

Net Stock Absorption

BIRMINGHAM OFFICES | SPRING | 2007

“Net Stock Absorption measures the difference in physically occupied stock between two points in time.”

Executive Summary

- Net stock absorption of office space in the Birmingham city centre office market has fallen by 3.8% (415,227 sq ft) in the past 12 months. Total occupation stood at 12.2m sq ft at the end of 2005, out of a total office stock of 14.5m sq ft, or an occupation rate of 84.2%. Current occupation stands at 11.7m sq ft, with the occupation rate falling to 81.7%.
- Grade A availability rose by 48% during 2006. The completion of Baskerville House, B1 (197,153 sq ft) and 70,000 sq ft of refurbished space at Cannon House, B4, contributed to the increase. Despite that, grade A occupancy levels rose marginally by 15,000 sq ft to stand at 2.2m sq ft.
- Total office stock fell marginally to 14.4m sq ft, a fall of 97,062 sq ft. The B1 and B2 postcodes saw office stock rise by 3.5%, despite seeing a small fall in the number of existing office units. The overall number of office units across all postcodes fell from 501 to 492 in the course of 2006.
- Take-up for 2006 was the highest annual total for four years, reaching 594,177 sq ft. The figure was achieved in no small part thanks to the 120,000 sq ft pre-let to KPMG at Ballymore's Snow Hill development. The deal does not impact on current occupation and coupled with the lack of expansionary take-up helps to explain the fall in overall occupation levels.

Birmingham submarkets
 City Core B2, B3
 Brindley Place B1
 Eastside B4
 Edgbaston B15-B16



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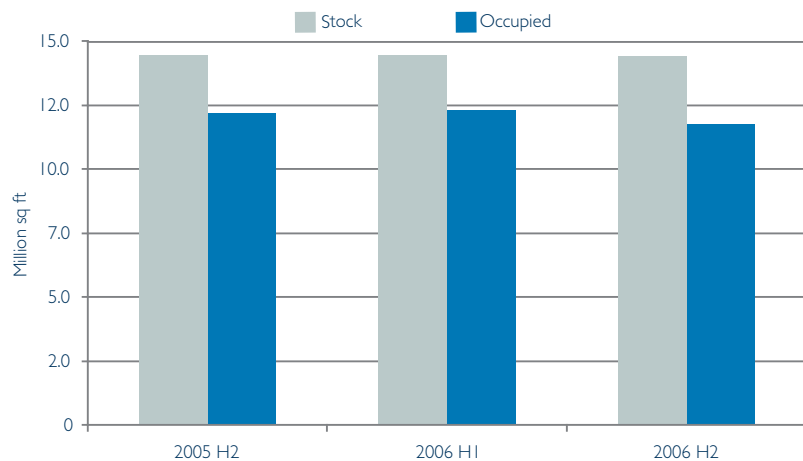
Birmingham Net Stock Absorption

Office occupation levels in central Birmingham have fallen in the past 12 months. In December 2005 occupation of office space stood at 12.2 m sq ft or 84.2% of built office space. At the end of 2006, that figure had fallen by 3.8% to reach 11.7m sq ft or 81.7% of ready to occupy stock.

Much of this fall can be attributed to the lack of expansionary take-up in the city. While the overall transaction level has risen year on year amongst ready to occupy space above 5,000 sq ft, the only major new occupier to the city centre has been the Big Lottery Fund. The public sector grant distributor took 58,200 sq ft at Apex House, B15.

In contrast, the likes of Network Rail, Amey and Weightmans, either moved within the Birmingham market itself or took assignments of existing space from other

