BNPPRE: 2012 will be a challenging year for the Birmingham office market after a surprisingly positive 2011

2011 take up in Birmingham, at 669,800 sq ft was comparable to 2009 and 2010 levels, following a buoyant Q4 when over 100,000 sq ft of prime space was let. Despite some encouraging enquiries in Q1 2012 is expected to remain challenging, according to BNP Paribas Real Estate’s latest office market report.

The leading international real estate adviser, which has an office in Birmingham, reported that overall despite a few larger transactions, it was the smaller deals that sustained the volume of take-up

At the end of 2011, the supply level was also similar to that of 2010 at 2.85m sq ft. However, this disguises the city’s worsening supply imbalance, with the volume of secondary space continuing to rise in an already oversupplied market.

Carole Taylor, senior director of office agency at BNPPRE’s Birmingham office, comments: ‘although 2011 saw sustained activity levels by the end of the year, 2012 is likely to be quieter with occupier demand remaining subdued in response to the ongoing difficult economic climate. As such, a return to speculative development is highly unlikely without a pre-let in place and, even for those schemes that do secure pre-lets, securing funding will continue to be tricky. We are expecting headline rents to hold firm at £27 per sq ft - although admittedly these will continue to be underpinned by generous landlord incentives.’

The report highlighted that activity in 2011 was driven largely by occupiers looking for efficiencies such as reducing overheads and optimising existing space. The Law Society acquisition of almost 60,000 sq ft at The Cube, which BNPPRE advised the tenant on, was an example of consolidating several offices into one to reduce costs and increase efficiencies.

Taylor continues: ‘2012 will be the year of tenants, who will retain the upper hand in deal negotiations as they look to obtain value from their existing buildings when re-gearing leases, through taking advantage of the intense competition between landlords.’
The research reports that there remains a handful of grade A office schemes which can accommodate larger floorplates and requirements of over 50,000 sq ft, such as Colmore Plaza, 2 Colmore Square and 5 Brindley Place. Longer term the situation will worsen, due to the lack of forthcoming speculative completions, with only Hines/Ballymore’s 302,000 sq ft part-speculative scheme at 2 Snowhill currently under construction, of which 60% is already pre-let to solicitor Wragge.

Birmingham’s office investment market saw a fall of 53% to just over £218m when compared with 2010 levels as investors became increasingly risk adverse. As fewer deals completed in 2011, the average lot size also came down although 2010 levels were distorted by the Hines acquisition of Brindley Place for £190m and CommerzReal's £126m purchase of One Snowhill. Hines was also responsible for the largest deal of 2011 with its purchase of 2 Snowhill.

Mark Rooke, senior investment director at BNPPRE’s Birmingham office, comments: ‘2011 saw investment market activity slow, as a result of wider caution in the UK market. We expect this situation to continue in 2012 due to investors risk aversion and because there will be an absence of primary stock – with long term, secure income – available. This will result in a rise in the volume of secondary stock traded in 2012/13.’

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BNP Paribas Real Estate has local expertise on a global scale through its presence in 30 countries (15 wholly owned subsidiaries) across Europe, India and Middle East with 3,300 employees in about 150 offices. BNP Paribas Real Estate is a subsidiary of BNP Paribas, one of the world's six strongest banks in the world according to Standard & Poor’s (rated AA- by Standard & Poor's i.e. 3rd rating level on a scale of 22).

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