



Office and industrial market review 2016

- Birmingham city centre
- Solihull and M42 corridor
- West Midlands (industrial)
- Outlook for 2017

Office review of 2016

Birmingham city centre

A year of two halves

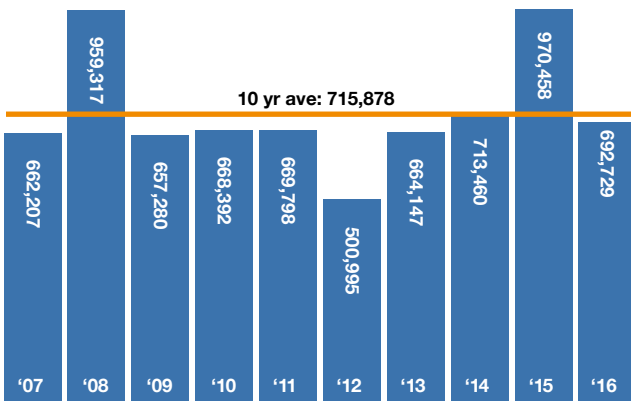
The biggest news for the city this year is that development levels are at their highest rate for 15 years. With the old Paradise Forum now levelled and the new Paradise project well under way, the landscape of the city is changing.

At the year's halfway point, it looked as if the central Birmingham office market was on course for another record year, with 499,792 sq ft transacted. Unfortunately, transactions completed in the second half of the year only totalled c. 200,000 sq ft, ending the year at 692,723 sq ft, just below the 10-year average figure.

Lettings to PWC of 90,000 sq ft at One Chamberlain Square, and 83,406 sq ft to Network Rail at Baskerville House supplied the year's 'hero deals' in Q1 and Q2 respectively.

Brexit is an obvious factor in the reduced second half take-up. However, this had little or no impact on the out-of-town market, and a number of known city centre deals simply failed to complete legals within the calendar year.

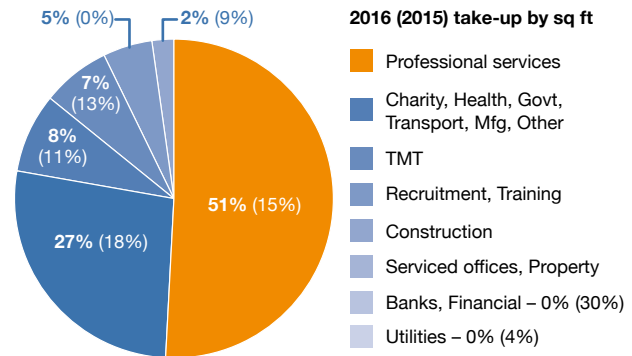
Annual take-up (sq ft)



Key transactions

- **PWC** – 90,000 sq ft at One Chamberlain Square
- **Network Rail** – 83,406 sq ft at Baskerville House
- **Pinsent Masons** – 40,538 sq ft at 55 Colmore Row
- **DAC Beachcroft** – 40,045 sq ft at Tricorn House

Business sector analysis



Bolstered by lettings such as PWC, professional services represented the largest sector of occupiers taking space in 2016. Last year, banking and financial services represented the largest sector of occupiers taking space, driven primarily by the letting of 212,000 sq ft at 2 Arena Central to HSBC.

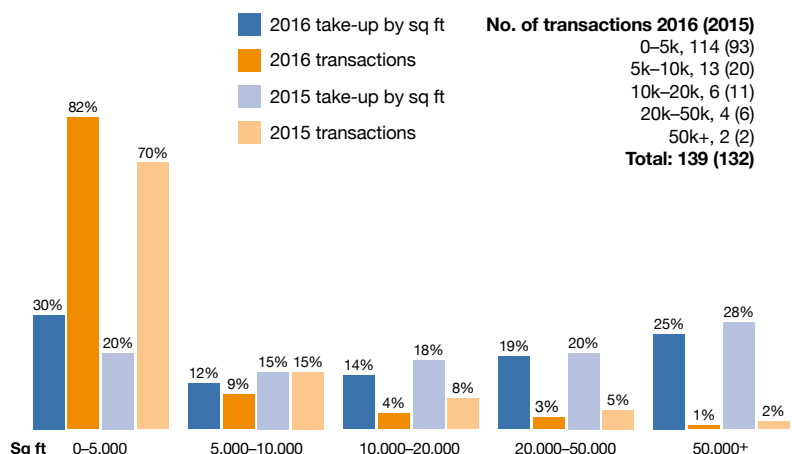
HS2 halo effect

Royal Assent has only just been given for the HS2 project, but recent transactions in the Birmingham office market show that 'the wheels had already been turning'. Laing O'Rourke and Galliford Try's relocations to the city centre in 2016 are regarded as direct reactions to the forthcoming train line, and they join a short but significant list of other inward investors that have moved to the city centre since Two Snowhill was selected as the HS2 headquarters.