FIGURE 1: CENTRAL BIRMINGHAM STOCK AND OCCUPANCY 2005-2006



Source: Colliers CRE

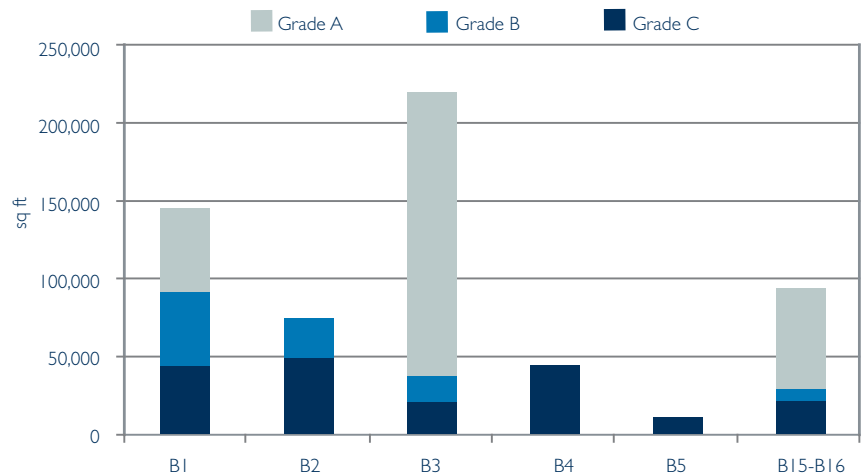
occupiers. In addition, over 390,000 sq ft of office space was withdrawn from office stock either for redevelopment purposes or for

change of the use. 139,999 sq ft at 101 Newhall Street, B3 was lost from office stock through change of use to residential.

Figure 2 demonstrates the lack of grade A take-up in the B2, B4 and B5 postcodes during 2006. There is currently just 47,532 sq ft of grade A availability in those three postcode areas. The majority of current grade A availability, 323,524 sq ft (63%), is located in the B1 postcode. 54,004 sq ft of prime space was let in B1 during 2006, the largest deal of which was the 30,000 sq ft letting to Network Rail at the Mailbox. The Edgbaston market saw grade A take-up rise from zero in 2005, to reach 63,350 sq ft in 2006.

There have been a number of significant withdrawals in the past 12 months. The largest was at 101 Newhall Street, B3. MCD, the developer will add a further two stories to the existing building in order to create 182 luxury city centre apartments. In total, during 2006, 392,000 sq ft was withdrawn from office stock. Nearly 85% of that figure was withdrawn in H2 2006.

FIGURE 2: CENTRAL BIRMINGHAM TAKE-UP BY GRADE 2006



Source: Colliers CRE

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Birmingham Key Postcodes: NSA

Postcode	Vacant space	Stock	NSA	Occupancy rate	Comments
B1	▲	▲	▼	80% (down)	<ul style="list-style-type: none"> Completion of Baskerville House (197,153 sq ft) causing rise in stock level of 4%. Demand up on 2005 figures - 145,809 sq ft. Grade A space accounts for 45% of stock - rise of 4% year on year. No completions scheduled for 2007 - anticipated NSA improvement in 2007.
B2	▲	▲	▼	82% (down)	<ul style="list-style-type: none"> Availability nearly doubled in 2006 - nothing above 20,000 sq ft. Limited pressure on stock. Very little available grade A space. Demand up but limited expansionary take-up.
B3	▲	▼	▼	83% (down)	<ul style="list-style-type: none"> Stock level fall due to withdrawal of 101 Newhall Street for residential conversion. 120,000 sq ft to KPMG at Snow Hill, not impacting upon current occupation levels - overall occupancy down by 172,949 sq ft. Negative stock absorption through lack of demand for ready to occupy space. 2005 (289,000 sq ft) - 2006 (101,228 sq ft).
B4	▼	◀▶	▼	76% (down)	<ul style="list-style-type: none"> Availability down but only marginal decrease (-0.9%). No change to stock levels. 70,000 sq ft withdrawn for refurbishment at Cannon House. Completed prior to year end. Overall occupation level down by 5.4% to 1.7m sq ft. Grade A stock represents 7% of total.
B5	▲	◀▶	▼	92% (down)	<ul style="list-style-type: none"> Stock level unchanged at 983,300 sq ft. Highest overall occupancy level at 92%, still represents a fall on 2005 year end figure. Take-up marked improvement upon 2005 figures.
B15-B16	▲	▼	▲	84% (up)	<ul style="list-style-type: none"> Only postcode sector to see positive NSA growth in 2006. 54 Hagley Road currently undergoing refurbishment. 100,000 sq ft to be launched onto market shortly. Strong take-up of space in Edgbaston area. Take-up tripled in 2006, helping overall occupation to rise by over 4%.

