



Office and industrial market review 2017

- Birmingham city centre
- West Midlands industrial
- Solihull and M42 corridor
- Outlook for 2018



Three Snowhill, Birmingham



Birmingham city centre

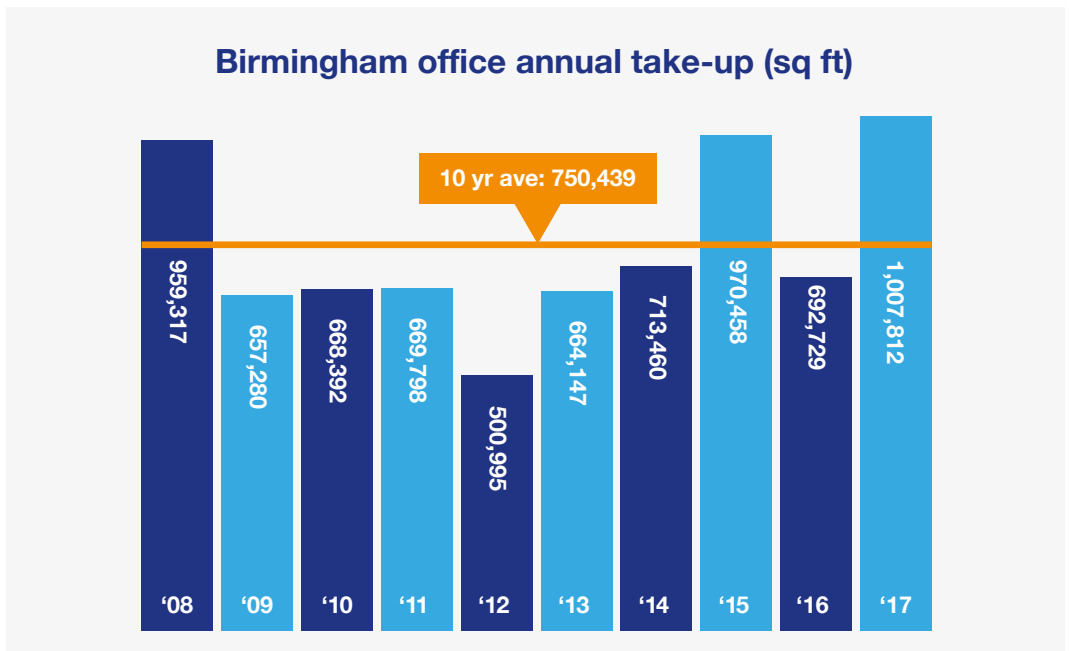
The commercial property world was taken by surprise when quarters 3 and 4 of 2017 proved to be a remarkable turnaround for the year overall. Total take-up for the Birmingham office market topped 1 million sq ft for the first time in the last decade.

Of course, this was due in part to HMRC's 239,000 sq ft pre-let at Arena Central. Previous similar 'spikes' over the last few years included HSBC's 212,000 sq ft in 2015 – also at Arena Central, and HS2's 98,000 sq ft at Two Snowhill in 2014.

These landmark transactions are all helping to fuel the Birmingham economy at the moment, and in years to come, with related suppliers

and contractors being attracted to the City, as well as a growing workforce with all its inherent additional demands for recruitment, amenities and living space.

The result is a 10-year average annual take-up now of 750,000 sq ft, compared with last year's 716,000 sq ft.



A remarkable turnaround

Following quarter 3's (Q3) much welcome 'shot in the arm' from HMRC, quarter 4 (Q4) saw a number of office requirements fulfilled in Birmingham city centre sooner than expected – including the RICS moving from Coventry to c. 31,000 sq ft at 55 Colmore Row – helping boost the year to record heights.

The 238,988 sq ft pre-let to HMRC at 3 Arena Central was largely responsible for the Q3 total of 402,076 sq ft – the second largest square footage transacted in a single quarter since our records began, bettered only by Q2 2015 (which itself was bolstered by the pre-let to HSBC at 2 Arena Central). Q4 2017 broke a record of its own, delivering a total of 354,530 sq ft across 49 transactions – the highest ever number of office space transactions for a quarter and demonstrating what would appear to be a sustainable quarter of take-up.

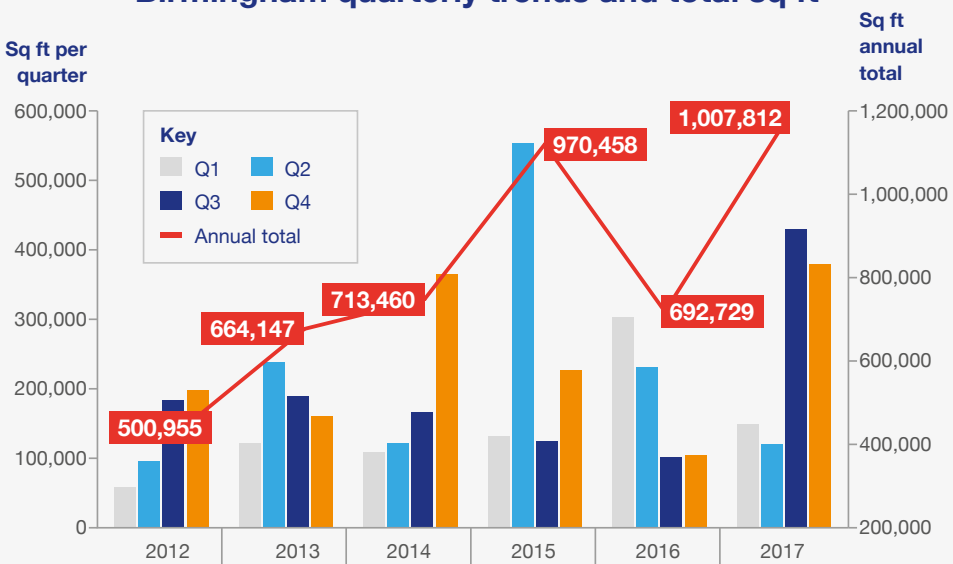
Much of the 15,000+ sq ft activity within the year – 9 of the 11 transactions – occurred in the last 6 months. By securing office space at this moment in time, with leases stretching over much of the forthcoming, initial-Brexit process, occupiers can guarantee themselves occupancy at a rent they are happy with.

