On the back of the strong performance witnessed in 2014, letting activity in the Birmingham office market continued relentlessly in 2015. A surge in take-up made possible a combined 1.47m sq ft worth of deals signed across the City Centre and Out-of-Town (OOT) markets.

With 970,458 sq ft, City Centre take-up over the year surpassed its pre-recessionary peak witnessed in 2008. There were 132 deals with an average size of 7,352 sq ft, this compares to 148 deals with an average deal size of 4,820 sq ft experienced in 2014.

This upward trend in demand has been underpinned by consolidated UK economic growth figures, as well as by a series of targeted investments to support the city’s growth aspirations. Namely, the start of work at the Paradise Circus regeneration scheme, the improvement works at New Street Train Station, the runway extension at Birmingham Airport, that has seen new direct long-haul flights to destinations in the USA and China, as well as the start of HS2 works expected in 2017, have showed the city’s willingness to capitalise on the current economic and business cycle.

The occupational markets have responded positively, accompanied by a pick-up in pre-let activity by occupiers securing Grade A space in anticipation of a possible supply crunch and, in turn, expected rental growth.

The most notable deals include the 210,000 sq ft HSBC pre-let at 2 Arena Central, Advanced Computer Software also agreed a 45,000 sq ft pre-let to take the third floor at the currently under refurbishment The Mailbox, while we understand that PWC agreed terms on a 75,000 sq ft pre-let at One Chamberlain Square. Other significant deals saw Birmingham City University pre-letting 55,000 sq ft at 6 Eastside Lock from Goodman, whilst Extra Energy signed for 35,000 sq ft at 54 Hagley Road, Edgbaston.

The increasing appetite for space in Birmingham has seen the third annual increase in take-up (32.6% in 2013, 7.4% in 2014 and 36% in 2015) and now means that the majority of space under construction has been taken.

In terms of rents, headline rents were stable at £30 per square foot (psf) in 2015, however, incentives packages have come in and now are at c.24 months per 10 year lease term. For these reasons, we expect headline rents to return to their pre-recessionary peak of £32 psf over the course of 2016.
Investment

Birmingham office investment topped £726m in 2015, up 49% on 2014, in line with the previous high witnessed in 2006 and the highest amongst the Big Six regional office markets.

Regional assets, and Birmingham in particular saw increasing demand as investors have shown increased signs of portfolio rebalancing to ride the cycle in the search of higher returns. This has also been fanned by increased buyer’s appetite for secondary assets with greater potential for asset management opportunities as fierce competitions for prime stock meant yields coming in.

As the positive economic and business sentiments have radiated out of London over the last couple of years, overseas investors have become more confident in respect to venturing out into the Regional office markets. Last year overseas share accounted for 46% of the total office investment in Birmingham, this compares to just below 12% seen in 2014. On the flipside, UK Institutions made up circa 32% of the total, nearly half of their 2014 share of 62%.

An example of the overseas money targeting the city occurred when Ashby Capital (backed by Middle Eastern investors) made its first investment outside Central London. The real estate investment company purchased Colmore Plaza for £138.3m (6.1% NIY) from Carlyle, the building is two-thirds let. This represented the largest transaction occurred in 2015 in Birmingham.

Furthermore, the German pension fund VGV also made its debut outside the capital when, in Q1 2015, it completed the exchange of RBS’s Brindleyplace headquarter from Tritax for £131m (5.75% NIY).

In terms of performance measurements, the latest IPD quarterly indicates total returns for Birmingham offices were at 14.4%, with capital growth accounting for nearly 10%, outperforming ‘UK All Property’ total returns of 13.1% for the same period.

As a consequence of the sustained demand, yields have hardened over the past 18 months, with the Prime office yield now at 4.75%, down 50 bps on the corresponding period in 2014.

Agent’s Outlook

Birmingham last year saw some major infrastructure works complete, which have helped reinvigorate the city. The refurbishment of Birmingham New Street train station, in particular, has completely changed visitors perceptions upon arrival into the city centre.

Additionally, Birmingham’s strong demographics, with the youngest population of any European city, coupled with relatively low cost living and a train that can reach London in less than 1 hour 30 minutes has ensured Birmingham has become the first stop out of the capital for companies looking to relocate some functions to more ‘cost-effective’ areas of the UK.

First it was Deutsche Bank in 2011, then in 2015 came the announcement that HSBC was to move the entire retail banking arm of its UK operation to a new 210,000 sq ft headquarters at the new Arena Central scheme. With the arrival of HS2 within the next 10 years we believe Birmingham is attracting further attention from large corporates looking for an alternative to London.

The strong occupier market witnessed in the last couple of years, coupled with the dearth of new supply coming to the market, means we anticipate seeing aggressive levels of rental growth moving forward, particularly on prime offices.

We forecast 8-9% total returns on average for Birmingham offices in 2016, driven by both capital and rental growth, but would anticipate even stronger returns on prime product. This level of return would see outperformance in the Birmingham office market when compared to the IPD ‘All Property’ Index, which we forecast to return 6.8% for 2016.
Please click the links below to access our other recent research or visit us at www.realestate.bnpparibas.co.uk/researchuk