Knight Frank

Birmingham

UK Cities 2024 Insights

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Occupier

Take-up

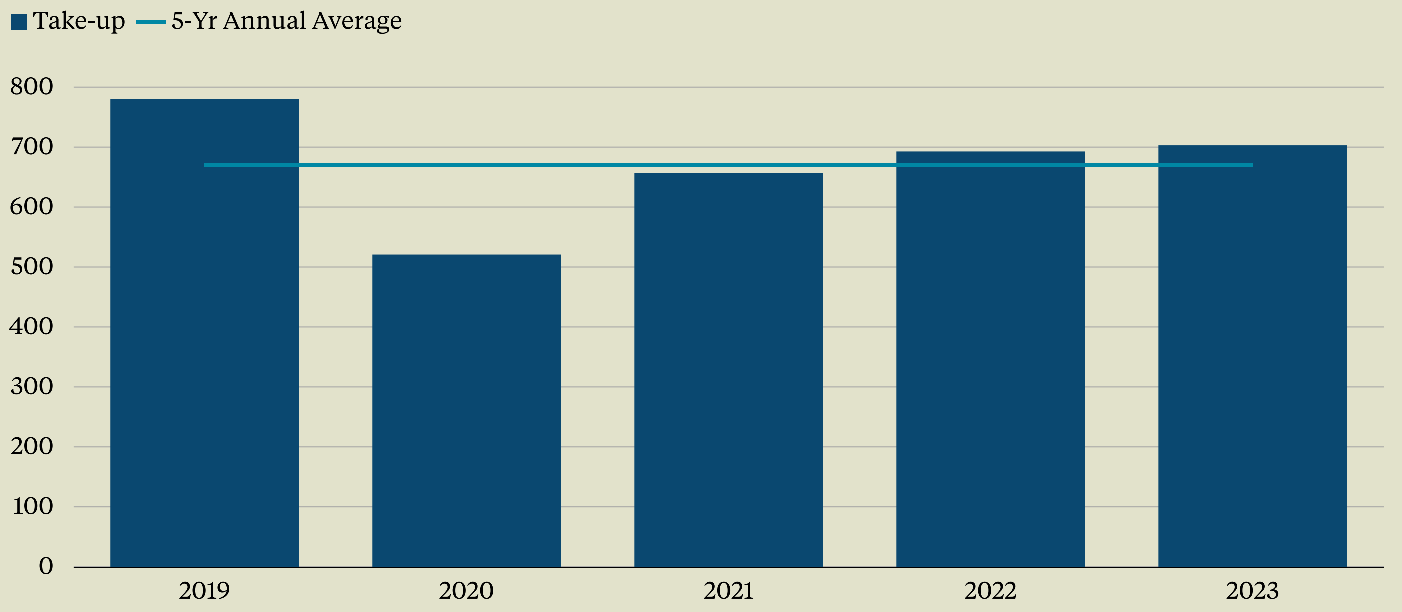
Occupier activity increasing

Key Takeaway

- Occupier demand in Birmingham has increased steadily since 2020. Total take-up in 2023 was 703,000 sq ft, just above the total for the previous year and 5% above the 5-year annual average.
- The year-on-year uplift was bolstered by a particularly strong H2, with take-up levels 12% above the first six months of the year.
- During the year, 109 occupier deals were completed. This total is well ahead of the 5-year annual average of 97.
- Demand for best-quality space remained strong in 2023, with grade A space accounting for 78% of total take-up for the year.