It is possible that occupiers were keen to secure premises, in a timely fashion, to capitalise upon the incentives, rental rates and levels of flexibility that were previously unavailable. With the lacklustre performance of the market from June 2016 to June 2017, it could be argued that the terms secured by occupiers in the second half of the year were better than had been previously offered, which accelerated their decision-making process.

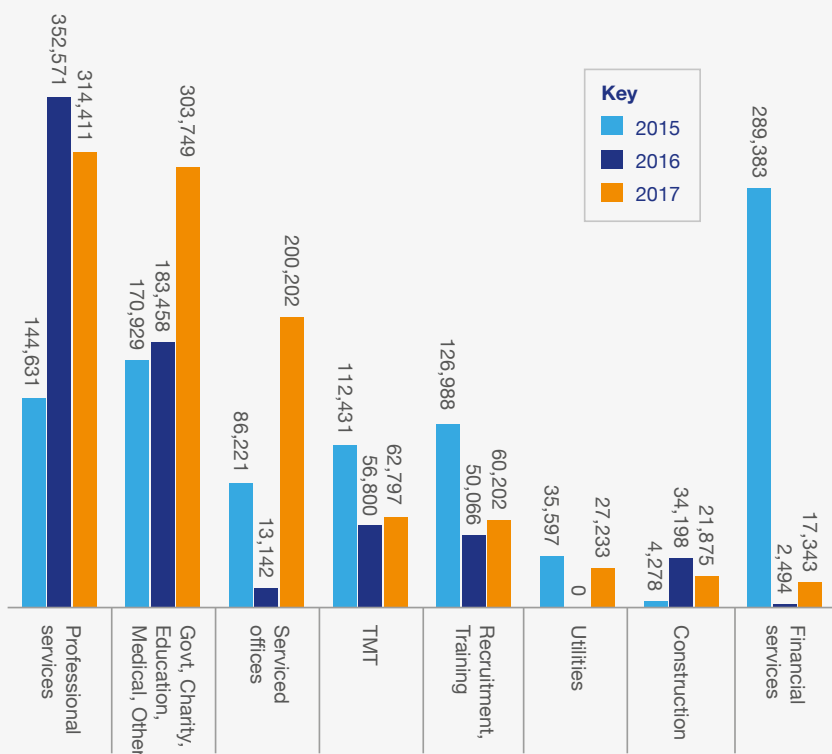
Key transactions

Occupier	Location	Sq ft
HMRC	3 Arena Central	238,988
Regus	The Crossway (formerly Civic House)	76,000
PWC	One Chamberlain Square	58,631
Regus	The Lewis Building	33,293
RICS	55 Colmore Row	30,808
Total	<i>43% of annual take-up</i>	437,720

Birmingham quarterly trends and total sq ft



Birmingham business sector analysis – take-up by sq ft



Business sector analysis

Professional services remained the most popular business sector, although the volume of office space transacted was 11% less than 2016. This year, the mix has been skewed by the size of the letting to HMRC, which alone accounts for 24% of the year's total. The most notable change, though, would be for serviced offices which saw a 15-fold increase in square footage from 2016.

Inward investment

This year, we have seen a flight of people into Birmingham city centre for the first time, a prime example being the RICS. PWC taking 58,631 sq ft at One Chamberlain Square is in addition to the 90,000 sq ft that they signed up to in Q1 2016, in effect now taking the whole building and, most likely, to accommodate staff from other locations. These demonstrate that Birmingham has a strong and developing talent pool - with 40% of the city's population under 25.

Serviced and managed offices

Serviced and managed office providers, and the demand for their product and services – which are now regarded as 'cool' by millennials rather than a start-up or interim arrangement – have had a considerable impact on the figures this year. Accounting for 20% of the square footage transacted in 2017 (2% in 2016), it is clear that quality and flexibility are 'king'.

Instant Offices – providing HS2 contractors with a flexible, managed office solution – introduced a new approach for the City enabling large occupiers to take space for a period of time that matches the contracts they've been instructed on.

Upcoming availability

When HMRC relocates to 3 Arena Central, this will result in a number of newly vacated properties. As departments move out of the space, the properties are likely to be refurbished and promptly brought back to the Birmingham office market.

Upcoming new build, Three Snowhill, will provide 403,540 sq ft of prime office space and, realistically, a sole occupier for this property would have to be an inward investor.

