



BIRMINGHAM OFFICES

Market update Q3 2013

Knight Frank

Key highlights

- Sentiment and activity continued to improve during Q3, with take-up of 177,282 sq ft which was 4% up on last year.
- Total take-up for 2013 so far has reached 514,219 sq ft, exceeding 2012's annual take-up of 505,146 sq ft. Knight Frank was involved with nearly 50,000 sq ft of transactions in Q3. There were 38 leasing deals in Q3, with the biggest deal being i2's acquisition of 24,000 sq ft at Hines Ballymore's Two Snowhill.
- Professional Services was the most active sector in Q3, accounting for over a third of the deals.

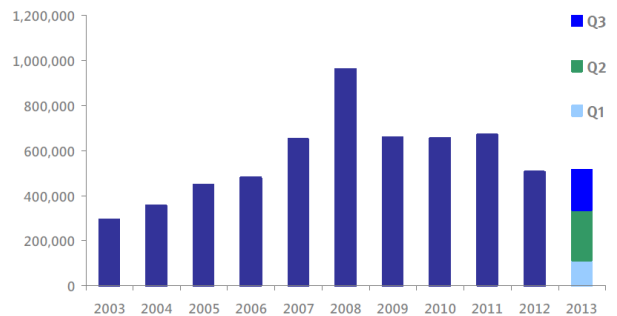
Office gossip

- Seven Capital's acquisition of 1 Hagley Road for a residential conversion effectively removed 130,000 sq ft of secondary accommodation from the stock figure.
- Q3 has seen requirements coming from The Big Lottery Fund, Shakespeares Legal LLP and Berryman's Lacey Mawer. The Ministry of Justice is also looking at its future requirements in the city for up to 70,000 sq ft. Weightmans is believed to be close to agreeing their expansion at St Phillips Point.
- There is now only 100,000 sq ft remaining at Two Snowhill, the only new build office option in the city centre.

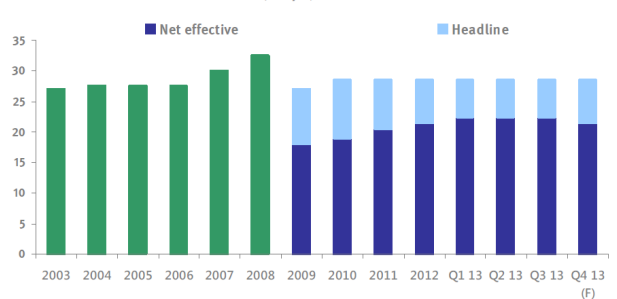
Looking ahead

- As predicted previously, sentiment continues to improve and leasing volumes for 2013 will potentially reach a five-year high, with major corporates clearly back in the market. We do not expect prime rents to increase in the remainder of 2013.
- There is only 41,000 sq ft of new space currently being brought to the market comprising 158 Edmund Street (by Evenacre) and Enterprise House (by Hortons Estates).
- Grade A availability was down to 300,000 sq ft, a fall of 16% on the preceding quarter. The sharp fall in vacancies questions for the city as to the source of future Grade A supply.

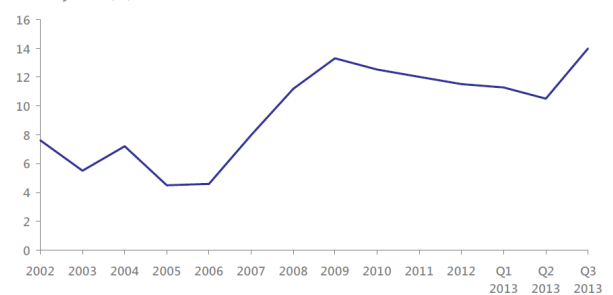
City take-up (sq ft)



Prime headline & net effective rents (£ sq ft)



Vacancy rate (%)



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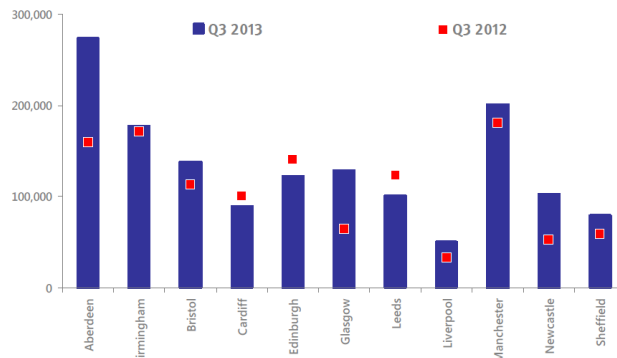
UK REGIONAL OFFICES ROUND-UP

