

# Birmingham Office Market Overview

## Winter 2008

**The Birmingham occupational market has shown resilience during the first three quarters of 2008.**



NatWest Tower, 103 Colmore Row.

- Birmingham prime core office take-up at the end of the third quarter was a spectacular 606,292 sq ft. Wider CBD take up totals 831,290 sq ft. This has already surpassed the five year average by 49% (five year core average is 408,065 sq ft per annum).
- Total supply fell by 2% during the third quarter and now stands at 1.4m sq ft.
- The highest rent achieved so far this year was £33 per sq ft at the new Snowhill development, which created a new headline rent for the city.
- The Professional sector has dominated take-up, accounting for 51% of the space occupied. This can be, in part, attributed to a 256,000 sq ft deal at Snowhill to Wragge & Co.
- Occupiers' preferences will be increasingly dictated by that of their workers as occupiers aim to attract the best employees.
- Our recent survey of office workers found that there was a preference for more central locations and those with good transport connections.

Savills  
Research

[savills.com/research](http://savills.com/research)

savills

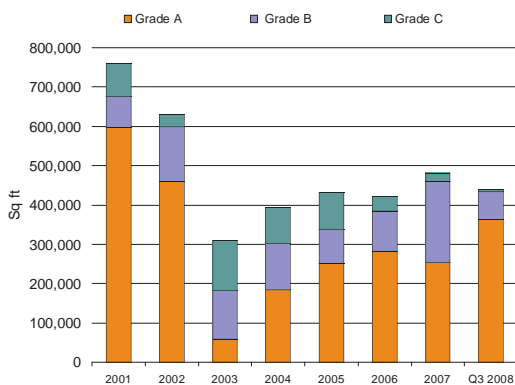
# Birmingham Leasing Market

Due to two large pre-lets at One Snowhill, Birmingham prime office core take-up at the end of the third quarter was a spectacular 606,292 sq ft. Wider CBD take up totals 831,290 sq ft. This has already surpassed the five year average by 49% (five year average is 408,065 sq ft per annum).

Quarter two take-up was the highest quarterly take-up since our records began in 2003. In fact the deal to Wragge & Co, at One Snowhill, is the biggest letting since RBS took space at Brindleyplace in 2001.

2008 has seen a definite bias towards Grade A space with 82% of total take-up in the first three quarters being Grade A.

## Take-up figures are already up 49% on the five year average



Source: Savills

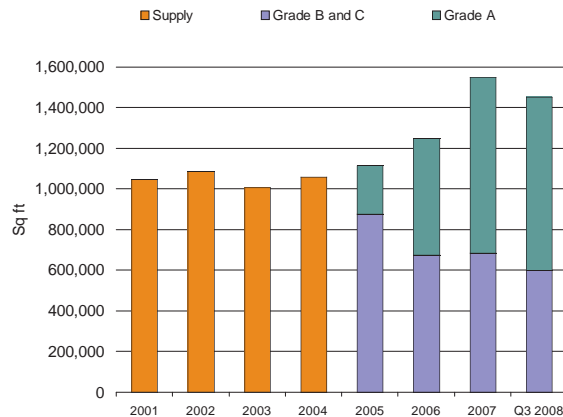
The Professional sector dominated the first three quarters of 2008, accounting for 51% of the space taken up, although this can be attributed to the deal at One Snowhill to Wragge & Co. Interestingly, the Banking sector had the second biggest market share with 17% of the total take-up. This was due, in part, to the 99,000 sq ft deal to Barclays in the third quarter.

Total supply fell by 2% during the third quarter and now stands at 1.4m sq ft. The current vacancy rate is now 12.8%. (11.2% at the end of quarter three 2007). The proportion of the availability that is Grade A now stands at 59% (up from 57% at the end of 2007).

Developments in the city continue as planned with 125,000 sq ft due for completion in 2008, a further 94,000 sq ft in 2009 and 360,000 sq ft in 2010. Encouragingly, with over 600,000 sq ft of requirements active in the market there is an opportunity for much of this 'new' space to be occupied.

The impact on rents will be determined by how much of the latent demand converts into lettings in the next 12 months.

## Total supply fell by 2% during the third quarter



Source: Savills

It will be interesting to see how the impact of empty rates will effect developments. They have certainly focused developers minds on whether to deliver new speculative space to the market and there is possibility of schemes being put on-hold where confidence in a swift letting remains subdued.

A high quality working environment is of paramount importance for organisations eager to recruit and retain the best employees, forcing certain companies to look more closely at their property strategy.

A recent survey looking at workers preferences, carried out by YouGov on behalf of Savills, found that location and workplace related features such as public transport connections and proximity to shops & leisure all appeared in the top 10. It is likely that the Snowhill scheme was an attractive option due to the amenities around the scheme.

Sustainability, which is now evolving as one of the biggest issues affecting the commercial property market, will mean that the 'greenness' of a building is also likely to start to have an impact on the desirability of schemes.

Landlords are aware that having a sustainable building is a great way to promote a scheme and/or the company, so it is not surprising that Brindleyplace and City Park Gate have placed a high importance on achieving BREEAM 'excellence' when developing their buildings.