SUMMARY

What is Net Stock Absorption?

Net Stock Absorption (NSA) assesses the change in physically occupied space between one quarter and the next. It measures the impact take-up and availability changes are having on stock levels. Starting with a base level of an accurate stock figure and vacancy for each postcode, we will determine how much space is physically occupied in each postcode. The stock figure will be adjusted through the quarter as stock is removed from supply or new developments complete.

Major and short term withdrawals 2006

Building	Size (sq ft)	Postcode	Build type
101 Newhall Street	139,999	B3	Conversion to residential
54 Hagley Road	100,000	B16	Refurbishment (available April 2007)
Cannon House, Priory Queensway	70,000	B4	Refurbishment (available July 2006)
121-125 Camden Street	25,000	B1	Change of use
25-26 Frederick Street	13,057	B1	Change of use

SUMMARY

Major Grade A Office Stock

- 7-10 Brindley Place - 280,000 sq ft
- The Mailbox, Commercial Street - 199,994 sq ft
- Baskerville House, Centenary Square - 197,153 sq ft
- 5 Brindley Place - 119,999 sq ft
- 4 Brindley Place - 111,999 sq ft
- Victoria Square House - 109,997 sq ft

Major Grade A Office Stock

- One20 Edmund Street - 162,000 sq ft
- Colmore Gate, 2-8 Colmore Row - 199,994 sq ft
- 125 Colmore Row - 141,999 sq ft
- Interchange Place, 169 Edmund Street - 66,318 sq ft
- 9 Colmore Row - 66,116 sq ft
- Cathedrall Court, 5 St Phillips Place - 65,000 sq ft

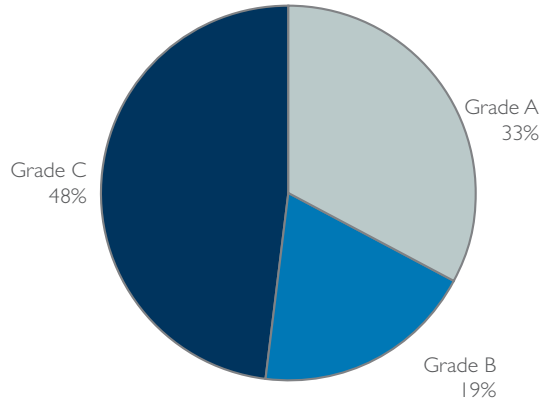
Major Grade A/B Office Stock

- 1 Colmore Square - 200,158 sq ft
- Cannon House - 70,000 sq ft
- Temple Court - 68,456 sq ft
- Maple House, 150 Corporation Street - 44,520 sq ft

Postcode Breakdown

B1-B2

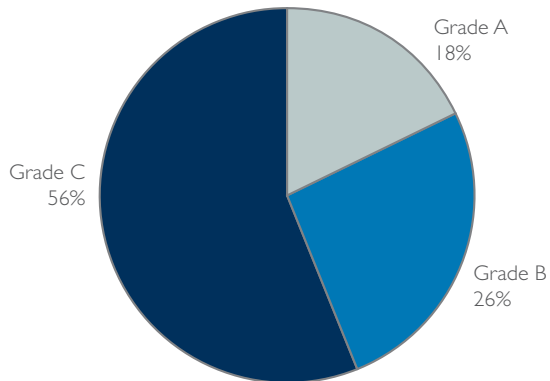
FIGURE 3: EXISTING OFFICE STOCK BY GRADE



Source: Colliers CRE

B3

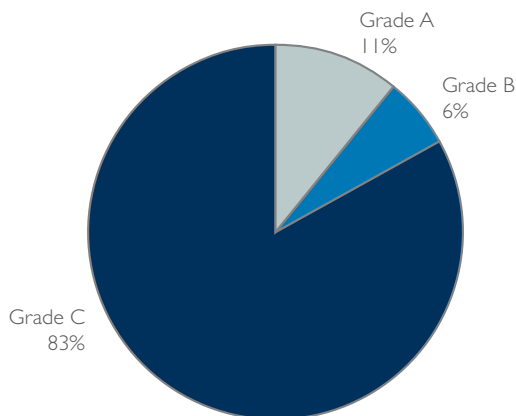
FIGURE 5: EXISTING OFFICE STOCK BY GRADE