Transactional analysis by size bracket

This year, whilst we see fewer transactions above 5,000 sq ft, there is a significant increase in the 0–5,000 bracket. This led the market to achieve more lettings this year than in 2015. As with the previous year, and as is generally to be expected, this bracket was the most active, and this year provides the largest contribution to the overall square footage, 206,149 sq ft or 30% of the total.

Lettings in the larger size brackets are particularly lacking in the second half of the year, and their absence significantly contributes to the size of the Q3 and Q4 totals.





Birmingham Curzon Street HS2 Station

Office space availability

The amount of Grade 'A' office space currently available stands at around 550,000 sq ft, which equates to c. 10% of total Grade 'A' stock and just 3% of all central Birmingham office stock. Of this, only 130,000 sq ft is considered 'new' Grade 'A', and 104,000 sq ft of this is provided at just one property – The Colmore Building.

There are three buildings under construction, totalling 849,000 sq ft. One and Two Chamberlain Square, Paradise will provide 429,000 sq ft, of which a minimum of 90,000 sq ft at One Chamberlain Square has been pre-let to PWC.

The remainder will be provided at Three Snowhill, where 180,000 sq ft will be completed to Grade 'A' specification and the balance finished to 'shell and core'.

Grade 'A' under construction/refurbishment	Sq ft
Completing 2017	
10 Temple Street	34,000
Completing 2018	
Three Snowhill	360,000
One & Two Chamberlain Square	339,000
Total	699,000
Completing 2019+	
103 Colmore Row	284,000
Post & Mail	234,000
Total	518,000

Rental levels

Prime office rents in Birmingham peaked at £33 per sq ft in 2008, before dropping back during the recession. They have since recovered, with prime rents now standing at £32 per sq ft. With Royal Assent for HS2 now granted, its 'halo effect' should continue to attract further occupiers, both directly and indirectly.

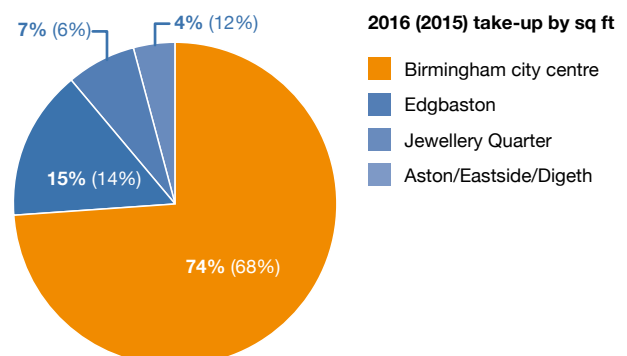
With Royal Assent now given, we expect to see an intensifying of the **HS2 halo effect**.

'Hipster' space

For the first time in Birmingham's office market history, we are seeing an increasing number of properties offering aesthetic interior features such as exposed brickwork and services. The identities of these buildings, akin to what we see in areas of London such as Shoreditch, hold currency for a select area of the market, which consists predominantly of companies in the TMT sector. The city has seen an increasing number of shops and restaurants that demonstrate this trend in recent years, catering for the Millennial demand, and now we see the office market following suit.

Location analysis

The city centre, Edgbaston and Jewellery Quarter, respectively, increased their share of total square footage, at the expense of Aston/Eastside/Digbeth which, last year, was bolstered by the education sector.



Office review of 2016

Solihull and M42 corridor

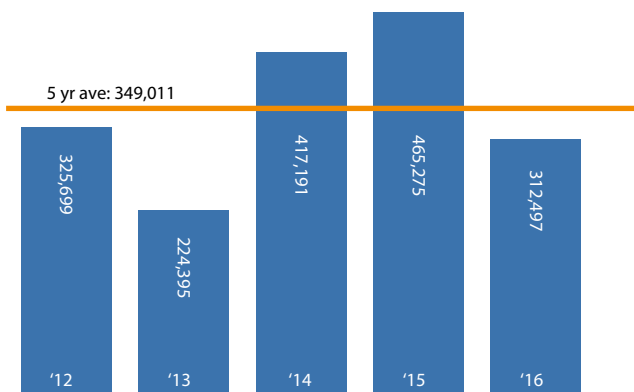
Defiantly consistent

Where in Birmingham city centre, we saw a sharp contrast between the two halves of the year, Solihull and the M42 corridor achieved almost exactly the same amount of square footage in both halves. The 312,497 sq ft total transacted in the year was made up of 154,341 sq ft in HY1 and 158,156 sq ft in HY2.

