

BIRMINGHAM | OFFICES

Q1 2018

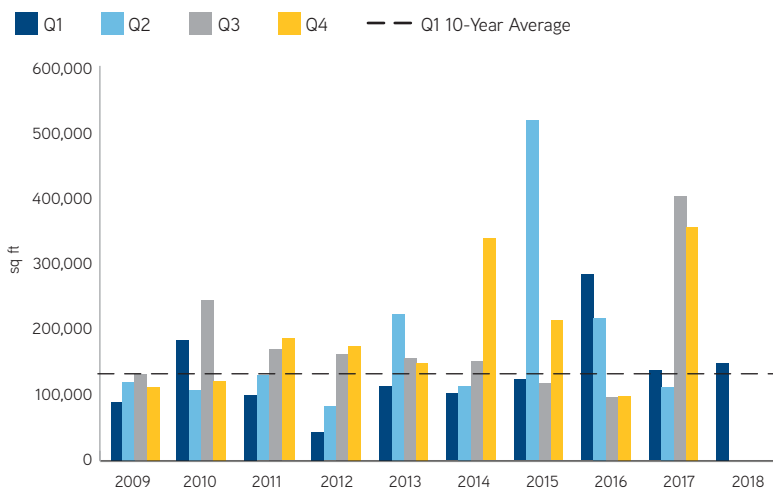
TAKE-UP

- Central Birmingham office take-up in Q1 2018 totalled 148,483 sq ft in 22 deals. It represents a healthy start to the year, following record take-up in 2017, with the vast volume of deals taking place in the second half of the year. In terms of business types, engineering accounted for 34% of demand in the first quarter, followed by business services (24%) and transport (15%).
- Birmingham continues to attract significant occupier interest as a result of HS2, particularly from companies in the rail and construction sectors, and further government department relocations. In the key deal of the year so far, the engineering consultancy firm WSP chose 46,100 sq ft of newly refurbished space at Mailbox as their West Midlands' regional headquarters, with a further option to increase the letting up to 55,000 sq ft. West Midlands Trains also relocated its Birmingham headquarters to 134 Edmund Street, where it secured 21,743 sq ft from landlord TRIUVA.

Q1 2018 at a Glance

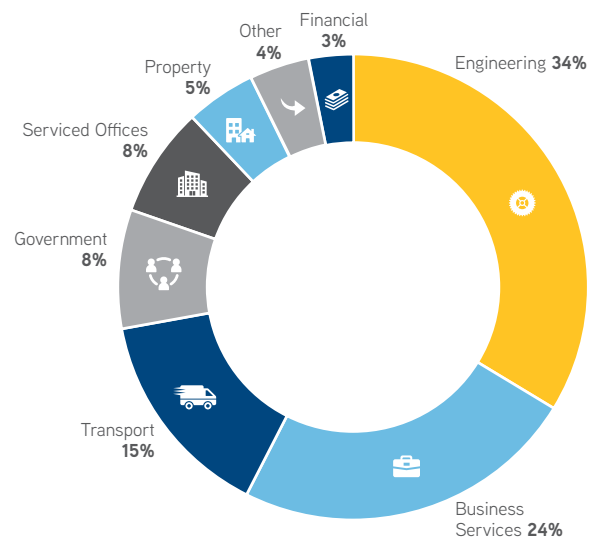
 Take-up 148,483 sq ft	 Prime Rent £32.50 psf
 Key Tenant WSP	 Grade A Vacancy 6%

Figure 1: Central Birmingham Quarterly Take-up



Source: Colliers International

Figure 2: Q1 2018 Central Birmingham Demand by Type



SUPPLY

- Existing Grade A office availability in the city core represents only circa 230,000 sq ft, while vacancy is just under 6%. The supply levels are expected to be eroded even further for the next 12 to 18 months, until the next big tranche of speculative office space is delivered, most notably at Three Snowhill and Two Chamberlain Square. Work on 223,000 sq ft 103 Colmore Row, Birmingham's tallest office tower on the site of the former NatWest Tower, is also set to start in the coming months.
- The Birmingham central business district will undergo expansion, with new distinctive districts emerging as a result of HS2. Other developments, such as the 42-acre Birmingham Smithfield is planned to deliver over three million sq ft of commercial space. In Edgbaston, the city council also approved proposals for the £300 million New Garden Square, which could potentially accommodate more than 600,000 sq ft of office space.