On the horizon, new mixed-use developments at the planning stage and expected to include office space are:

- Beorma Quarter in Digbeth – plans outline 155,000 sq ft of new Grade ‘A’ office space for Birmingham’s Eastside.
- New Garden Square, planned by Calthorpe Estates, is set to revamp a sizeable part of Edgbaston, and is proposed to deliver c.600,000 sq ft of office space.

Grade ‘A’ under construction/refurbishment	Sq ft
Completing 2019	
Three Snowhill	403,540
Two Chamberlain Square	183,000
One Chamberlain Square	172,000
Platform 21 New Street	134,069
Total	892,609
Completing 2020+	
103 Colmore Row	284,000
One Centenary Way	280,000
Post & Mail	240,000
Louisa Ryland House	80,459
8 Cardigan Street, Eastside Locks	83,571
Total	968,030

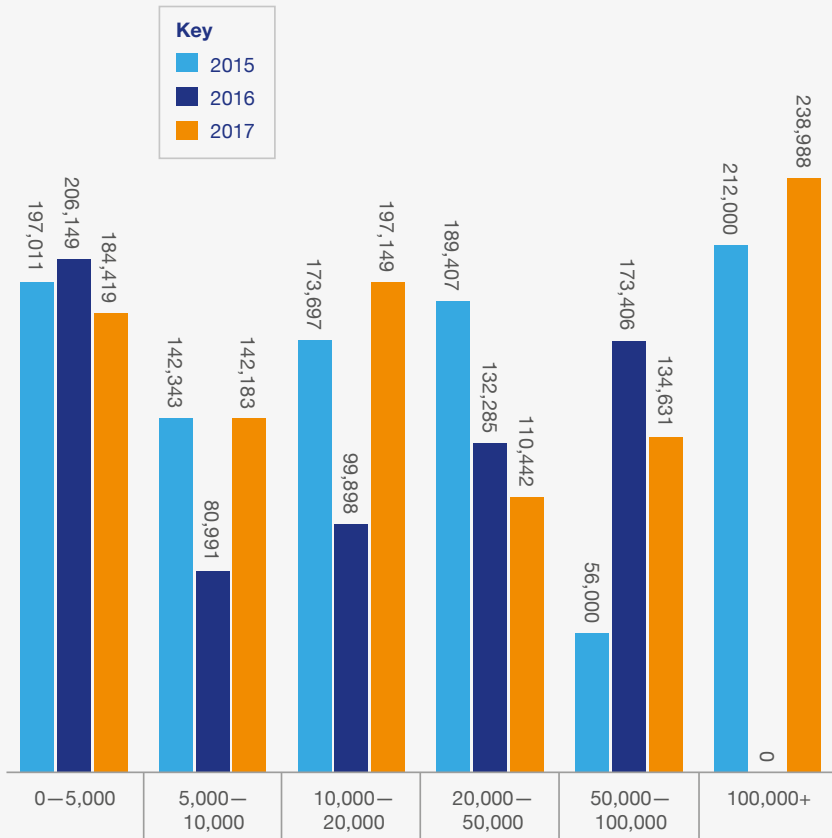


One Centenary Way, Birmingham

Transactional analysis by size bracket

HMRC pre-let aside, when you look at the analysis by size bracket, there are some striking differences. The 10-20k sq ft bracket saw double the transactions of the previous year, with 14 lettings totalling 197,149 sq ft achieved in 2017, compared with 6 lettings totalling 99,898 sq ft in 2016. The 5-10k size band also grew from 80,991 sq ft (13 transactions) in 2016 to 142,183 sq ft (20 transactions) in 2017.

Birmingham size band analysis – take-up by sq ft



Flexibility

Flexibility has been a key factor in many negotiations and occupancy decisions this year, with serviced and managed offices forming a major part of that. The drivers behind flexibility this year have been contract lengths, economic uncertainty and, going further, a change in attitude. Millennials – cutting their teeth with working practices such as hot-desking and BYOD (Bring Your Own Device) – value flexibility and quality.

Flight to quality

There has been a noticeable trend in demand for higher quality office space. With higher quality typically comes greater efficiencies and appeal to staff. Attracting and retaining the right, talented individuals is by far the biggest issue facing businesses, at this time.



71 Cornwall Street (formerly Herbert House), Birmingham

Conversion to residential

Many defunct office premises, no longer capable of meeting the needs of modern office occupier requirements, are being converted into residential space. Properties being refurbished for the residential market include Herbert House, Broadway, Beaufort House, Galbraith House and Century House, to allow these properties to generate greater returns.

Rental levels

Commercial property owners have become more assertive in their marketing and negotiation strategies over 2017. However, it's incentives rather than cheaper rents that are sealing the deal. Rents for the highest quality new build space are expected to achieve £34 per sq ft by the end of 2018, and £35 per sq ft by the end of 2019.

The office space transaction/availability illusion

Managed and serviced offices, in many cases, are transactions where the space is still technically available to let to companies, under the serviced or managed office operator. The two lettings to Regus at The Crossway and The Lewis Building – which total c. 109,000 sq ft – are great examples of this.

However, the market will need to find a solution for occupiers seeking over 5,000 sq ft – as this size of space has been heavily eroded. Some may be able to consider serviced office space and others may be able to afford more expensive new build space, but no developments will be readily available until 2019.