Birmingham Annual Take-up

sq ft, 000s



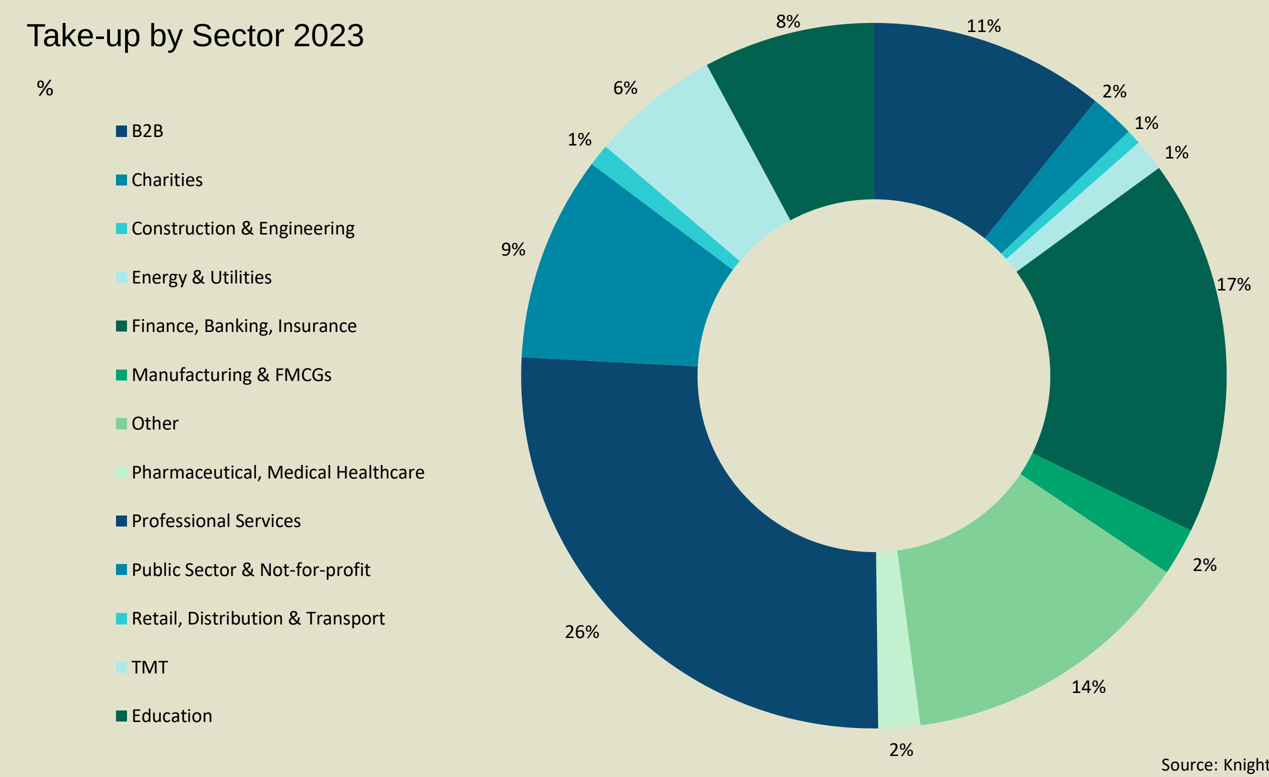
Source: Knight Frank Research, Macrobond

Take-up by Sector

Source of demand continue to diversify

Key Takeaways

- Professional Services accounted for 26% of office take-up in 2023, with legal firms most active.
- Nonetheless, the largest transaction of the year was Lloyds Banking Group taking 59,896 sq ft of flexible office space with x+why at Foundry, Six Brindleyplace, Birmingham.

