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UK Commercial

Spotlight
Birmingham Offices

December 2013

■ Following on from the strong end to 2012, take-up in the first three quarters of 2013 reached 393,113 sq ft (wider CBD totals 512,871 sq ft), with 70% in the prime core. This is a 41% increase on the same time last year. 62% was of Grade A quality.

■ The city has seen a 14% supply fall over the last 12 months, although, more interestingly, Grade A supply in the prime core, has fallen by 20% over the last 12 months and there are currently only two new Grade A buildings offering space over 50,000 sq ft.

■ Oxford Economics predicts that employment in the technology sector, in the West Midlands, is forecast to grow by 8% over the next five years.

■ We expect rental growth for prime space will continue on an upward curve, driven by the lack of Grade A space, as we go through 2014.

■ Birmingham yields are now estimated to be in the region of 5.75%, where they are likely to remain as we move into 2014.

"The re-balance of the supply and demand dynamic will be the catalyst for fund confidence as we go into 2014" Nick Williams, Director, Office Agency, Birmingham

Occupational Market

■ After a challenging few years in the leasing market, Birmingham's prospects are starting to look more positive.

■ 2013 has seen a marked change in confidence in the Birmingham office market, with more optimism around the prospects for recovery and the demand for Grade A office space. It appears that the desire to control property costs is starting to give way to a focus on growing the business and general working environment, witnessed by an increase in take-up as we go into 2014.

■ Following on from the strong end to 2012, take-up in the first three quarters of 2013 reached 393,113 sq ft (wider CBD totals 512,871 sq ft), with 70% in the prime core. This is a 41% increase on the same time last year. 62% was Grade A quality. This highlights a 'flight to quality' within the core market.

■ If the market continues to perform as it has done over the past few months, we expect take-up in the core market to reach around 550,000 sq ft by the end of the year (five year average 460,000 sq ft), and this is a strong indicator that the market is now starting to turn a corner.

■ Take-up levels were boosted by a single deal: Deutsche Bank's 134,000 sq ft letting of Hines and Moorfield's newly refurbished grade A building, 5 Brindleyplace. The last deal of this size was back in 2008, when Wragges took 180,000 sq ft at 2 Snowhill.

■ However, while the improved scale of activity points to improving occupier confidence, it is the fact that Deutsche Bank has moved 2,000 jobs to the city as part of plans to shift their operations out of London, which really sparks interest. With YouGov's recent research showing that a number of companies are starting to be out priced in London, is Birmingham set to attract a number of businesses from the capital?

■ With the differential in rents between London and the regions at an all time high, will we start to see companies move back to the regions? Currently, Birmingham top rents are still 14% down from their peak of 2008, compared to the City of London where rents have already beaten their peak by 17%. Birmingham is at a point in the cycle where it has the capability to become the 'value for money' alternative to London.

■ The Technology, Media and Telecoms (TMT) sector is a major focus for the city's growth plans. Oxford Economics predicts that employment in the technology sector, in the West Midlands, is forecast to grow by 8% over the next five years.

■ There are currently around 7,000 TMT firms in Birmingham, employing c.38,000 people in the regional economy and with small start-ups already being priced out of London, Birmingham's growing tech scene seems a very viable alternative to London.

■ From a supply perspective, the erosion of Grade A supply across the CBD is likely to trigger enquiries from a number of occupiers, with the fear of missing out on key opportunities a likely catalyst to move.

■ The city has seen a 14% supply fall over the last 12 months, although, more interestingly, Grade A supply in the prime core, has fallen by 20% over the last 12 months and there are currently only two new Grade A buildings offering space over 50,000 sq ft.

■ It will only take one more large letting for the re-balance of supply and demand to be evident. With a significant volume of lease events coming up over the next 36 months, one of the big questions concerning the Birmingham office market is where will the 'suitable space' come from to accommodate increasing demand in an increasingly under-supplied market?

■ It is likely to be some time before any speculative development takes place as funding of a speculative nature is still very difficult to secure, but we may see some funding of part pre-let schemes as supply decreases and occupational demand continues to improve.

■ Occupiers need to think ahead to ensure they secure high quality accommodation in the right location, with pre-lets likely to be the only option going forward.

■ Occupiers with lease events coming up in the next three years, will need to start looking early next year, to make sure they secure the best deal.

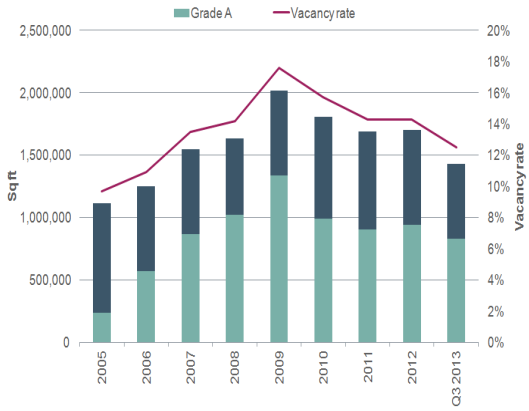
GRAPH 1

Take-up is 41% up on the same time last year

Graph source: Savills Research

GRAPH 2

Availability continues to tighten in the core



Graph source: Savills Research

■ Whilst it is fair to say that Birmingham currently looks like good 'value for money', as the economic recovery really starts to take shape, we will start to see rental growth on prime space.