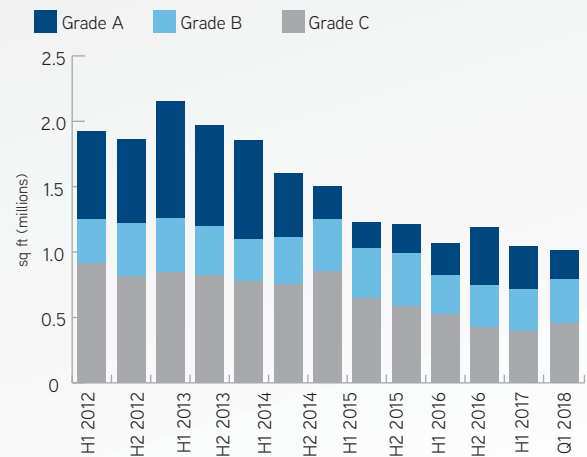
RENTS

- Headline office rents in Birmingham remain at £32.50 psf and those are likely to exceed £33.00 psf in the coming year as key Grade A office schemes complete. The ever-decreasing supply could also see prime Grade A rents reach £34.50 psf by 2021. Due to low levels of supply, secondary rents are also likely to see an upward movement from the current £22.50 psf to £24.50 psf by 2021.

INVESTMENTS

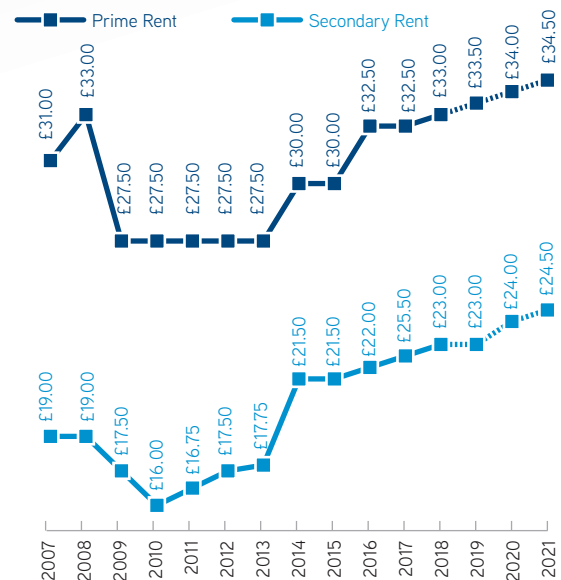
- Birmingham has benefited from substantial regeneration and inward investment in recent years of circa £1 billion, raising the city's business profile and attracting global companies. The first three months of the year saw £163 million invested in Birmingham office assets, 25% above long term Q1 average.
- The city continues to attract overseas capital, which accounted for 59% in the first quarter of the year. In the largest transaction, the recently refurbished 55 Colmore Row was acquired for £98 million by TH Real Estate for its European Cities Fund. Its previous owner, IM Properties, carried out £30 million refurbishment of the office in 2017. Royal London Asset Management (RLAM) also completed the purchase of 5 St Philips Place for £45 million, reflecting a net initial yield of 4.70%.
- Prime office yields remain at 4.75%, in line with the prime regional average. We expect yields to remain unchanged for the remainder of the year as investors continue to look at regional cities away from London.