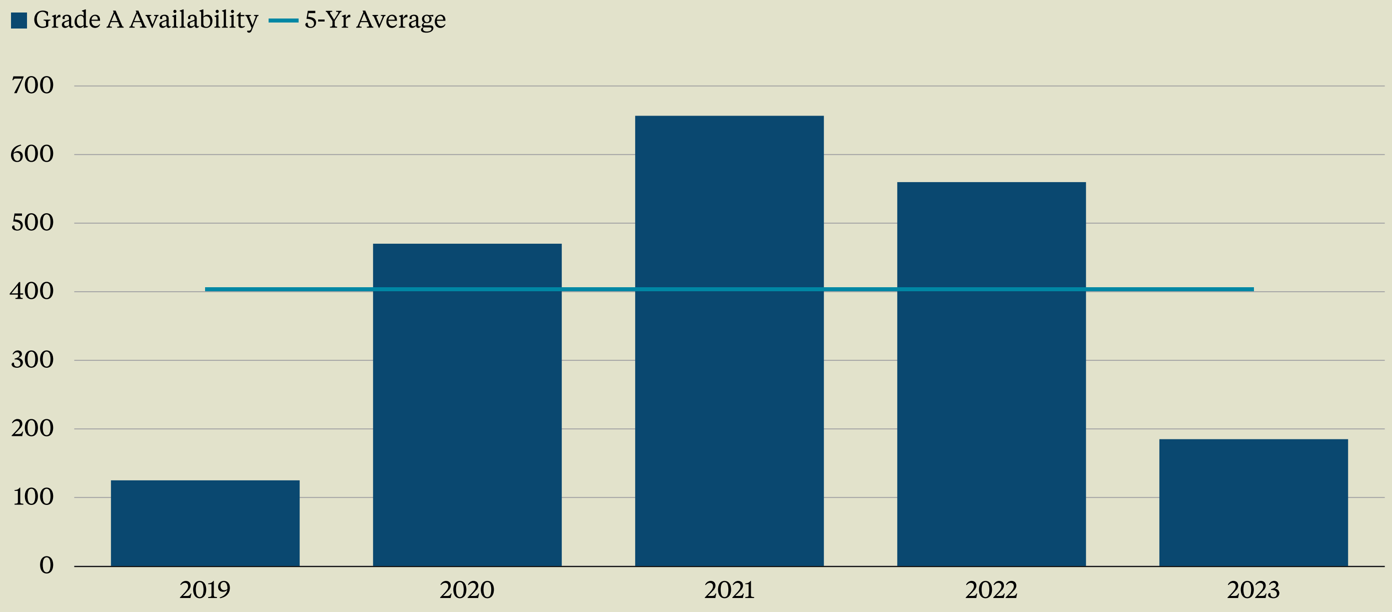


Source: Knight Frank Research

Availability

Availability tight for best quality

Birmingham New Build Grade A Supply
sq ft, 000s



Source: Knight Frank, Macrobond

Key Takeaway

- New build grade A availability stood at 185,000 sq ft at the end of 2023, 67% less than the previous year and is the lowest total since 2019.
- Furthermore, the level of grade A supply is more than 50% below the 5-year average, illustrating the squeeze on best-quality space in Birmingham.