When you consider how visible it is in the city centre's figures, where HY1 accounted for 72% of the year's total, an impact of the Brexit vote is far harder to determine in the transaction figures of the Birmingham out-of-town office market.

Generally speaking, the market for offices in Solihull and the M42 corridor has seen a more sustainable level of take-up than that of the city centre. This year is down on 2015's total take-up, which saw two landmark deals – 114,000 sq ft at International House, an off-market letting to Interserve, and a sale of 80,000 sq ft at Parkside on Birmingham Business Park to Changan. However, if these are removed from the equation, we see a very similar level of activity between 2016 and 2015.

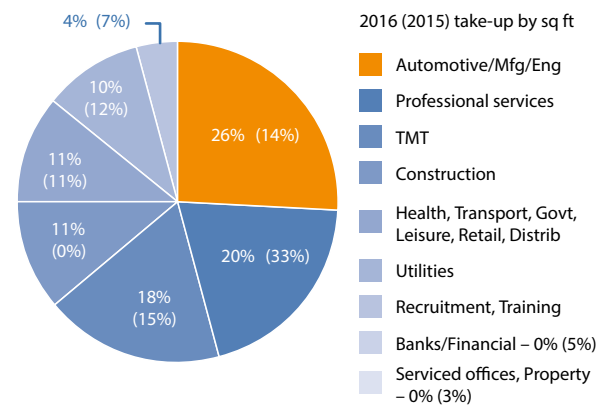
Total take-up (sq ft)



Key transactions

- **Uniper** – 32,692 sq ft at 2300 The Crescent, Birmingham Business Park
- **Occupier not disclosed** – 26,498 sq ft at 2920 Trident Court, Birmingham Business Park
- **Phoebus Software** – 14,967 sq ft at Lansdowne Gate, Solihull
- **Caterpillar Financial Services** – 13,811 sq ft at Friars Gate, Solihull
- **Canon UK** – 11,989 sq ft at 3180 Park Square, Birmingham Business Park
- **MWH** – 11,952 sq ft at One Paper Mill Drive, Redditch

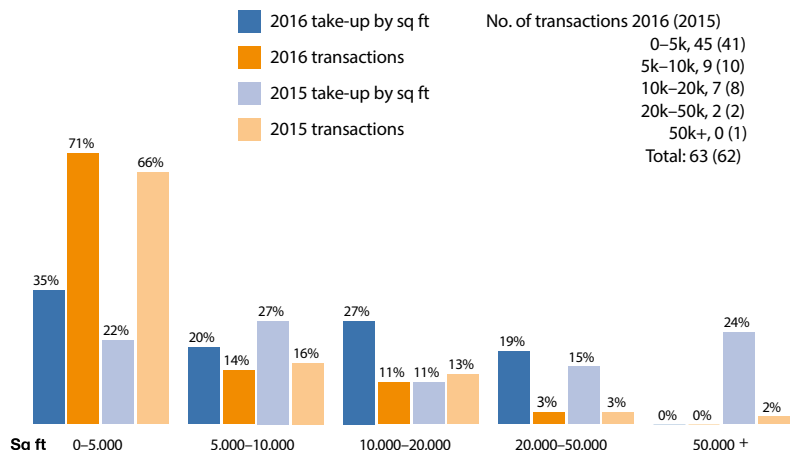
Business sector analysis



In 2015, professional services was the business sector that accounted for the largest share of take-up, bolstered by the off-market pre-let of 114,000 sq ft to Interserve at International House. However, in 2016, automotive, manufacturing and engineering accounted for 26% of the sales and lettings in Solihull and the M42 corridor. This business sector always holds a significant position in this respect, due to the size of JLR's operations in the area.

Transactional analysis by size bracket

We see a similar pattern of transactions with regard to size bracket as we did in 2015, the key difference being the absence of a landmark 50k+ sq ft deal. Instead, the 0-5k sq ft bracket represents a far higher proportion of the overall number of transactions, at 35%, compared with 22% in 2015. Also, the 10-20k deals, whilst similar in number, were larger in size and equated to a 27% share in 2016 (12% in 2015).