Figure 3: Birmingham City Core Availability



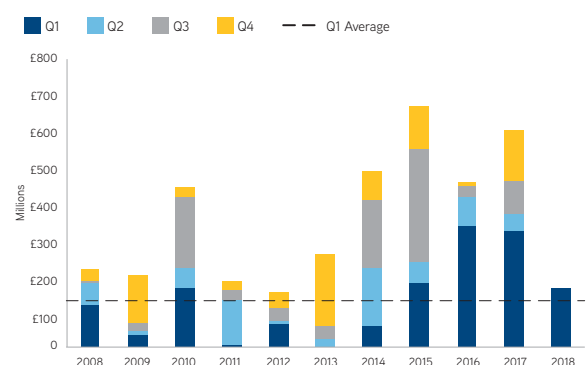
Source: Colliers International

Figure 4: Birmingham Rents & Forecasts (psf)



Source: Colliers International

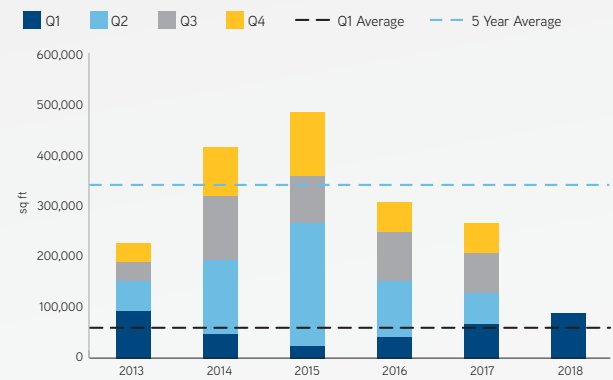
Figure 5: Birmingham Office Investment Volumes



BIRMINGHAM OUT-OF-TOWN

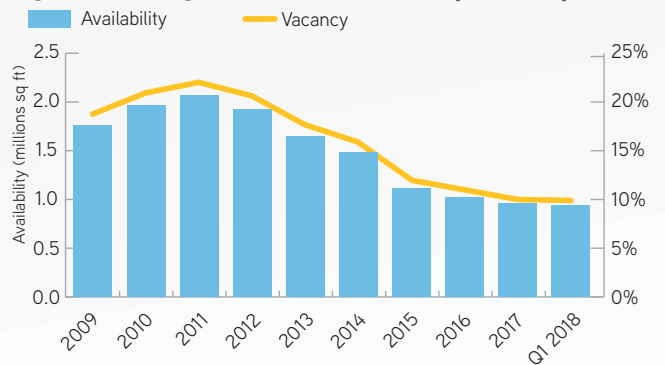
- Q1 2018 Birmingham out-of-town take-up was 91,055 sq ft in 13 deals, surpassing the long term quarterly average. There were four deals over 10,000 sq ft in the first three months, which increased the average deal size to 7,000 sq ft. The largest transactions include Beiersdorf's 25,200 sq ft letting at Trinity Park, while Bizspace acquired 23,749 sq ft freehold at Zenith.
- Strong office demand in the Birmingham out-of-town office market in the previous years has reduced availability by 47% since 2009, while putting downward pressure on vacancy rate to just under 10%. In the face of limited Grade A stock, new build developments are now being considered instead of refurbishing the existing space. The first speculative development for almost ten years is set to complete at Blythe Valley Business Park, where IM Properties is developing 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 remainder of the year. However, the availability of high quality stock will prove crucial to satisfying the ongoing demand for offices in the area.

Figure 1. Birmingham Out-of-Town Take-up



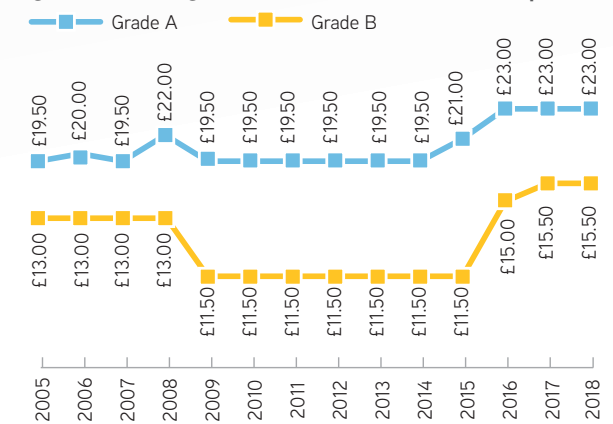
Source: Colliers International

Figure 2. Birmingham Out-of-Town Availability & Vacancy Rate



Source: Colliers International

Figure 3. Birmingham Out-of-Town Prime Rents (psf)



Source: Colliers International

FOR MORE INFORMATION

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