Development

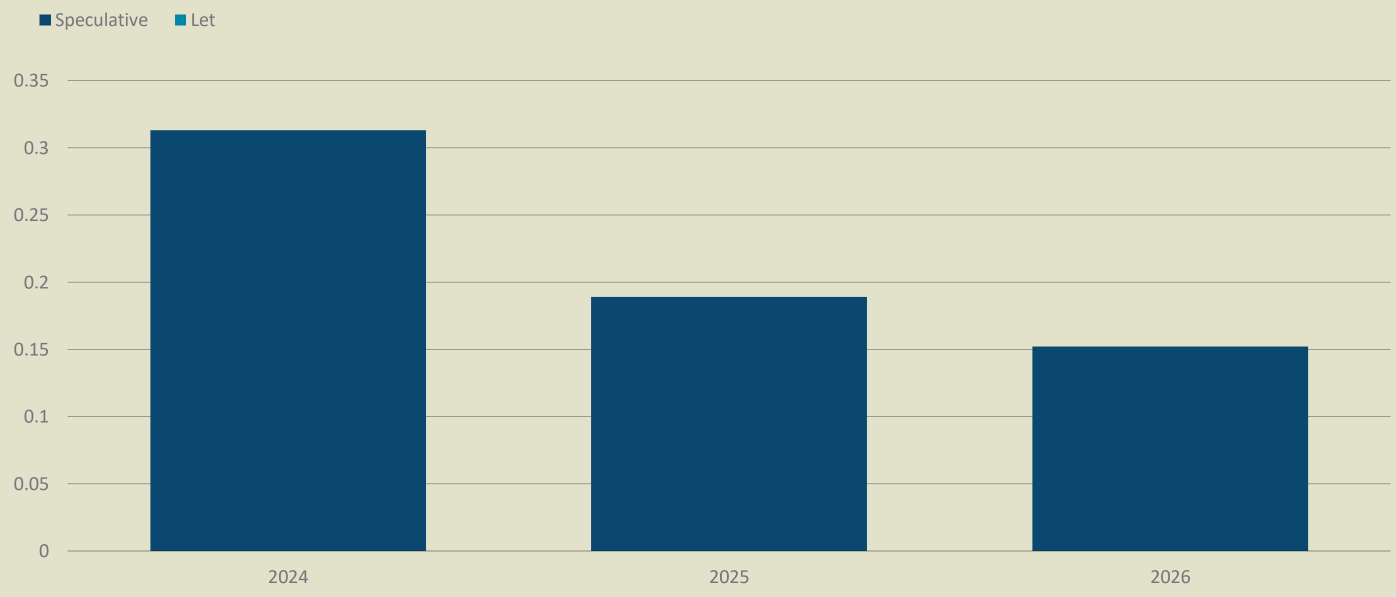
Elevated costs limiting development activity

Key Takeaways

- In 2024, 313,000 sq ft of speculative office space is due to be delivered across four buildings.
- Notably, all development is comprehensive refurbishment, demonstrating both the elevated costs of new build and a developer preference towards lower carbon projects.

Development Pipeline (U/C)