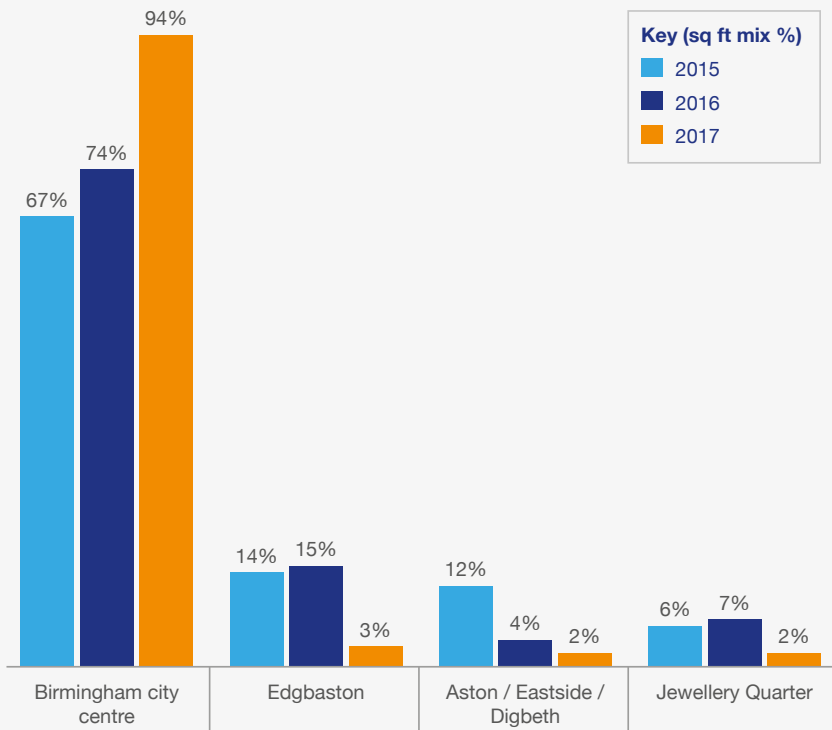
Location analysis

This year we saw a significant dip in lettings outside of the core of the city centre. Lack of supply in areas, such as Edgbaston, has left occupiers with fewer options and the city core's office stock has provided them with space that is better supported by public transport links and amenities.

Digbeth and Aston are seen, by some, as future hotspots for commercial property, with developments such as Beorma Quarter on the cards, but at this moment in time, these are not tangible prospects.

Digbeth and Aston are seen, by some, as future hotspots for commercial property.

Birmingham location analysis – take-up mix by sq ft





Arena Central, Birmingham

2018 outlook

We expect the trends that we have outlined in the review to continue – particularly where flexibility is concerned. SMEs with a lease event in 2018 could well choose to relocate into serviced offices for a period of time, rather than commit to a new traditional lease, in order to wait out the storm, so to speak, while more information regarding Brexit arrangements drips through.

With regard to corporate occupiers, inward investment and the consolidation of regional offices will be behind the largest lettings in 2018. The most recent announcement of major engineering consultancy WSP to take 47,000 sq ft of newly refurbished office space in The Mailbox in Q1 2018, is further confirmation of this, in which they will be bringing 700 staff to the site.

Quality, suitability and flexibility will be the priority of most ‘switched on’ commercial property owners – currently the key demands of the market. It is the properties which have played to these strengths, such as Cornerblock and Alpha, where we have seen the best rate of take-up.

The gap in supply appearing in the middle of the market is an area that landlords will need to consider addressing. Further office space requires refurbishment in order to meet demand and fill the void.

To see full details of the transactions featured in our Birmingham office market research, alongside our in-depth analysis of Q1, Q2, Q3 and Q4, visit kwboffice.com/research.

“It is clear that Birmingham is undergoing a seismic shift in its economic performance, with an array of positive traits that are making it a destination of choice for investors, developers and businesses. Alongside the quality of life and a talented and youthful population, Birmingham is experiencing an unprecedented scale of infrastructure investment, which will continue for many years now. Not only will it improve connectivity, but it will act as a catalyst for wider development and business growth.

“The level of interest and the number of cranes now in Birmingham’s skyline are testimony to Birmingham’s continued upward trend.

“The next 10 years promise even greater change and opportunity, underpinned by a growing population, an entrepreneurial spirit – where more businesses are created than in any other regional city – and a burgeoning culture scene, as well as incredible connectivity, to be enhanced by HS2. And then there is the impact of the Commonwealth Games.”

Waheed Nazir
Strategic Director, Birmingham City Council



Solihull and M42 corridor

The M42 and Solihull office market is now constrained by shortage of supply and lack of landlord flexibility. As a result, we have the lowest take-up since 2013, with 51 transactions totalling 269,498 sq ft.

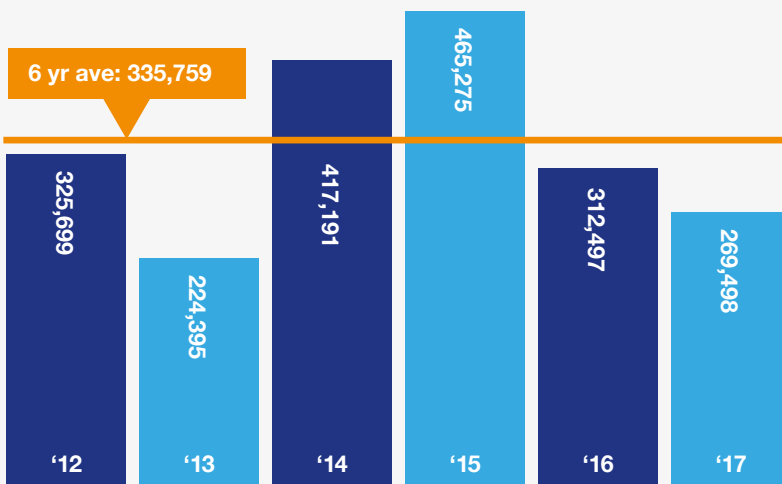
Nevertheless, interest remains strong and, throughout the year, there have always been parties to talk to. However, product and location are paramount – and without it, deals aren't being signed.