Generally speaking, the market for **offices in Solihull** and the **M42 corridor** has seen a **more sustainable** level of take-up than that of the city centre.

New stock

We now face a situation, within the Solihull and M42 market, where there is no brand new Grade 'A' office space available. Property developers have, instead, moved to refurbish the stock that remains unoccupied, to dispose of this before considering any new development. The only current way in which an occupier can acquire new space is to agree a pre-let. With new build costs at c. £145 per sq ft on gross internal area, then rents of at least £23.50 per sq ft and at least 15-year certain lease terms will be required.

Refurbished stock

Notably, Canmoor has done, and continues to do, an excellent job of refurbishing the available space on the Birmingham Business Park portfolio, and that has both secured new occupiers and put much needed space into the market. However, demand still outstrips supply.

Grade 'A' under refurbishment	Sq ft
Completing 2017	
One Central Boulevard, Blythe Valley Park	40,000
2800 The Crescent, Birmingham Business Park	30,000
Trinity Central, Solihull	23,000
2650 Kings Court, Birmingham Business Park	17,000
Total	110,000

Rental levels

This gap between demand and supply has nudged quoting rents upwards in 2016. The pre-let of 15,000 sq ft on Blythe Valley Park to Prologis, announced at the end of 2016, is anticipated to be in excess of £23.50 per sq ft – representing the market's highest rental level since 2009. Setting this precedent is expected to drive rents on in the area.

UK Central and Arden Cross

With Royal Assent now given for HS2, the regeneration projects of Arden Cross and UK Central take a step closer to becoming a reality. Arden Cross is a mixed-purpose development, proposed to surround the HS2 Interchange station. The development will consist of residential, retail, industrial and commercial space.

At this point, however, UK Central and Arden Cross do not pose a viable solution to an occupier that has an existing or upcoming requirement. The fundamental drought in office space in the Birmingham out-of-town office market can be met, in part, by the development opportunities at existing business parks, with Blythe Valley Park offering a million sq ft of outlined, but undeveloped, space and Birmingham Business Park offering 500,000 sq ft.



“Looking ahead, our plans for ‘UK Central Solihull’ are gaining momentum, capitalising on the opportunity that the HS2 Interchange station presents, in addition to significant development and investment in infrastructure across the area. To realise the growth ambitions in this area, known as the ‘Hub’, we have established an Urban Growth Company to drive development and deliver £1bn of infrastructure investment to create a truly compelling and globally connected destination.”

Anne Breerton Director for Managed Growth & Communities, Solihull Metropolitan Borough Council



With demand increasing, high quality refurbishments continue to be snapped up quickly.

2017 outlook for offices

Birmingham city centre

We anticipate some significant lettings in the coming months. The much reported HMRC requirement is anticipated to see a letting of 200,000-300,000 sq ft this year, with the relocation programme amounting to close to 1,000,000 sq ft of lettings over the coming years.

With Royal Assent now given for HS2, we expect to see an intensifying of the HS2 halo effect. So far, we have seen several companies relocate to Birmingham city centre and close to the HS2 headquarters at Two Snowhill. These companies are either in, or seeking to be in, the HS2 supply chain, or are attracted by the anticipated economic growth that the line will bring.

Headline rents on the best quality, new, Grade 'A' office stock are expected to hit the pre-2008 recession high of £33 per sq ft.

Solihull and M42 corridor

Office space continues to run dry and rents will increase – following in the footsteps of the pre-let to Prologis. There are still significant opportunities to occupy high quality office space in the area, in the thoroughly refurbished units that have come to market, and these are likely to be snapped up very quickly.

Occupiers that are looking for new space at this point, their only option is a pre-let or to identify a design and build opportunity, which could be fulfilled at existing sites such as Birmingham Business Park and Blythe Valley Park. Occupiers that decide to take this course may need to re-gear, and extend their existing lease in order to wait for their new development to be built.

UK Central and Arden Cross plans will become more of a prospect, following Royal Assent on HS2, and they represent the most exciting development in the Solihull area for a long time. Should these developments come to fruition, they will supply the market with much needed, new Grade 'A' office space.

Industrial review of 2016

The Midlands

Industrial marches on

Despite the market's best endeavours to produce as much new industrial and warehousing stock as possible, supply still falls short of the current insatiable demand.