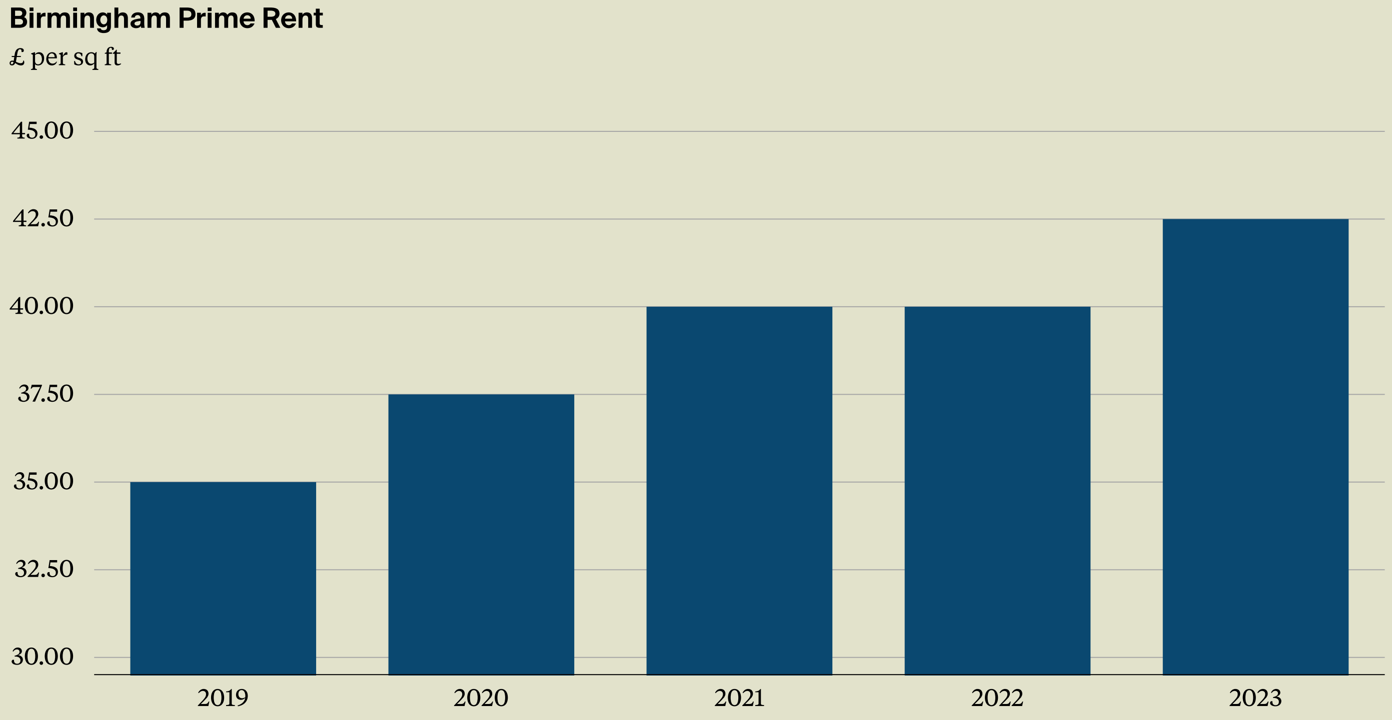
sq ft, millions



Source: Knight Frank Research

Prime Rent

Competitive pressure fuelling rental rises



Source: Knight Frank, Macrobond

Key Takeaways

- Prime office rents were £42.50 at the end of 2023, reflecting a 6% year-on-year increase.
- Notably, prime rents have risen 21% since the beginning of the Covid pandemic. This is the highest rate of increase across the 'Big Six'.
- With demand rising and supply falling, prime rents are forecast to reach £45.00 per sq ft by the end of 2024.

Leasing View

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Market Sentiment

- Q1 was a continuation of the recovery from the events of Q2 2022, with growth of grade A demand and rental levels.
- Q2 and Q3 were all about inflation, interest rate rises and the impact this has on viability.
- However, Q4 did show some signs of recovery on the back of an occupier market that, in the main, is still showing resilience and demand.

Future Demand

- Q1 2024 began with several new enquires and existing deals under offer demonstrating a willingness to move forward with new strategies.
- We expect to see activity from several occupiers who signed for space in 2019, thus working on a pre-covid strategy, along with those who took short-term lease extensions whilst they worked out their new approach to the work environment.

Trending

- Take-up remained resilient with the flight to quality and occupiers generally taking less space of a higher quality, following expectations that buildings offer a wide range of green and ESG credentials.
- The Flight to Flexibility – many new grade A buildings and major refurbishments have secured a flex operator, which has attracted interest from occupiers seeking this flexibility to grow within the same building.

Rents, Incentives etc

- Birmingham has recently recorded record rental for the city - achieving £45.00 per sq. ft with headline rentals now £42.50 per sq. ft
- Incentives have also remained stable with between 9-12 months on a 5-year term certain and 18-24 months on a 10-year term certain.

