

Market in Minutes Birmingham Offices

December 2018

The investment market is likely to exceed record levels in 2018

Market Snapshot

■ Birmingham take-up remains strong despite challenges around confidence. The third quarter of the year reached 469,000 sq ft, in line with 10 year average for the first three quarters. We expect the year to end at 800,000 sq ft, 18% above the long-term average.

■ After an extremely strong year in 2017 the Public Sector again made up almost 20% of take-up in the first three quarters of 2018. However, the sector which has 'stolen the show' in 2018 is the serviced office/flexible-workspace sector, accounting for 23% of take-up (see over-leaf). This sector has seen unprecedented growth over the last 18-months.

■ Significant recent deals in these two sectors are the BE Group taking 38,000 sq ft at Somerset House, Temple Street and the Secretary of State taking 36,000 sq ft at the newly refurbished Norfolk House.

■ Robust demand and limited development in the city centre has had a knock-on effect on space available. Grade A supply is now at its lowest level since our records began - with only nine months worth of Grade A supply available.

■ Although the next two years will see a million sq ft come into the supply figures between now and 2020, 59% of this space is let prior-to-practical completion.

■ Top rents have remained at £33 per sq ft during 2018. With upward pressure on rents expected in 2019 and 2020, Birmingham rental growth is forecast to exceed the UK average until 2022.

■ Birmingham's office investment volumes reached £357 million for the first three quarters of 2018 (Graph 3), 19% above the 10 year quarterly average of £300 million.

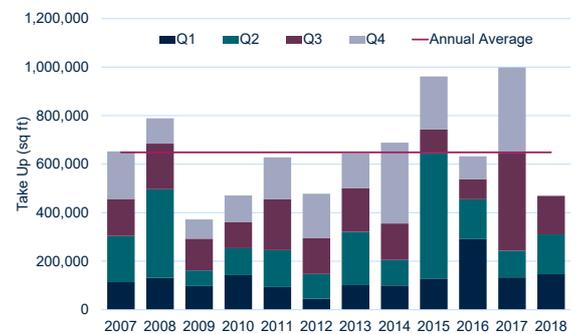
■ Investors are being careful about what and how they buy – but the level of capital waiting to be deployed across the spectrum of office investments remains robust.

■ With the depth of investor interest growing in the regions and a deluge of stock coming on the market to satisfy a number of these requirements, we expect end-of-year investment volumes to exceed record levels seen in 2015 - ending the year at over £800 m.

■ Key deals in 2018 were 55 Colmore Row where The European Cities Fund acquired the building for £98 million, reflecting a yield of 4.9% and 2 Colmore Square where The Railways Pension Trusties acquired the 320,000 sq ft office block for £95 m, representing a yield of 6.4%.

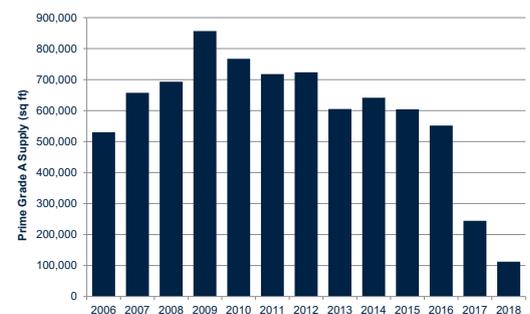
■ Prime yields for the best space remain at 4.75%, which is 75 basis points above the City of London. We expect tightening occupational markets, rising overseas interest and a shortage of openly marketed stock to hold yields firm through 2018.

GRAPH 1
City centre take-up by quarter



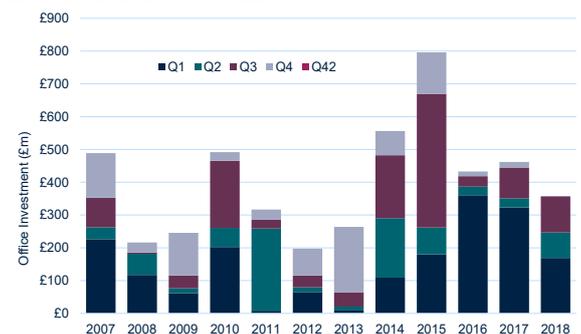
Source: Savills Research

GRAPH 2
Availability



Source: Savills Research

GRAPH 3
Investment volumes



Source: Savills Research

Expert view

Ben Thacker, Director of Office Agency in Birmingham, provides his insight into the growing trend for flexible-workspace within the city.

Serviced offices have become the 'golden sector' over the last couple of years and with Birmingham's growing start-up scene, it is no surprise that flexible space has become more established as a concept in Birmingham. The city has a growing start-up scene and with evidence suggesting that shared workspace drives collaboration and innovation it is crucial to nurture this growing trend. The rise of fast-growing tech start-ups within the city has boosted this market along with the expanding creative industries.

At the beginning of 2017 serviced office providers accounted for 21 per cent of total take up (207,800 sq ft), compared to no transactions in 2016. Serviced offices and flexible workspace contributed to almost a quarter (23%) of take-up in the first three quarters of 2018 and there are still several major serviced office operators not yet present in Birmingham, particularly those providing co-working environments.

We believe co-working space and serviced offices are here to stay and will remain a fundamental part of the workplace offer. Creative workspace is a crucial tool in the battle for talent in the creative industries and Birmingham are doing its utmost to attract and retain 'talent' within the city.



Alpha Works, Birmingham

The picture has changed significantly in 2018 as the city is an obvious choice for those reaching saturation point in London. However, if more occupiers seeking sub-5,000 sq ft space focus on flexible offices, this will present challenges for those at the smaller end of the traditional leasing market. Landlords will need to adapt to stay relevant.

Buildings are now having to cater for differing styles of workspace to include both formal and informal style areas along with the ever growing need for 'amenity'. Increasingly, traditional landlords are also looking at creative leasing solutions to capture this new type of demand.

A great example of this in the city is CEG's Alpha Works. Situated on the top floors of the Alpha Tower - Alpha Works launched in April 2017, providing flexible workspaces for businesses looking to collaborate, create and grow. With an impressive double height reception and event space, breakout areas and fully equipped meeting rooms – members will benefit from superfast broadband/Wi-Fi.

However, what really stands out is its offering of managed space within the building – catering for the jump from hot desks to private offices, enabling the tenant to grow within the building and consequently stay within the city as they expand their business.

Institutional landlords are also now starting to question their leasing strategy, with Legal & General creating a new approach to leasing in the form of a flexible office platform, focused on creating more flexible-leasing. We expect more institutional landlords to follow suit. The platform is branded "Capsule" and will be rolled out within the UK regional offices.

Savills Birmingham Office Agency & Investment

Please contact us for further information



Ben Thacker
Leasing
0121 200 4561
ben.thacker@savills.com



Nick Williams
Leasing
0121 634 8401
nwilliams@savills.com



Andrew Bull
Investment
0121 634 8403
abull@savills.com



Ned Jones
Investment
0121 634 8415
njones@savills.com



Cal Lee
WorkThere
0207 409 8807
cal.lee@workthere.com



Clare Bailey
Research
020 7409 8863
cbailey@savills.com

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