■ The canny occupier needs to act imminently to get the best deal, as 2% growth on prime rents are expected over the next 12 months. This will be driven by anticipated lack of available Grade A buildings, as we go through 2014.

■ Not only are conditions in the property sector looking encouraging but the city's wider offer is following suit, ensuring the city can compete for more footloose relocations.

■ Alongside the redevelopment of the library, Birmingham city council are also submitting plans for the refurbishment of Centenary Square in the city's enterprise zone, together with projected investment in the extension of the Midland Metro tram line and Paradise Circus.

■ Despite a challenging few years, we are 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 markets.

Investment Market

■ Improving confidence, and the record wide yield gap between London and the regions have seen key regional office markets outside of London witness a resurgence of interest from both UK and overseas investors during 2013.

■ The key theme across the board is strong demand for primary and good secondary assets, with not enough stock available.

■ Recovery in regional markets is usually driven by UK institutions, who appear to have recognised the improving supply/demand dynamic within the city centre, which is resulting in more transactions and seemingly downward pressure on yields to reflect the anticipated rental growth and improving levels of office take-up.

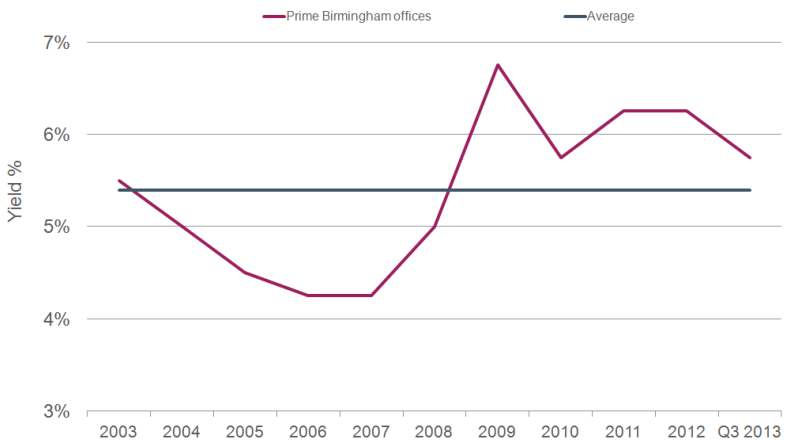
■ As we move into 2014, there will continue to be a limited desire to sell, however, investor appetite for the regions are increasing, and investors are looking more closely at Birmingham as available space reduces with limited speculative space being developed, which could fuel investor interest during 2014.

■ We anticipate that UK institutions and overseas investors will become even more dominant in Birmingham, with a number of developers likely to seek funding on the back of pre-lets as we go through next year.

■ Considering that the pressure on UK funds to buy has intensified, as we head through the final quarter, combined with improving confidence, Birmingham yields are now estimated to be in the region of 5.75%, where they are likely to remain as we go into 2014.

GRAPH 3

Prime yields have continued to move in



Graph source: Savills Research

GRAPH 4

Recent Birmingham investment deals

Address	
One Brindley-place	• Let to Deutsche Bank on an FRI lease with approximately 10.5 years unexpired, at a passing rent of £1,998,000 p.a. (£28.92 psf) • 69,093 sq ft (6,419 sq m) • Long Leasehold interest acquired in August 2013 by Trinova Real Estate Spain for £29.95m reflecting 6.15% NIY
78-90 Colmore Row	• Let to Mills & Reeve LLP on an FRI lease with approximately 11.75 years unexpired, at a passing rent of £677,488 p.a. (24.65 psf) • 30,535 sq ft (2,837 sq m) • Freehold interest acquired in June 2013 by a Private UK Investor for £10.9m re-flecting 5.85% NIY
5 St Philips Place	•Total net internal area - 7,462 sq m (80,331 sq ft). •Rent is £2,285,358 per annum. •Average WAULT of 7.10 years. •Office element let in its entirety to First Secretary of State equating to 76% of the total income. Retail units let to Sainsbury's and Bank of Scotland Plc with one vacant retail unit providing a rental guarantee. 98% let to the UK government or tenants with a D&B rating of 5A1. •Rumoured to be under offer at circa 5.75%
Priory Court, Bull Street	•134,595 sq ft (12,504 sq m) with accommodation on basement, ground and 6 upper floors and 93 secure car parking spaces •Let to Secretary of State and pub on GF let to JD Wetherspoon Plc •A combined passing rent of £4,417,101 pa and a WAULT of 20.12 Years •Quoting £69.13m (6.04%)

Headline stats, definitions and contacts

Headline statistics	Take-up: Total	Take-up: Core	Top rents (£ per sq ft)	Prime yield
Full year 2012	537,672 sq ft	227,943 sq ft	£28.50	6.25%
Q1 - Q3 2013	512,871 sq ft	393,113 sq ft	£28.50	5.75%
End of year outlook	↑	↑	→	→

Definitions & statistical notes

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

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