Occupiers have taken a long time to make their decisions, in part because they're considering space that may not fully meet their requirements, and this has stalled decision making.

Lack of certainty and lack of choice has created the 'perfect storm'.

In 2017, we see lack of size and variety of space available, and terms being harder than potential occupiers would like, taking their toll on the market. Occupiers are left feeling that they're not being negotiated with fairly – when greater flexibility is being offered in Birmingham city centre.

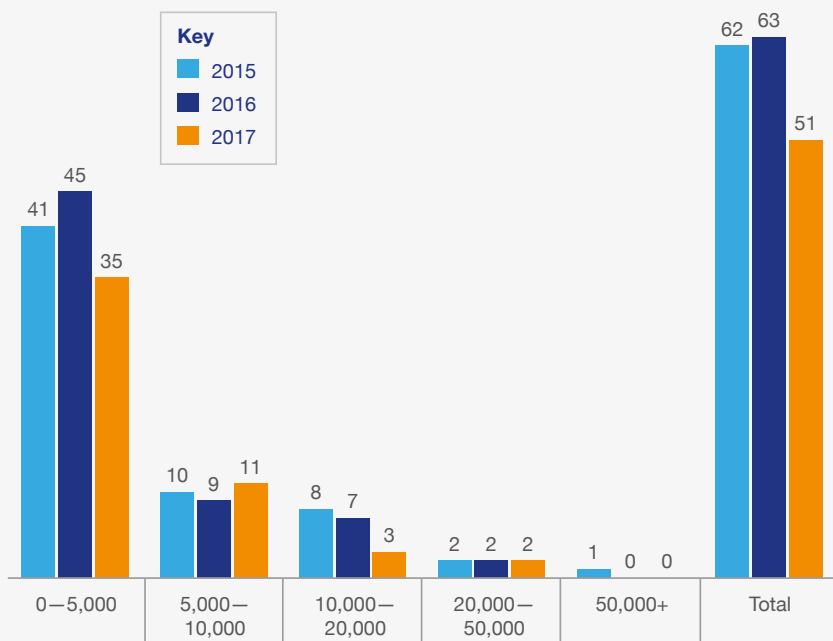
Solihull/M42 office annual take-up (sq ft)





31 Homer Road, Solihull

Solihull/M42 size band analysis – transactions



Key transactions

Occupier	Location	Sq ft
Gymshark	Trigen House	42,408
BCA Logistics	1320 Solihull Parkway	20,774
PKF Cooper Parry	One Central Boulevard	17,810
Legal & General Home Finance	Chadwick House	14,000
Purplebricks	One Cranmore Drive	11,250
Total	<i>39% of annual take-up</i>	106,242

Size bracket

A shortage of transactions over 10,000 sq ft, only 5 in total, particularly in the 10–20k sq ft bracket, has certainly impeded the market in achieving a healthier total for the year.

The year also lacked sub 2,000 sq ft deals due to lack of supply, with the market just not catering for occupiers of this size.

The 5–10k sq ft bracket did well this year, as it held the most available supply, but that supply has now been substantially eroded.

Q4 saw a rise in the sub 2,000 sq ft deals – 9 of the 16 transactions of the year.

Inward investment

2017 saw a good level of inward investment for Solihull and the M42 corridor, demonstrating that the talent pool and prosperity of the area are big draws.

The largest transaction of the year, the letting of 42,408 sq ft to Gymshark at Trigen House, Blythe Valley Business Park, represents the consolidation of its locations in Redditch.

Other inward investment transactions include:

- PKF Cooper Parry – 17,810 sq ft at One Central Boulevard on Blythe Valley Business Park
- Configit – 8,859 sq ft at Rhodium on Blythe Valley Business Park
- Inchcape – 6,210 sq ft at 3140 Park Square, Birmingham Business Park
- ConocoPhillips – 1,924 sq ft at Cornwall House on Blythe Valley Business Park

