Q1 2013 take-up reached 90,767 sq ft, with 58% being in the prime core. This is a 138% increase on the same time last year, with 78% being of Grade A quality.

Grade A availability is in decline particularly in the prime core where stock will be under increasing pressure. Currently prime core Grade A available space is limited to 26% of total stock.

With the lack of Grade A stock and lender caution, we envisage a steady rise in refurbishment activity in Birmingham as we go through 2013/14. Prime yields have remained stable at 6.25% for the whole of last year, and with prime London office yields continuing to harden, Birmingham is increasingly becoming an attractive proposition for UK and international buyers.

"The decline in Grade A stock will fuel a rise in refurbishment activity and generate a increasingly compelling case for the financing and delivery of new Grade A stock."

Nick Williams, Director, Office Agency, Birmingham
Occupational Market

Following on from the strong second half of 2012, Q1 2013 take-up reached 90,767 sq ft, with 58% being in the prime core. This is a 138% increase on the same time last year, with 78% being of Grade A quality. This highlights a ‘flight to quality’ within the core market.

Although the Professional Services sector remains the most active sector in Birmingham (37% in 2012), demand in the Telecoms, Media and Technology sector (TMT) mirrors the national trend in the rising importance of this sector within the office market. We estimate that this sector accounted for 12% of all the leasing activity in Birmingham in 2012 (compared to 5% over the last five years).

Oxford Economics predicts that employment in the technology sector, in the West Midlands, is forecast to grow by 8% over the next five years. This is a clear sign that the region (particularly Birmingham) will benefit from the TMT boom.

Total availability has broadly remained stable but the percentage of Grade A availability has fallen by 4% over the year.

The overall supply and demand relationship is reflective of a general lack of pipeline development and continuing demand for Grade A accommodation.

The majority of available stock is concentrated in secondary buildings/locations with a tightening of prime stock in core locations.

Although Grade A stock stands at 50% of total availability, there are clear signs of a more balanced market going forward. Currently Grade A availability accounts for only 26% of total overall supply.

The market continues to face significant challenges in terms of financing new development. Without the comfort of a significant pre-let, options are limited, despite a compelling supply argument.

Schemes with the benefit of a detailed planning consent are more likely to generate increasing interest, particularly if the potential returns significantly out weigh those available further south.

Inevitably the general lack of new development will fuel more detailed appraisals of refurbishment opportunities. Landlords can take advantage of a clear ‘window of opportunity’.

With the lack of Grade A stock and continued lender caution, we envisage seeing a steady rise in refurbishment activity in the Birmingham core market as we go through 2013 and beyond.

£28.50 remains the best rent in relation to Grade A new build schemes. The restricted pipeline supply should ensure existing levels of rent are maintained in the short term with a return to rental growth a very real prospect from next year onwards.

Given the diminishing options available for Grade A occupiers to relocate within the central core, lease regears continue to offer landlords the opportunity to realise capital value increases whilst giving occupiers the benefit of securing incentives and continued occupation post lease expiry.

However, as Grade A supply reduces further we expect landlords to adopt a more robust negotiating stance as market conditions improve.

Investment

The market will remain polarised with strong demand for prime, well let offices (with or without asset management opportunities) with limited demand for secondary/tertiary assets.

With a number of prime office buildings coming to the market, or available off market, we hope to see some activity by the end of the first half of the year with increased activity towards the latter part of 2013.

UK funds are already looking for opportunities in the regions in order to realise greater returns. Overseas investors are also becoming increasingly acquisitive with investment volumes up 21% last year despite gently declining total volumes in the regions since 2010.

Prime yields have remained stable at 6.25% for the whole of last year, and with prime London office yields continuing to harden, Birmingham is
Despite a challenging few years, we remain firmly of the belief that the market is now at a turning point with Birmingham being well placed to take advantage of the improving occupational and investment market.