Investment

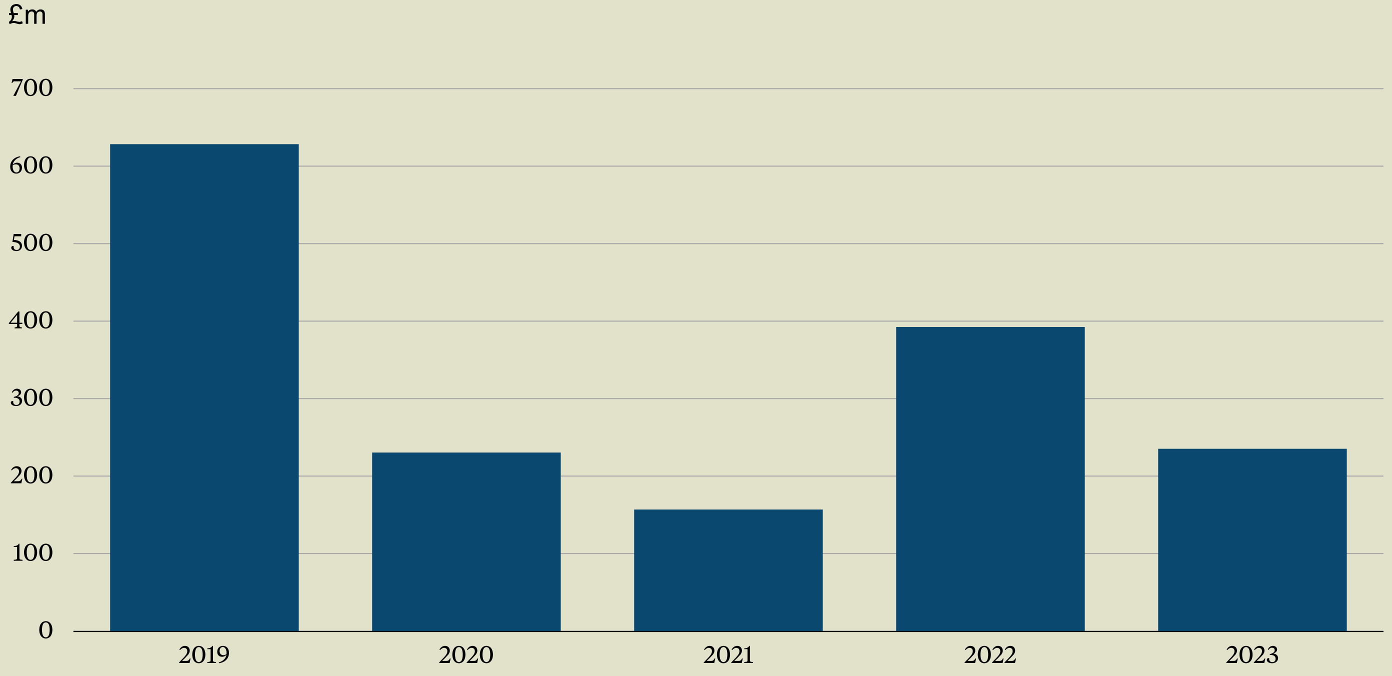
Investment Market

Headwinds challenge investors during 2023

Key Takeaways

- Constrained by turbulence in the capital markets, investor activity was subdued, with investment volumes reaching £235.2m in 2023, 28% below the 5-year annual average.
- Even so, despite the low level of liquidity for higher value assets, two deals above £20m completed.
- The largest sale was the acquisition of BrindleyPlace for £125m by Veld Capital and Praxis. This was the second largest regional deal of 2023. The second was the sale of Mitchells and Butlers HQ to Sterling Capital Ventures for £46m.
- Property companies accounted for 61% of investment turnover in 2023, equating to 4 out of 13 deals.