Source: Colliers CRE

B4-B5

FIGURE 7: EXISTING OFFICE STOCK BY GRADE



Source: Colliers CRE

SUMMARY

Key Occupiers

- Royal Bank of Scotland - 371,998 sq ft
- Birmingham City Council - 123,302 sq ft
- BT - 119,999 sq ft
- British Broadcasting Company - 100,000 sq ft
- WS Atkins - 91,000 sq ft
- Lloyds TSB - 75,500 sq ft

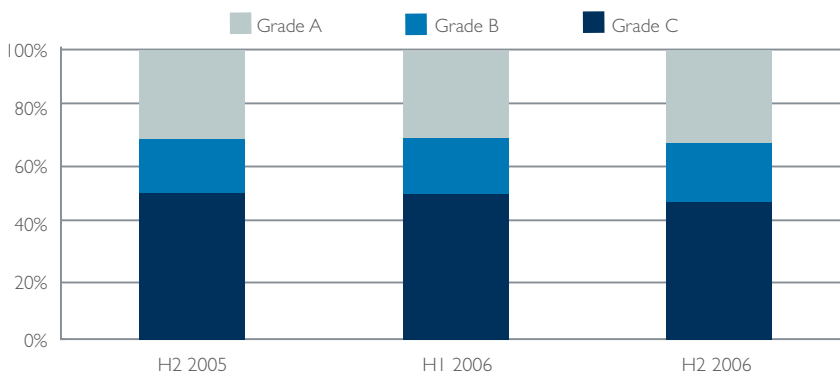
Major Occupiers

- Mitchells & Butlers - 174,376 sq ft
- Wragge & Co LLP - 135,948 sq ft
- PricewaterhouseCoopers - 123,849 sq ft
- Lloyds TSB - 134,248 sq ft
- Birmingham City Council - 129,426 sq ft

Major Occupiers

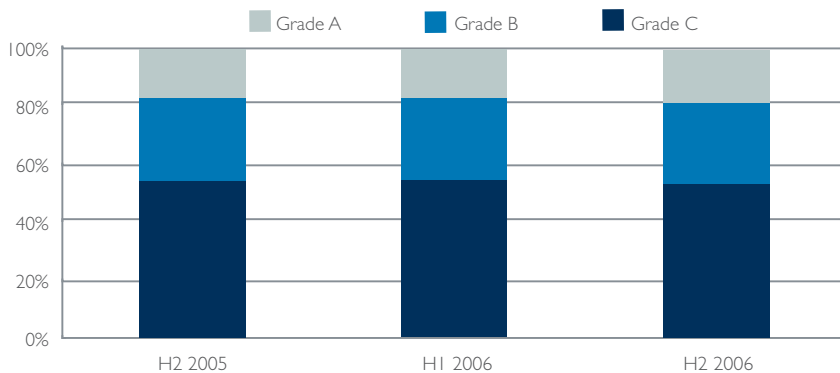
- West Midlands Police - 205,000 sq ft
- Birmingham City Council - 143,295 sq ft
- Department of Constitutional Affairs - 129,999 sq ft
- Martineau Johnson - 76,843 sq ft
- Ernst & Young LLP - 60,008 sq ft
- Pinsent Masons - 60,000 sq ft