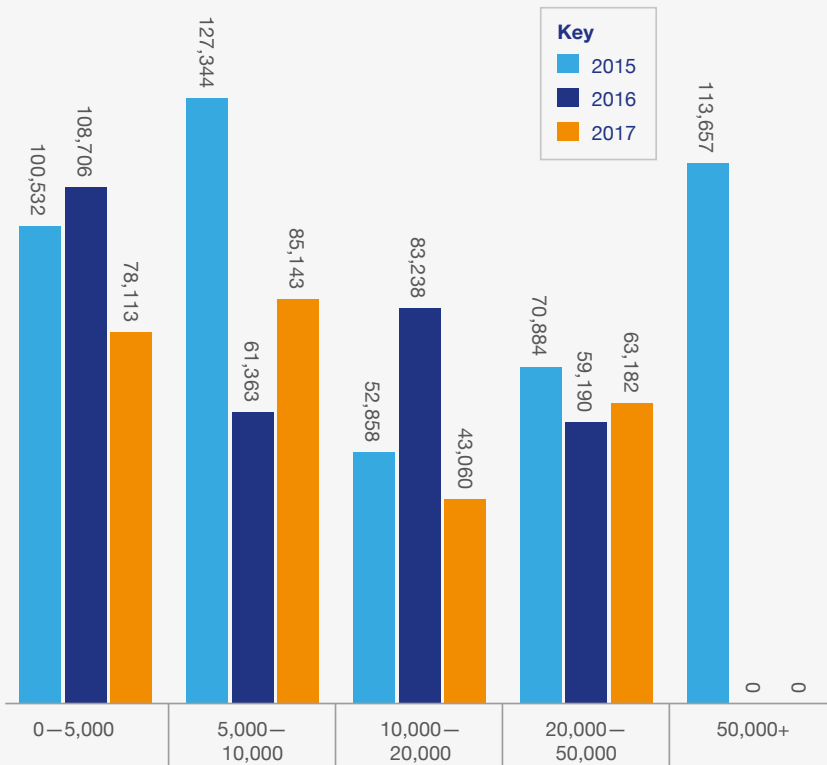
Sub 2,000 sq ft market

The sub 2,000 sq ft market is one that has particularly suffered from lack of supply. The majority of the area's business parks do not cater for this area of the market, and this could potentially be a missed opportunity to provide incubator space and grow your own occupiers.

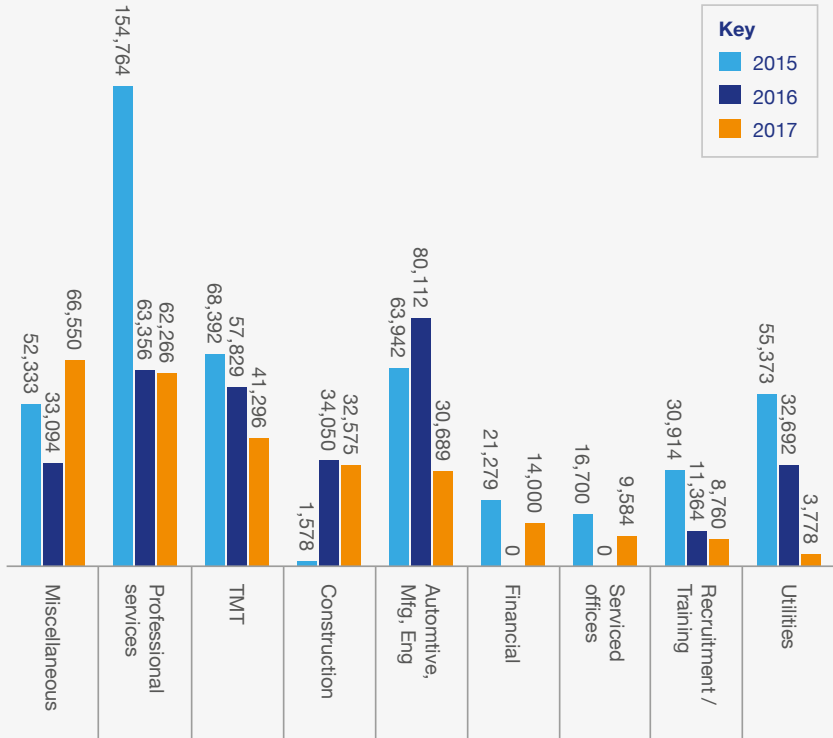
Solihull town centre has been one of the few locations able to offer smaller space – in properties such as The Courtyard and 43 Dominion Court – and where that has been available, it's been popular.

Provide incubator space, and grow your own occupiers.

Solihull/M42 size band analysis – take-up by sq ft



Solihull/M42 business sector analysis – take-up by sq ft



Business sectors

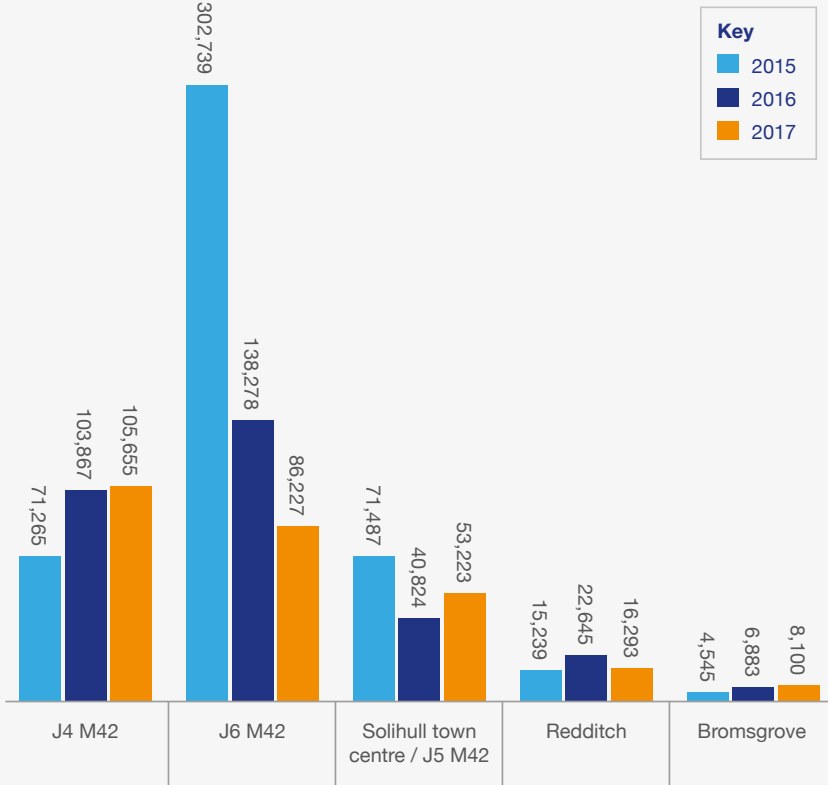
The letting to Gymshark has had a substantial impact on the figures this year, as far as square footage is concerned, making the ‘Miscellaneous’ category the largest contingent. However, by number of transactions, it’s professional services that comes out on top, achieving 16 of the 51 deals. It’s been a relatively quiet year for the automotive, manufacturing and engineering industries, with only 4 office transactions, compared to 11 in 2016 and 10 in 2015.