According to the latest data, growth has returned to the West Midlands labour market. Birmingham’s office based employment is expected to grow by 0.7% in 2013, and after that will grow by an average of 1.2% pa over the next 5 years. This implies a net increase of 5,500 office-based workers, which in turn will drive a steady level of demand for office space in the city.

The rationale for investing in the regional markets is starting to look more attractive. The yield gap between prime London offices and prime regional office is now over 300 basis points, its widest spread since pre-crisis.

From a leasing perspective the Birmingham office market is beginning to show signs of the predicted undersupply.

Tenant demand continues to gravitate towards better quality space which will ultimately result in rental growth as the supply/demand relationship shifts in favour of landlords/developers.

Trading volumes over the last decade within the CBD total some £3.30 billion with peak to trough being 2006 (£554 million) and 2012 (£154 million).

So with transactions totalling £164 million last year, 2012 on paper was the worst for quite some time and when you consider that approximately 65% of these deals transacted in Q4 2012, the year could have been an awful lot worse, rescued only by a pre Christmas flurry.

Notable deals of 2012 include Baskerville House (sold to Hermes for £40.5 million), The Cube (sold to Tristan Capital for £36 million) and 115 Colmore Row (sold to CLAL for £32 million). What makes these three deals interesting, other than their scale, is that they provide a useful barometer of where we expect the majority of investor appetite to come from this year; namely the UK institutions, overseas opportunity funds (third party private equity) and high net worth individuals/consortiums.

Other investors seeking exposure in 2013 will include the re-emergence of some German funds and perhaps the emergence of some Far Eastern investors, frustrated by the lack of stock and hardening of pricing in London, venturing into the regions looking to capture some comparative value.

The positive yield gap between the risk free rate of return (medium/long term Government bonds) and prime provincial office yields at 500 bp is in our opinion as high as it has been in recent history.

The market however will remain quite polarised with strong demand for prime, well let offices (with or without asset management opportunities) with limited demand for secondary/tertiary assets. All of the above noted, 2013 should prove quite an interesting year with a real weight of money seeking exposure to Birmingham and other key provincial cities.

The real issue therefore is not a lack of money but a lack of the availability of appropriate stock fitting exacting criteria. Increased demand coupled with the lack of supply creates an imbalance which ought to result in yield compression for the very best assets during the course of this year. However this will remain anecdotal until such time as we have transactional evidence to back it up.
Headline stats, definitions and contacts

<table>
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<tr>
<th>Headline statistics</th>
<th>Take-up: Total</th>
<th>Take-up: Prime Core</th>
<th>Top rents (£ per sq ft)</th>
<th>Prime yield</th>
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</thead>
<tbody>
<tr>
<td>Full year 2012</td>
<td>537,672 sq ft</td>
<td>227,943 sq ft</td>
<td>£28.50</td>
<td>6.25%</td>
</tr>
<tr>
<td>Q1 2013</td>
<td>90,767 sq ft</td>
<td>52,886 sq ft</td>
<td>£28.50</td>
<td>6.25%</td>
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Definitions & statistical notes

<table>
<thead>
<tr>
<th>Property criteria</th>
<th>Transactions and supply recorded for units in excess of 3,000 sq ft</th>
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<tr>
<td>Prime Core</td>
<td>Transactions and supply recorded for prime units in excess of 3,000 sq ft in the city centre and Brindleyplace</td>
</tr>
<tr>
<td>Top rent</td>
<td>Highest rent achieved in one or more transactions in the given period</td>
</tr>
<tr>
<td>Grade A</td>
<td>All new development (including speculative schemes reaching practical completion within six months, plus major refurbishments)</td>
</tr>
<tr>
<td>Grade B</td>
<td>Space previously occupied, completed or refurbished in the last 10 years</td>
</tr>
<tr>
<td>Grade C</td>
<td>Space previously occupied, completed or refurbishment more than 10 years ago</td>
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</tbody>
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