FIGURE 4: OCCUPIED STOCK BY GRADE H2 2005-H2 2006



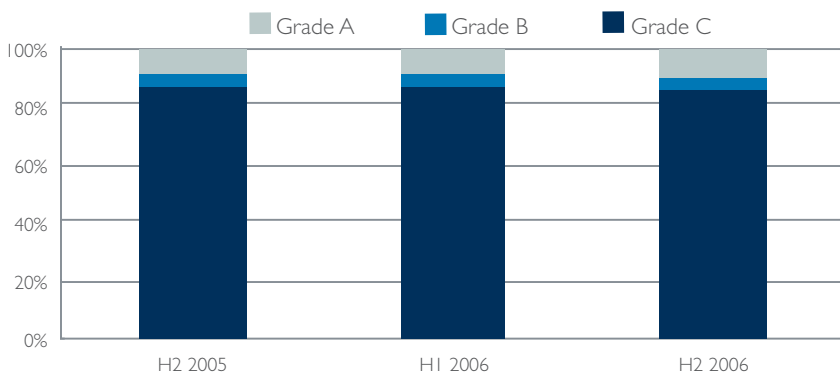
Source: Colliers CRE

FIGURE 6: OCCUPIED STOCK BY GRADE H2 2005-H2 2006



Source: Colliers CRE

FIGURE 8: OCCUPIED STOCK BY GRADE H2 2005-H2 2006



Source: Colliers CRE

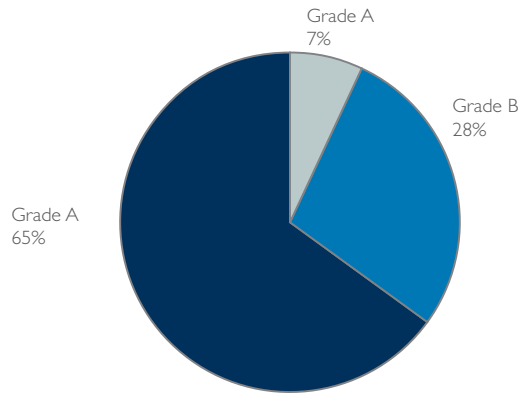
Major Grade A/B Office Stock

- Apex House, Embassy Drive - 57,887 sq ft
- Tricorn House, 51-53 Hagley Road - 139,999 sq ft
- Metropolitan House, 1 Hagley Road - 135,432 sq ft
- Crown House, 123-125 Hagley Road - 85,000 sq ft
- Cobalt Square, 83-85 Hagley Road - 62,894 sq ft

Major Occupiers

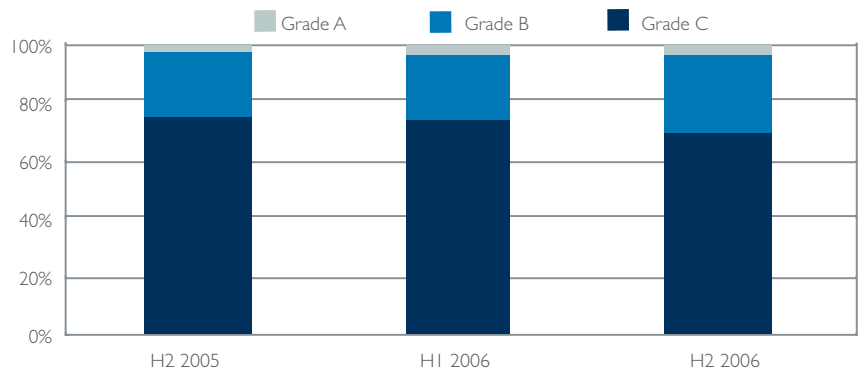
- Department of Work & Pensions - 105,000 sq ft
- Big Lottery Fund - 58,340 sq ft
- Department of Employment - 51,172 sq ft
- Prime Focus - 50,000 sq ft
- Serco Group - 42,000 sq ft
- TP Technologies - 32,733 sq ft

FIGURE 9: EXISTING OFFICE STOCK BY GRADE



Source: Colliers CRE

FIGURE 10: OCCUPIED STOCK BY GRADE H2 2005-H2 2006



Source: Colliers CRE



Conclusion

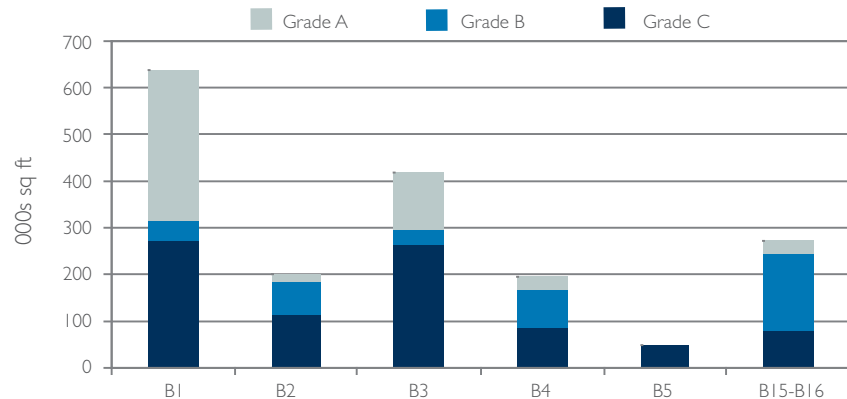
Given the shortage of new supply set to be released on to the Birmingham market during the course of 2007, we would expect occupation levels to improve over the next 12 months. 2007 has already seen 53,000 sq ft go under offer at Targetfollow's Baskerville House, B1. 23,000 sq ft is under offer to FTC Kaplan and Targetfollow itself is set to occupy 30,000 sq ft.