Q3 2013

Occupier demand

- Sentiment and demand continued to improve in the regional office markets in Q3, with occupier demand remaining relatively robust. Indeed, there is a healthy list of sizeable requirements, mainly from occupiers in the legal and financial sectors.
- The 11 markets combined recorded total take-up of 1,461,951 sq ft during Q3. Whilst this represents a modest increase of 6% on Q2 2013, it is 22% above the overall total take-up recorded for the same period, with strong performance and double digit increases seen in Glasgow (+100%), Newcastle (+95%), Aberdeen (+71%), Liverpool (+52%), Sheffield (+34%), Bristol (+22%) and Manchester (+11%).
- However, there was a healthy level of activity, transactions continued to be predominantly characterised by smaller deals.

City centre take-up, Q3 2013 vs Q3 2012 total (sq ft)

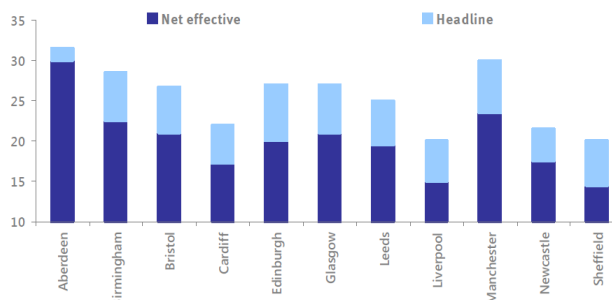


Source: Knight Frank Research

Supply and rents

- Q3 saw a marginal quarterly decrease in Grade A supply, which slipped from 3,225,544 sq ft in Q2 to 3,069,805 sq ft in Q3. This reflects the continuing erosion of Grade A space in the absence of new completions/development activity. Quarter-on-quarter double-digit falls were seen in Cardiff (-19%), Birmingham (-17%), and Newcastle (-10%). Only two cities experienced a quarterly increase in supply, namely Aberdeen (+45%) and Glasgow (+4%).
- Whilst occupier sentiment is improving, headline rents have been largely stable, with only Aberdeen projected to see an increase in headline rents by the year-end. While growth in regional headline rents is unlikely over the remainder of 2013, net effective rents may edge up as Grade A supply continues to decline.

Q3 2013 Prime headline & net effective rents (£ sq ft)



Source: Knight Frank Research

Investment market

- Q3 saw a buoyant level of investment activity. According to the latest figures from Property Data, investment turnover for offices outside London and the South East was c. £870m, up 82% on a year ago.
- Whilst investor demand for prime office assets in the regions has remained strong, most regional office markets have started to, and are likely to continue to, suffer from a shortage of available stock (prime and long-income assets). Since prime buying opportunities are limited, increasing interest is being seen in good quality secondary assets which offer sound fundamentals, with prospects for active management.
- Prime yields in the regional cities generally hardened during Q3, with Aberdeen, Bristol, Edinburgh, Glasgow, Liverpool, Manchester and Newcastle seeing prime yields move in by 25 bps. Birmingham and Cardiff were the exceptions, with prime yields remaining stable in Q3.

Prime office yields

	2012	2013			Yield sentiment
	Q4	Q1	Q2	Q3	
Aberdeen	6.50%	6.50%	6.25%	6.00%	→↘
Birmingham	6.50%	6.25%	6.00%	6.00%	→↘
Bristol	6.50%	6.50%	6.25%	6.00%	→↘
Cardiff	6.50%	6.50%	6.25%	6.25%	→↘
Edinburgh	6.50%	6.50%	6.25%	6.00%	→↘
Glasgow	6.50%	6.50%	6.25%	6.00%	→↘
Leeds	6.50%	6.50%	6.25%	6.15%	→↘
Liverpool	7.50%	7.50%	7.50%	7.25%	→↘
Manchester	6.50%	6.25%	6.25%	6.00%	→↘
Newcastle	6.75%	7.00%	7.00%	6.75%	→↘
Sheffield	7.25%	7.25%	7.25%	6.75%	→↘

Source: Knight Frank Research

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