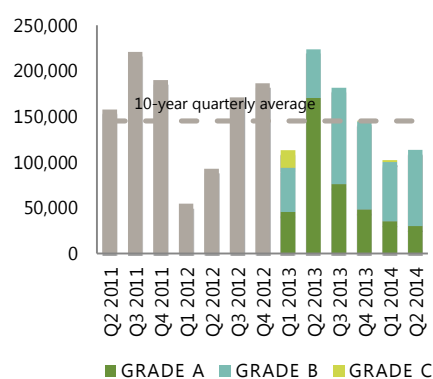
BIRMINGHAM OFFICES

MARKET UPDATE H1 2014

Occupier market

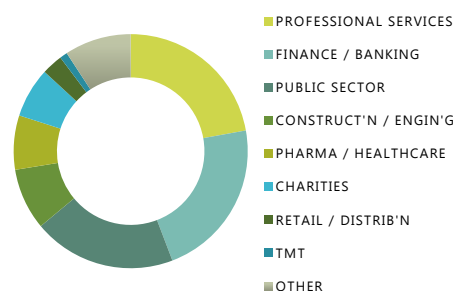
- Compared with the robust activity during 2013, office take-up in Birmingham city centre has been relatively subdued during the first half of 2014. Take-up in Q2 improved on Q1's level to reach 113,000 sq ft, across 35 deals.
- The largest deal in Q2, and also H1, was Birmingham City University's 27,500 sq ft letting at the New Technology Institute in Bartholomew Road, Eastside. The university will relocate from its existing offices in Perry Barr, and the NTI building will become its official headquarters. Q2's largest deal involving Grade A space was URS' lease 10,086 sq ft at Victoria Square House.
- Despite modest take-up levels, active named demand increased by 80% during H1 to stand at 415,000 sq ft. There are a number of key requirements in the market which are yet to be satisfied, with notable examples including Hogan Lovells and Shakespeares, who are still to make decisions on their respective relocations.
- In the early part of Q3, HS2 agreed to lease c. 100,000 sq ft at 2 Snowhill as its HQ, which takes the building close to full occupation. The new rail link will eventually see more than 6m sq ft of offices and 2,000 new homes around the station terminus, transforming part of the city centre.
- Grade A supply remains relatively restricted in the city, at 380,000 sq ft, and is very tight with regard to certain sizes and floorplates. Indeed, we have seen a number of occupiers taking short-term lease re-gears while they wait for more stock to come forward. PWC, Deloitte, Brown Jacobson and DAC Beachcroft have all taken – or are in the process of taking a new lease on their existing buildings. In terms of new supply, there is currently little in the way of new stock coming forward. The only major refurbishment currently underway is Edmund House on Newhall Street which will deliver 70,000 sq ft of new Grade A space to the market.
- Grand Central (the former Ladywood House) came to the market in Q2 for a funding partner to deliver a major refurbishment opportunity on the back of a pre-let to i2 Offices. Elsewhere, 55 Colmore Row, a landmark city core building with future development potential, was sold in Q2 to IM Properties. They are expected to see out the remaining lease to Wragge and Co. before undertaking a major refurbishment. There are rumours of other city core development sites changing hands shortly, and this could well kick-start their commencement at long last.

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



Source: Knight Frank LLP

FIGURE 2
H1 2014 take-up by sector

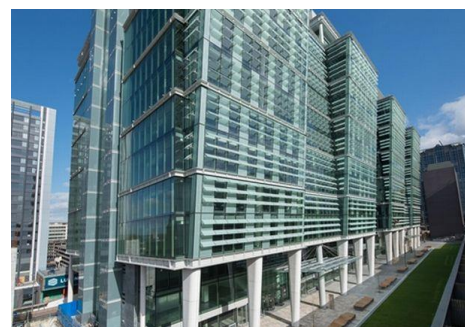


Source: Knight Frank LLP

Agent's view

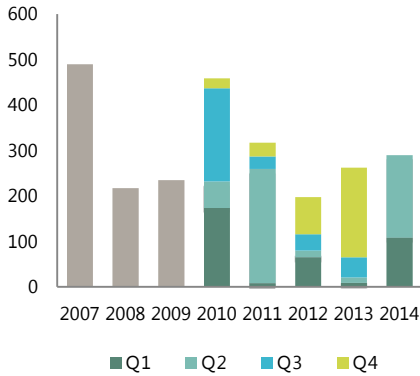
Grade A availability will continue to diminish in the absence of new development completions. The supply issue is already starting to impact on net effective rents, with incentives for a five year term now at 12-15 months, while we expect prime headline rents to rise from £28.50 to £30.00 by the year end.