Owner occupiers

Buying your office space has been very popular in the out-of-town office market. Occupiers see office space as both a good investment opportunity and also a chance to secure their occupancy in the area, long term. Currently, freehold space in places such as Birmingham Business Park are in the region of £200 per sq ft, but rental values on leasehold suggest it should be £250 per sq ft.

The largest transaction of the year, the letting of 42,408 sq ft to Gymshark at Trigen House, represented excellent inward investment for the Solihull office market.

Solihull/M42 location analysis – take-up by sq ft



Redditch and Bromsgrove

Redditch (6% of market share) and Bromsgrove (just 3%) are seeing less demand for office space as occupiers have become completely frustrated by a lack of availability for too long, giving them no choice but to go elsewhere. The space that will be vacated by Gymshark may reinvigorate the market, if landlords refurbish and reintroduce at a quality that appeals to occupier demands.

The strongest locations for activity within the M42 corridor have shifted.

Location analysis

Over the past 3 years, as office space has been depleted in certain areas, the strongest locations for activity within the M42 corridor have shifted. Space at Birmingham Business Park, has all but run dry and 2017 saw Junction 6 achieve just 86,227 sq ft.

The area of strongest activity has moved down the M42 to Junction 4 – home to Blythe Valley Business Park, which had some of the market's most desirable office space, but this has now been snapped up with 105,655 sq ft let at Junction 4.

Solihull town centre has performed well, with Blenheim Court (comprising Chadwick House and Radcliffe House), The Courtyard and 43 Dominion Court proving popular. This has continued into Q1 2018 with a letting of 13,000 sq ft at, newly refurbished, 31 Homer Road to a software company.

Requirements being fulfilled elsewhere

Larger requirements have been falling outside of the area, due to Solihull's lack of supply, and business parks further down the M42 have done increasingly well. Warwick is a great example of this, with transactions such as 50,000 sq ft let at One Warwick Technology Park and 28,000 sq ft at Opus 40.

Negotiating tactics

Some landlords cannot afford to comprehensively refurbish their commercial properties. However, well thought-out, specific refurbishments could secure them an occupied property.

With rents at the level they currently are, properties that don't meet the requirements of occupiers that view them are being passed up on – when there are no incentives on the table. As such, we would advise landlords to work with occupiers, and take a more pragmatic and longer-term view.

Upcoming availability

Over recent years, the office market has never done so well and therefore, with regard to availability, it has become a victim of its own success and vacancy levels are at their lowest rate for a decade. IM Properties is presiding over the first speculatively built office property in the area for over 10 years. The 15,000 sq ft building, being marketed as 'First', on Blythe Valley Business Park is due for completion and won't stay vacant for long.

UK Central is a development that promises much needed fresh stock for the market. However, it is a long way off at this point, and we are unlikely to see real progress on it until the HS2 track is almost ready.

Vacancy levels are at their lowest rate for a decade.



1320 Solihull Parkway



Trigen House, Solihull

2018 outlook

It remains that the M42 and Solihull office market has a widely diverse occupier base that propagates demand. Despite the uncertainty created by the referendum and snap election, which disrupted the Birmingham city centre office market, Solihull has continued on at a steady pace and been consistent.

What has been lacking from Solihull in recent times are the singular, landmark deals, which have a huge impact on the overall total. The last transaction of this kind was the pre-let of International House to Interserve in 2015, which represented 113,657 sq ft.

There is a healthy pipeline of demand, but often with quite specific requirements, for which we need landlords to work with occupiers and be pragmatic in negotiations. This will help stimulate the market, encourage occupiers to relocate and free up space that can be refurbished and re-marketed to satisfy demand for higher quality product.

To see full details of the transactions featured in our M42 and Solihull office market research, alongside our in-depth analysis of Q1, Q2, Q3 and Q4, visit kwboffice.com/research.

“2017 has seen a strong level of transactions in Solihull - including the Hong Kong based Lei Shing Hong Group’s £20 million investment into a new 2.5-acre site, for occupation by Mercedes-Benz and LSH Auto Properties’ UK HQ.

“Our future plans for growth and development across the Borough – ‘UK Central’ – are well underway, with West Midlands Combined Authority Devolution Deal packages to deliver infrastructure across the HS2 Interchange and UK Central Hub area, as well as across Solihull.

“This includes a new vision for Birmingham International Station for a fully-integrated multi-modal interchange – bringing together future high-speed rail, existing rail, air, trams, buses, private vehicles, taxis and bicycles through seamless connections to Birmingham Airport and the new HS2 Interchange Station by 2025.

