TAKE-UP

› Central Birmingham office take-up in the third quarter totalled 402,076 sq ft in 25 deals, representing the strongest quarter recorded since Q2 2015 when HSBC took 212,000 sq ft at Two Arena Central. Q3 2017 take-up was boosted by the largest pre-let in a decade, with the UK Government committing to 238,988 sq ft space at 3 Arena Central on a 25-year lease. The office will see around 3,600 public servants move from several existing offices in the city from 2020, including from HMRC and Department for Work and Pensions (DWP). The hub will be the base for one of HMRC’s regional centres.

› The average deal size this year was also above average, 61% higher than the 2016 average of 4,984 sq ft. When added to the 248,466 sq ft in the 56 deals completed in the first half year, Birmingham office take-up has so far reached 650,542 sq ft in 81 transactions, putting the market on track to exceed the 2016 total and match the long term average.

› Occupier demand in the first nine months was dominated by the public sector (42%), followed by business services (29%) and media & tech (6%). Other key professional service sectors also remained active, with transactions in the recently delivered office schemes. As an example, law firms Hogan Lovells and 3PB Barristers secured 23,388 sq ft and 4,898 sq ft respectively in the recently refurbished Colmore Building.

› There has also been an uplift in interest from serviced office operators, such as the Instant Group taking space at the newly refurbished Cornerblock. This shows increasing desire from occupiers for greater flexibility, which is both symbolic of changing occupancy patterns and symptomatic of challenging occupier conditions. With the recent announcement of the key HS2 contractors, the Birmingham office market is likely to witness more contract-driven demand for office space in the coming quarters.

Quarter at a Glance

<table>
<thead>
<tr>
<th>Take-up</th>
<th>Headline Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>402,076 sq ft</td>
<td>£32.50</td>
</tr>
<tr>
<td>Key Deal</td>
<td>Refurbishment</td>
</tr>
<tr>
<td>238,988 sq ft 3 Arena Central</td>
<td>113,000 sq ft the Lewis Building</td>
</tr>
</tbody>
</table>

Figure 2: Birmingham Office Demand by Type

- Government, 42%
- Business Services, 29%
- Legal, 6%
- Media & Tech, 6%
- Financial, 5%
- Engineering, 3%
- Utilities, 3%
- Other, 7%

Figure 1: Birmingham Quarterly Office Take-up

- Q1-Q3 2017
SUPPLY

The third quarter saw the refurbishment of the 113,000 sq ft Lewis Building, bringing Grade A supply to 678,738 sq ft in the Birmingham office market and 372,850 sq ft in the city centre. Following completion of several refurbishments earlier this year, which boosted Grade A supply and increased the vacancy rate to 11%, Grade A availability in the city centre has fallen again by 17% quarter on quarter, while overall vacancy currently stands at 9%.

The anticipated delivery of new office stock, which should help to alleviate the scarcity of Grade A supply by the end of 2019, includes Three Snowhill, 103 Colmore Row and One & Two Chamberlain Square. The recently announced redevelopment of the 42-acre Birmingham Smithfield, the site of the city’s former wholesale markets, will also see delivery of over 3 million sq ft of commercial space, 2,000 homes, 3,000 new jobs and have an investment value of over £1 billion.

In Edgbaston, the city council approved proposals for a £300 million regeneration of a 10.7-acre plot along Hagley Road. The scheme, known as New Garden Square, could potentially deliver more than 600,000 sq ft of office space and up to 400 apartments.

RENTS

Headline office rents in Birmingham remain at £32.50 psf following PwC’s pre-let at One Chamberlain Square in the previous year. Prime rents, however, are expected to exceed the record £33.00 psf in the next 12 months as key Grade A office schemes complete. Due to low levels of supply, secondary rents are also likely to see an upward movement with the current £22.50 psf forecast to increase to £24.50 psf by 2021.
BIRMINGHAM OUT-OF-TOWN

- Birmingham out-of-town take-up in Q3 2017 reached 78,452 sq ft in 10 deals, bringing the total take-up to 209,462 sq ft for the first three quarters, which is broadly consistent with long term averages. The average deal size in Q1-Q3 was 6,400 sq ft in 37 deals, while 40% of transactions were freehold purchases, ensuring long term occupation of buildings. In what was the largest office letting in the M42 corridor area this year so far, Gymshark signed a 10-year lease for a 42,408 sq ft two-storey office at Trigen House, Blythe Valley Park. The gym-wear brand will move from its existing premises in Redditch in March 2018.

- Strong office demand in the Birmingham out-of-town office market in the previous years has depleted supply by 47% since 2009, while the vacancy rate currently stands at 10%. In the face of limited Grade A stock, new build developments are now being considered instead of refurbishing the existing space. The market will see its first speculative development for almost ten years on Blythe Valley Business Park, where IM Properties will speculatively develop a new 15,000 sq ft unit.

- 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 in comparison Birmingham city centre, however, those rents are set to continue rising over the next 12 months, as well as upward pressure on rents for refurbished office accommodation.

- Going forward, the Birmingham out-of-town market is likely to attract further HS2-related demand as ‘north-shoring’ firms will seek to take advantage of cost-efficiencies in the area. The forthcoming lease events in 2018, when occupiers begin reviewing alternatives for office space, are also expected to boost take-up in the coming year. However, the availability of high quality stock will prove crucial to satisfying the ongoing demand for offices in the area.