Demand for Birmingham office space remained steady in the second quarter, totalling 112,263 sq ft in 27 deals - 18% below the previous quarter and 32% short of the 10-year quarterly average. When added to the 29 deals representing 136,203 sq ft in quarter one, the half year to date amounted to 248,466 sq ft in 56 deals.

With 75% of deals being below 5,000 sq ft, the largest transaction of the quarter was Legal & General’s lease to Hays of 14,221 sq ft at 1 Colmore Square. The recruitment specialist Hays signed for space on the third floor of the 220,000 sq ft building, with quoting rents at £27.50 psf.

As in the previous year, occupier demand in the first six months was dominated by business services (46%), followed by financial (13%), media & tech (9%) and engineering (7%). The number of engineering firms seeking space is expected to increase over the next two years in the wake of HS2. There is understood to be an initial need for at least 100,000 sq ft of offices for satellite engineering services groups that will work alongside the main HS2 contractors.

Despite subdued take-up so far this year, several known transactions are currently progressing, while a number of requirements are at the decision making point. The second half of the year is set for stronger take-up as the Birmingham market is waiting for news on the Government Property Unit’s advanced plans to take 240,000 sq ft of offices at Miller Developments’ Arena Central. The recently secured Royal Assent by HS2 is also likely to be reflected in lettings as the year progresses.

HS2-related office demand is expected to be contract-driven for short-term space with a shelf life of 12 to 36 months. As an example, the Instant Group, the flexible office and managed office space broker, is looking for up to 50,000 sq ft of office space, representing a range of banking, outsourcing and infrastructure clients in the city.

Quarter At A Glance

<table>
<thead>
<tr>
<th>Take-up</th>
<th>112,263 sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of deals</td>
<td>27</td>
</tr>
<tr>
<td>Average Deal Size</td>
<td>4,158 sq ft</td>
</tr>
<tr>
<td>Refurbishments</td>
<td>157,000 sq ft</td>
</tr>
</tbody>
</table>

Figure 1: Birmingham Quarterly Office Take-up

Figure 2: Birmingham Office Demand by Type
SUPPLY

Following years of diminishing availability of prime stock, Grade A supply in the city core increased by a third on the previous quarter, to 446,964 sq ft, with Grade A vacancy raising to 11%. The first six months of the year saw 689,300 sq ft in completed Grade A refurbishments, including 55 Colmore Row (153,000 sq ft), the Cornerblock (112,000 sq ft), 135 Edmund Street (85,000 sq ft) and 1 Newhall Street (45,000 sq ft).

The delivery of new builds at Three Snowhill, 103 Colmore Row, One & Two Chamberlain Square should also help to alleviate the scarcity of Grade A supply by the end of 2019. Additionally, the proposed up to 1 million sq ft redevelopment of the Typhoo tea factory and the surrounding area is due to shape a new creative and technology hub in Birmingham. The 10-acre development site is adjacent to Curzon Street HS2 station and it will consist mainly of Grade A office accommodation, along with SME space, bars, restaurants, artist studios and apartments.

RENTS

Headline office rents in Birmingham stand at £32.50 psf, established last year following PwC’s pre-let at One Chamberlain Square. We expect those rents to surpass its record £33.00 psf as key Grade A office schemes near completion toward the end of 2018. Due to constrained levels of supply, secondary rents are also likely to see an upward movement and we forecast the current £22.50 psf to increase to £24.50 psf by 2021.

Figure 4: Birmingham Office Development Pipeline

![Figure 4: Birmingham Office Development Pipeline](source: Colliers International)

Figure 3: Birmingham City Core Availability

![Figure 3: Birmingham City Core Availability](source: Colliers International)

Figure 5: Birmingham Rents & Forecasts (psf)

![Figure 5: Birmingham Rents & Forecasts (psf)](source: Colliers International)
BIRMINGHAM OUT-OF-TOWN

- Birmingham out-of-town take-up in H1 2017 totalled 158,345 sq ft in 27 deals, which is broadly consistent with long term averages. The average deal size was 5,827 sq ft, while 30% of transactions were freehold purchases, ensuring long term occupation of buildings. The largest deal of the year so far has been BCA Logistics signing a 20,774 sq ft lease at Birmingham Business Park, followed by PKF Cooper Parry’s 17,810 sq ft commitment at Blythe Valley in February 2017.

- H1 2017 attracted a diverse mix of occupiers with no one dominant business sector. While the out-of-town market has traditionally hosted different occupiers to the city centre, those trends are becoming fluid. As an example, Advanced Computer Software Group (ACS), which typically focuses on out-of-town, recently secured office space at the Mailbox in Birmingham city core. Conversely, lawyers Field Fisher and accountants PKF Cooper Perry’s recent commitments at Blythe Valley Business Park demonstrate the reverse trend.

- The high level of transactional activity in the Birmingham out-of-town office market in previous years has depleted supply by 41% since 2009. While in the past developers chose to refurbish the existing space, in the face of limited Grade A stock, new build developments are now being considered. The market will see its first speculative development for almost 10 years, as IM Properties looks to speculatively develop new 15,000 sq ft office space on Blythe Valley Business Park. As Grade A supply remains severely constrained, the only way to secure new office space is to agree a pre-let on a minimum 15-year lease.

- A lack of Grade A office supply in Birmingham out-of-town and continued demand has ensured rental growth in the past few years to the record £23.00 psf in Solihull, which is 5% above the 2008 peak. Solihull still presents a rental discount, with prime rents considerably below £32.50 psf in Birmingham city centre.

- Overall, the remainder of the year is expected to see a steady level of demand, due to forthcoming lease events in 2018, when occupiers begin reviewing alternatives for office space. HS2-related demand is also likely to trigger rental growth as ‘north-shoring’ firms will seek to take advantage of cost-efficiencies in the Birmingham out-of-town market.