Currently, 50% of available office space in the B1 postcode is of grade A quality (see figure 11). This is available in just five units, the largest of which is Baskerville House. 68,600 sq ft is also available at 1 Brindley Place through a sublease from Vodafone. The relocation of the Big Lottery fund aside, public sector requirements in Birmingham have been in short supply over the past 12 months. Few high profile relocations have stemmed from the Lyons Report and there is little evidence to suggest that will change over the next 12 months.

Nevertheless, recent encouraging news concerned an existing public sector occupier in the City. Birmingham City Council has announced plans to begin a review of its offices portfolio, with a view to reduce the number of properties it occupies. Plans suggest that a requirement of up to 180,000 sq ft for a major new centralised office development may be forthcoming. The Council's likely vacation of obsolete premises at the end of current leases should also serve to free up potential development sites across the city centre over the next few years. Figure 12 shows the limited amount of office space currently under construction.

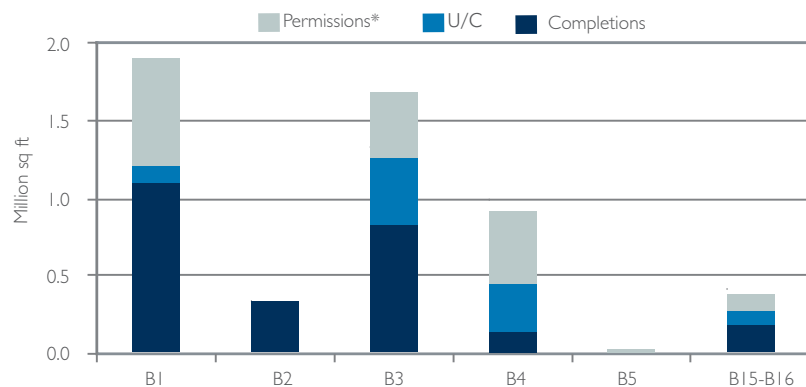
With the lack of brand new development space scheduled to complete in 2007, just 50,000 sq ft at West Midlands Metropolitan Pension Fund's 35 Newhall Street, B3, we would expect to see the trend for refurbishments continuing. Currently, Capital and Counties are responding to the escalating demand in the Edgbaston market by refurbishing 54 Hagley Road, B16, where 100,000 sq ft of office space is set to be brought on to the market in the next couple of months. An anticipated quoting rent of £18.50 psf will put the building at a significant discount to prime units in the Birmingham city core.