For example, our survey of workers preferences, which ultimately feeds through to occupier preferences, found a close relationship between employer image and possession of a environmental policy.

Indeed, where respondents of our survey rated employer image as important, 80% placed the same level of importance on an employers possession of an

# Birmingham Leasing & Investment Market

environmental/recycling policy, giving the new schemes in Birmingham a head start when it comes to attracting occupiers.

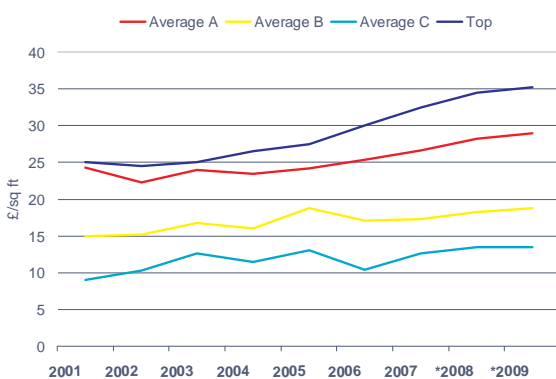
With capital value growth forecasted to be muted over the short term the focus should be on keeping buildings occupied, which has the added benefit of avoiding empty property rates.

So, what does this all mean for rents going forward?

Currently there is still upward pressure on rents on Grade A offices. The best rent achieved in 2008 was £33 per sq ft at the new Snowhill development, creating a new rental high for the city.

Grade A headquarter office buildings situated in prime locations in the city have continued to show good levels of rental growth. The recent expert determination on 2 St Philips Place applied a net effective rent of £27.25 per sq ft on 62,000 sq ft of Grade A offices.

## There is still upward pressure on rents on Grade A units



Source: Savills

\*forecast

Rents on well located Grade A refurbished buildings have also experienced high levels of growth over the past two years with best space now achieving £27.50 - £28 per sq ft on review. This trend has been supported by open market letting activity on prime located refurbished buildings such as 9 Colmore Row where headline rents currently stand at £27.50 per sq ft.

2008 promises to further establish this new net effective tone on prime located headquarter buildings in the city. Similar settlements are expected on 115 Colmore Row (80,000 sq ft) and 5 St Philips Place (65,000 sq ft), which are due for review in December 2008.

It would be naive to think general economic conditions will not start to bite. However, the Birmingham

occupational market has shown resilience during the first three quarters of 2008 with take-up figures already exceeding the five year average. With the size and quality of buildings coming out of Birmingham in the next few years, the market will see Grade A rents become firmly established at £30 per sq ft in 2009, with an opportunity for further growth in 2010.

## Investment Market

Yields have now re-rated in a significant outward direction, consistent with the UK market as a whole and compounded by the global financial turmoil, plus the deteriorating economic outlook.

Prime yields, until the second half of 2007, stood at 4.5%. (from 5.25% a year before). Prime yields now stand at circa 6.35% following Oppenheim's recent transaction of 2 Brindleyplace albeit this deal has been on going for a number of months and it is unlikely that this level could be replicated today. It is our view that prime office yields currently stand at circa 6.75%.

We have seen a number of deals in the secondary office market, whether these are by reference to fringe CBD, short leases, non Grade A specification or suburban office markets to central Birmingham.

While it is difficult to make general comments, it is fair to say that good quality second hand bias with a good letting history have re-rated from 6.5% to 8.5%.

Recent examples include an acquisition at Blenheim Court, Solihull from Tiger Developments. Savills acted on the acquisition.

It is rumoured that the Bank of Ireland building at Brindleyplace is under offer at a yield between 6.25% and 6.75%. This would imply stability at the top end of the market.

Whilst the German open ended funds have been extremely active over the past few months both in London and the regional markets, the appetite for UK investment has now cooled on the back of tightening global debt markets.

Jonathan Holmes, Head of Investment at Savills Birmingham office comments that:

"Investor appetite for core CBD prime product and secondary product where the rent and reletting prospects are positive, will continue to generate significant investor demand even against the current economic background."

# Birmingham Map & Key Contacts



## Definitions

- Grade A:** New developments (including speculative schemes reaching practical completion within the next 6 months).
- Grade B:** Space previously occupied, completed or refurbished in the last 10 years.
- Grade C:** Space previously occupied, completed or refurbished later than 10 years.

Note: We monitor space over 3,000 sq ft.

## For further information please contact:



**Nick Williams**  
Leasing  
0121 634 8401  
nwilliams@savills.com



**Jonathan Ottewell**  
Leasing  
0121 634 8419  
jottewell@savills.com



**Jonothan Holmes**  
Investment  
0121 634 8443  
jholmes@savills.com



**Richard Hughes**  
Landlord & Tenant  
0121 634 8427  
rhughes@savills.com



**Clare Burke**  
Research  
020 7409 8791  
cburke@savills.com

This document is for general informative purposes only. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The report and all its contents are strictly copyright and reproduction of the whole or part of it in any form is prohibited without prior written permission from Savills.

© Savills Commercial Ltd. November 2008

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 180 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

Savills  
Research

[savills.com/research](http://savills.com/research)

savills