There are as many pre-lets occurring as there are lettings of new buildings. Whilst some occupiers require a specific type of building that would preclude them from taking an existing building, the majority of transactions have had to pursue the design and build route because the type and grade of available stock is not sufficient for their purposes.

Key design and build transactions

- **Screwfix** – 562,000 sq ft, Prologis Park, Fradley
- **Sainsbury's** – 325,000 sq ft, Prologis Park, Northampton
- **Palletforce** – 260,000 sq ft, Burton-on-Trent
- **Amethyst** – 210,000 sq ft, Wellesbourne Distribution Park
- **Dwell** – 151,000 sq ft, Prologis Park, Milton Keynes
- **Birlea Furniture** – 74,000 sq ft at East Midlands Distribution Centre, Castle Donington
- **Hellerman Tyton** – 63,000 sq ft, Kingswood Lakeside, Cannock

Yields have sharpened to a point

We may see yields soften in some areas. This will not be on prime stock, as there are only so many prime distribution locations in the country, and these will continue to attract really strong yields. Perhaps, the slightly secondary markets will soften by a quarter to half a point. There is no lack of appetite for prime investments.

Smaller stock is thin on the ground

On the smaller side of the market, in the multi-let industrial estates, the only real availability of buildings is coming from those occupiers who were acquiring space c. 2011. These occupiers have enjoyed the last 5 years on really advantageous terms – due to where the property market was at, at time of signing the lease. They are now facing lease renewals with rent increases of 30-50%. As a result, some of these units are coming back to market and are snapped up as soon as they become available.

Notable new build developments

Location	Developer	Sq ft
Nash Road, Redditch	St Francis Group	400,000
Prologis Park Birmingham International	Prologis	310,000
Hams Hall, Coleshill	Canmoor	310,000
Birch Coppice, Birmingham	IM Properties	282,000
Prologis Park, Milton Keynes	Prologis	275,000
Chrome, Minworth	Rockspring	270,000
Pensnett Trading Estate, Kingswinford	LCP	260,000
Centurion Park, Tamworth	St Modwen	153,000
Daventry International Rail Freight Terminal	Prologis	116,000
The Hub, Birmingham	IM Properties	110,230
Site E, Kingswood Lakeside, Cannock	Trebor Developments	100,000
Apollo, Advanced Manufacturing Hub, Birmingham	Trebor Developments	94,500
C75, Coventry Airport	Chancerygate	75,350
Airfield, Aldridge	Trebor Developments	55,000

... supply still falls short of the current **insatiable demand**.

There is no lack of appetite for **prime investments**.

2017 outlook for industrial space

As the recession caused the time lag in development, it is likely that it will take up to a further 3 years for the supply to come back. As such, we anticipate the next 12 months will see a continuation in rate of take-up, and with that, continued rental increase, as well as a reduction in incentives.

Prologis Park, Birmingham International



Investment/infrastructure

Birmingham city centre

“Birmingham’s substantial investment in infrastructure and new commercial real estate is combining to create an internationally competitive investment destination.

“The city’s office market has seen the highest levels of development for 15 years along with some major investment deals, most notably M&G’s funding of Three Snowhill, which will be the largest speculative development to have ever taken place outside of London.

“With our plans for the HS2 terminal set to expand the city centre, alongside increasing interest from overseas investors and the strengthening of the business, professional and financial service sectors, the demand for new and refurbished office space is set to continue into 2017.”

Waheed Nazir
Strategic Director
Birmingham City Council

Solihull and M42 corridor

“With the fastest rate of private sector employment growth outside London, Solihull remains a key location for national and international occupiers and investors.

“2016 has seen strong take-up of office space, and commercial supply continues to decrease. As a result, we are seeing further investment in development opportunities, across the Borough - including Blythe Valley Park, which recently gained outline planning consent for over one million sq ft of commercial space.

“Looking ahead, our plans for ‘UK Central Solihull’ are gaining momentum, capitalising on the opportunity that the HS2 Interchange station presents, in addition to significant development and investment in infrastructure across the area. We are also progressing plans for Solihull town centre, with opportunity sites identified for the delivery of c. 800,000 sq ft of new office space, as well as homes, retail and leisure space.

“2017 will be a key year for the area, progressing our growth and infrastructure plans and ensuring that we remain at the forefront of the region’s economy.”

Anne Brereton
Director of Managed Growth
Solihull Metropolitan Borough Council



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