FIGURE 11: BIRMINGHAM OFFICE AVAILABILITY BY GRADE AND POSTCODE



Source: Colliers CRE

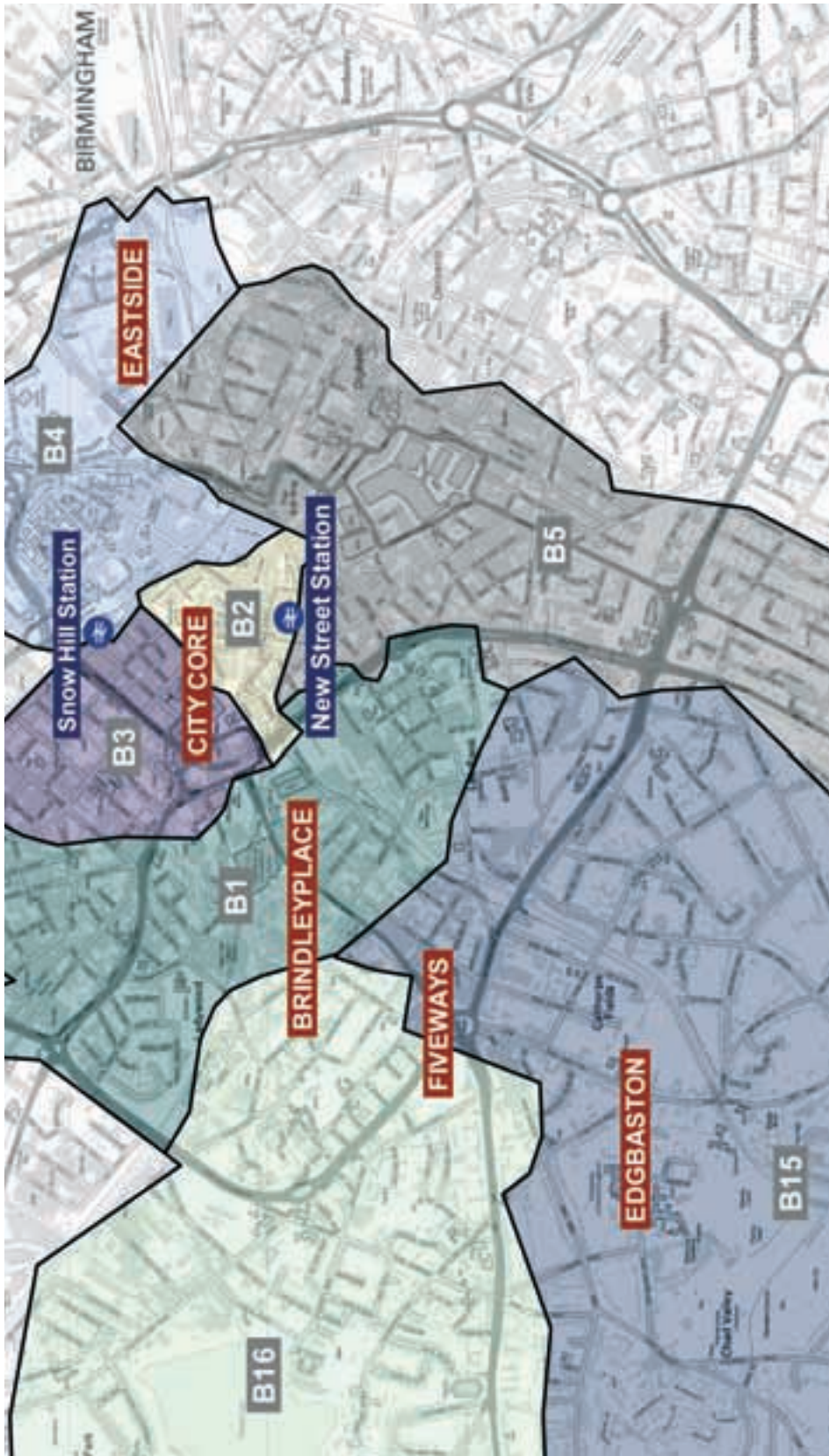
FIGURE 12: BIRMINGHAM DEVELOPMENT PIPELINE 1999-2009



Source: Colliers CRE

	Completions 1999-2006	U/C	Permissions*
B1	1,114,895	107,000	706,994
B2	332,720	0	0
B3	837,350	443,000	431,000
B4	135,345	307,000	480,000
B5	21,851	0	0
B15-B16	174,591	100,000	102,000

* Anticipated to complete by 2009



- This report is produced bi-annually.
- All figures contained in this report relate only to the office market unless otherwise stated.
- All floorspace figures quoted refer to sq ft net.
- Take-up refers to floorspace which has been let, pre-let or acquired for occupation during the quarter.
- Availability refers to all floorspace which is on the market and available for immediate occupation. Speculative development is excluded prior to its completion.
- Prime rents are our view on the highest achievable rent (excluding incentives) at the quarter end, assuming a new air-conditioned 10,000 sq ft unit on one floor in a prime location.

267 OFFICES IN 54 COUNTRIES ON
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Latin America 17
Asia Pacific 53
EMEA 85

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