MARKET HIGHLIGHTS

Following its busiest first quarter to date, the office take-up in the Birmingham city core reached 217,295 sq ft in 40 deals during Q2 2016. The level of transactional activity remained strong and was above the five-year quarterly average. When added to the 36 deals totalling 283,697 sq ft in Q1 2016, the half year to date totals 500,992 sq ft in 76 deals. While the average size of transactions in Q2 2016 was lower in comparison to Q2 2015, due to the HSBC lease at 2 Arena Central, a number of deals crossing the line in the first half of 2016 were 10% higher than the H1 2015 transactions.

Considering economic uncertainties in the run-up to the EU referendum, over half a million sq ft take-up represents a very strong first half to the year, setting the city on a record breaking pace to surpass the 1 million sq ft mark and demonstrating the resilience in the Birmingham office occupational market.

In one of the largest office deals in the region so far in 2016, Network Rail secured 85,000 sq ft over three floors at Baskerville House in Centenary Square, bringing its three separate Birmingham offices together. Elsewhere, the Energy Systems Catapult is to move from Birmingham Business Park to 18,000 sq ft office space at Cannon House on Priory Queensway.

The current supply of Grade A office accommodation remains constrained as a result of continued demand for space from the occupiers, as well as the absence of the delivery of new stock before the end of 2016/early 2017. Grade A supply currently represents 227,090 sq ft in the city core and 419,897 sq ft across Birmingham. As a result, the city core Grade A vacancy has declined over the years and it is presently at 6%, while all grade vacancy across Birmingham is now at 12% and 11% in the city core.

Birmingham city core is expected to potentially bring up to 1 million sq ft of new development to the market between 2017 and 2019. The most anticipated scheme is the Stirling Property Ventures/Rockspring prime office scheme of 235,000 sq ft at 103 Colmore Row, formerly Natwest Tower.

Works have also commenced at 3 Snowhill following completion of the speculative funding deal between Ballymore and M&G. This will deliver 385,000 sq ft of Grade A office space Q4 2018 / Q1 2019.
The first schemes to be completed by the end of 2016 include the speculative refurbishment of 55 Colmore Row, the Cornerblock and 1 Newhall Street. 55 Colmore Row will deliver 156,000 sq ft of prime Grade A space to the market, while the Cornerblock will deliver 110,000 sq ft of Grade A refurbished space in Q4 2016. Ardstone Capital is also onsite at 1 Newhall Street (formerly Phoenix House) with an extensive refurbishment, which will provide 45,000 sq ft of Grade A space by Q4 2016.

Grade A headline rents reached £32.50 psf at the beginning of the year, following PwC’s pre-let at One Chamberlain Square. As the impact of EU referendum vote is still being assessed in the market, there is currently no evidence of its direct impact on Birmingham office rents. Assuming the occupier appetite for office space in the city core continues going, reducing vacancy rates, we anticipate prime rents to reach £35.00 psf in the next three years.