“Initial development is also underway in Solihull town centre for a project that will ultimately deliver 800,000 sq ft of office space with the enhancement of accessibility via Solihull train station to the town centre.”

Anne Brereton
Director of Managed Growth, Solihull MBC

Industrial review

The West Midlands industrial market continues to thrive. In 2017, rents were on the increase, spurred on by strong demand and real lack of supply. However, due to this lack of supply, the take-up fell short of 2016, which was an exceptionally strong year.

The industrial and warehousing market is crying out for new stock, but there are constant barriers put in place prohibiting development.

There should be a push at Government level to free up land. It is obviously very contentious to consider developing green belt land for warehousing and manufacturing uses. However, when there are no other deliverable options, this must be considered, as this situation will soon start costing jobs.

Lack of multi-let new build schemes

As in 2016, the availability issue in the Midlands is most prominent for industrial SMEs. Numerous estates are fully let, and have been for some time. Many large industrial funds are reporting that their void rates are lower than 3%. Whilst having a well let portfolio is envious, having such a low void rate restricts opportunities to let your current tenants grow within your ownership.

Unfortunately, this is unlikely to improve for this area of the market, with less than a handful of multi-tenanted industrial developments under construction.

Occupiers are being sold short by this lack of stock. It is having a negative impact on many businesses as they are not able to grow efficiently under one

roof. Medium sized companies are not having the opportunity to upgrade to new bigger units, and this is then not freeing up the smaller side of the market to allow newer businesses to flourish.

Rising rental values

For those companies that can find new larger premises, the shortage of units continues to push up rents. We expect that rent of new Midlands' medium-sized industrial units – 35,000 sq ft to 50,000 sq ft – will continue to rise above £7 per sq ft in the next few months. Some better-quality units at the smaller end of the market are already in excess of £8 per sq ft.

Strong occupier demand, rising rents and shortage of both good quality industrial buildings and sites, mean that capital and land values will continue to rise too.



Key industrial transactions

Occupier	Location	Sq ft
XPO Supply Chain	Bonehill Road, Tamworth	645,000
Gardman	DC9 Apex Park, Daventry	414,051
Beko	Birch Coppice, Tamworth	345,000
Eddie Stobart	Unit 2 Mountpark Bardon, Coalville, M1 J22	317,585
Amazon	RG2 Segro Logistics Park, East Midlands Gateway	290,000
Palletline	Crossflow 180, Siskin Parkway, Coventry	186,522
DHL	RG3 Segro Logistics Park, East Midlands Gateway	180,000
DHL Mothercare	Access 18, Danes Way, Daventry	140,474
Salts Healthcare	Apollo, Advanced Manufacturing Hub, Birmingham	95,013
Hellmann Worldwide Logistics	BG87 Burton Gateway	87,716

Notable speculative developments

Developer	Location	Sq ft
Prologis (4 units)	Prologis Park Hams Hall	886,990
IM Properties (5 units)	Connexion, Blythe Valley Park, Solihull	209,000
Ropemaker Properties	Kingpin Industrial Park, Tyseley, Birmingham	188,025
London Metric	Unit 2 Campbell Road, Stoke	140,000
Griffen	Units 4 & 5 WDP 40, Coventry	51,500–118,000
First Pannatoni	Birmingham 100, Walsall Road, Birmingham	100,000
Mountpark Logistics EU Sarl	Mountpark Bardon, Coalville, M1 J22	63,650
Trebor Developments (let agreed)	Airfield 55, Aldridge	55,693
Barberry Developments	Walsall Road, Birmingham	46,000
Aberdeen Asset Management	40K Birch Coppice, Tamworth	40,622

Outlook for 2018

The so-called 'Big Box' market – 100,000+ sq ft – appears healthy, with deals for more than 8 million sq ft expected to complete in the first quarter of 2018. This is being driven, in part, by the demand for well-located logistics operations to support the rise of the online consumer.

The challenge, and opportunity, for 2018 will continue to be the lack of available new build stock. This is throughout the size ranges from 1,500 sq ft to 300,000 sq ft. Some occupiers

simply do not have the luxury of being able to wait for a design and build unit. The majority of occupiers of buildings sub 50,000 sq ft need to be able to stand inside the building to get a better understanding of the developer's offering. Without speculative construction, they are simply not able to do so.

The region needs more new industrial and warehousing buildings.

“The West Midlands is a booming region. The level of inward investment we’re seeing is a clear response to the ever-growing, strong talent pool of the City, the major regeneration projects both current and ongoing, and the promise of HS2.

“With new landmark office developments like Three Snowhill being speculatively built, we have the new home for major relocations – such as Channel 4, for which we have spearheaded a substantial campaign. Our call to the television group – to move to the West Midlands – has captured both the City’s imagination and ambition, and would bring yet another huge boost to the region.”

Andy Street, Mayor of the West Midlands



For further information, please contact:

Nigel Tripp, Director (Office agency)

0121 212 5981

ntripp@kwboffice.com

Mark Robinson, Director (Office agency)

0121 212 5994

mrobinson@kwboffice.com

Kenny Allan, Director (Industrial agency)

0121 212 5996

kallan@kwboffice.com

Birmingham:

Lancaster House,
67 Newhall Street,
Birmingham B3 1NQ

Solihull:

1310 Solihull Parkway,
Birmingham Business Park,
Birmingham B37 7YB

www.kwboffice.com

©KWB 2018