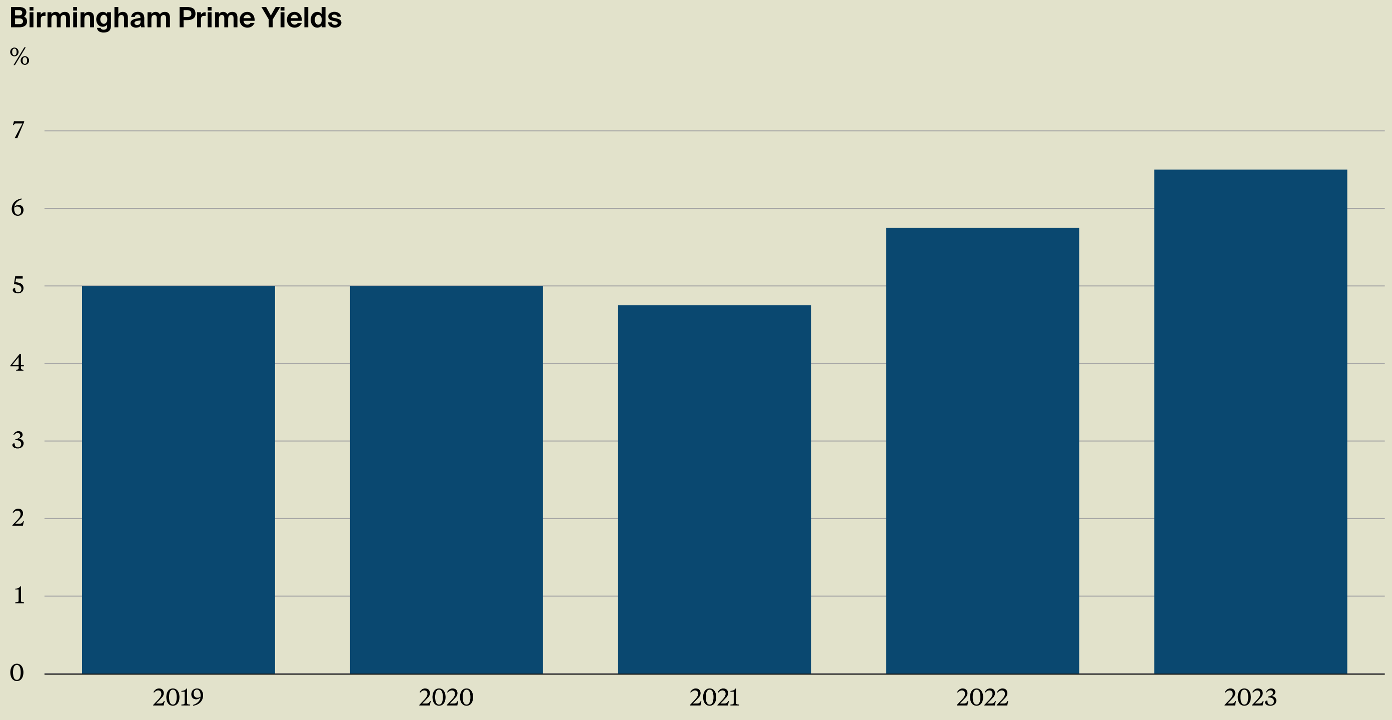
Birmingham Annual Investment



Source: Knight Frank Research, Macrobond

Investment Pricing and Outlook

Pricing to stabilise in 2024?



Source: Knight Frank Research, Macrobond

Key Takeaways

- Prime office yields at year end were 6.50%, reflecting a 75bps outward shift in 2023.
- Out-of-town yields were circa 7.25%, depending on the age and quality of the asset.
- Moving forward, the strength of the occupier market coupled with the projection of a lowering debt cost environment, will mean that investors will be bullish on Birmingham offices in 2024. The result of this is that prime office yields are unlikely to soften further, with contraction possible later in 2024 for the best stock.

Investment View

Market Sentiment

- Many investors remain "off" offices.
- Some pricing discovery is being accepted.
- Yields are set to improve in 2024 as interest rates level off and start to recede and inflation stabilises.
- Some investors seeing the opportunity to buy at this point in the cycle.

Who's Buying, Who's Selling

- Core plus investors are looking at core and value add looking at core plus.
- Traditional property companies are active, with overseas buyer interest growing.
- Limited institutional appetite.
- Two sizeable transactions in Q4 2023 – 1 Newhall Street and the M&B HQ

Opportunities

- Investing in the main regional cities at yields in the 6's presents value.
- Core plus with strong credentials is an opportunity.
- Development is a challenge given build costs and yield levels.
- Alternative uses considered for obsolete assets.

Pricing

- A perfect storm for development resulting in a limited residual site value.
- Prime office yields have moved out by 100bps on average over the past 12 months to their current level of 6.50%.
- Some investors are now seeing value in Regional prime markets.

Questions?

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