We believe there is scope for developers to undertake major refurbishment to benefit from the supply issue in the short to medium term, particularly as the take-up forecast for the rest of 2014 looks more promising given the number of requirements in the market.

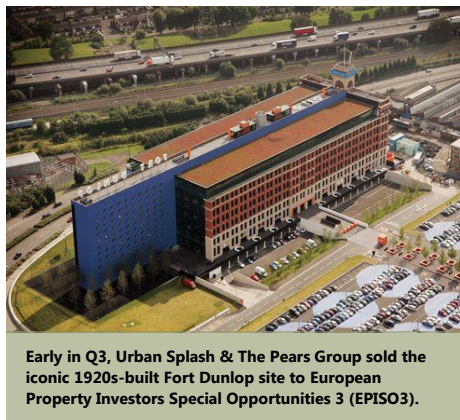


HS2 recently committed to lease 100,000 sq ft at 2 Snowhill and this will boost take-up figures in Q3.

FIGURE 3
Birmingham offices investment turnover (£m)



Source: Knight Frank LLP, Property Data



Early in Q3, Urban Splash & The Pears Group sold the iconic 1920s-built Fort Dunlop site to European Property Investors Special Opportunities 3 (EPISO3).

Investment market

- Birmingham has been home to a healthy level of investment activity over the past six months, with appetite for office stock in the core regional office markets improving dramatically since the latter half of 2013 and continuing apace into 2014.
- Total volumes in H1 2014 reached £290m, exceeding the annual total for each of the past two years. While a flurry of deals have occurred across a range of lot-sizes, the figures were boosted by several large lot-size deals, the largest of which was L&G's £87.50m purchase of Priory & Temple Court. Domestic institutional buyers dominate the demand profile, although overseas investors are also active in the city, with Chinese and US money currently targeting Birmingham stock.
- While there has been little evidence at the prime end of the market to provide an exact sense of where pricing lies, sentiment suggests that yields for prime, long-income assets hardened by 25bps in Q2 2014 to stand at 5.25%. This is in tandem with the Manchester market and a slight premium to the UK's other key regional office markets. The impending sale of 2 Snowhill to a prominent UK fund investor will provide a firmer indication of pricing in Q3.
- We have noticed a definite improvement in the secondary market, with a number of deals (such as the recent sale of Fort Dunlop and Alpha Tower) underlining the greater willingness for investors to move up the risk curve when opportunities are available at sensible prices.
- Evidence suggests that the planned HS2 rail link is already affecting investors' behaviour. The area around the proposed rail terminus, once something of a backwater, is now being closely scrutinised for its long term potential as a future prime office location by opportunistic investors.

TABLE 1
Selected investment transactions in H1 2014

Date	Address	Purchaser / Vendor	Price	NIY(%)
Apr 14	Priory & Temple Court	Legal & General UK / Co-operative Bank	£87.50m	8.28
Feb 14	Fleet Street, 27	LaSalle IM / Hong Kong investor	£51.00m	5.40
Feb 14	Victoria Square House	Ardstone Capital / Friends First UK CP Ltd	£42.00m	6.60
Jun 14	St Philips Place, 5	Cordea Savills / Climate Change Capital	£38.00m	5.80
Jun 14	Colmore Row, 55	IM Properties Plc / Kames Capital	£33.50m	N/A
May 14	Birmingham Business Park	Institutional investor / Fujitsu Services Ltd	£17.65m	7.14
Feb 14	Alpha Tower, Suffolk Street	Anglo Scandinavian Group / Nationwide Building Society	£14.00	N/A

Source: Knight Frank LLP



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