Birmingham Office Market

Contents

1. Office Market Review

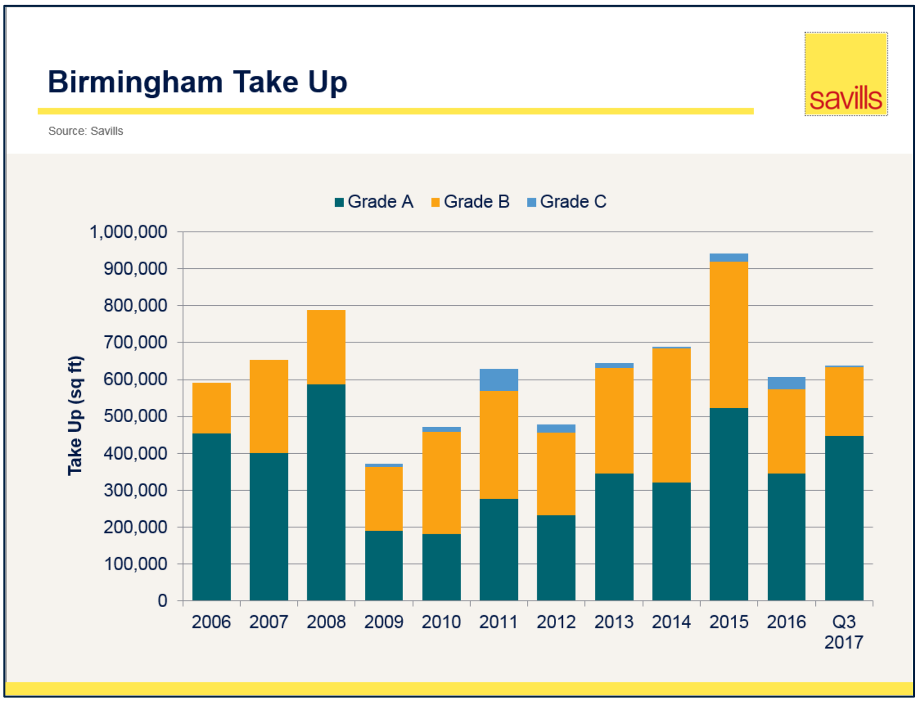
1.1. Take Up / Demand

Take Up

Office take-up last year 2016/2017 as follows:

Quarter	Sq ft
Q1	283,697
Q2	216,095
Q3	95,546
Q4	97,391
2016 Total	**692,729**
Q1 2017	*136,203*
Q2 2017	*112,263*
Q3 2017	*402,016*

After a strong Q3 anticipated figures for Q4 suggest total take up will be in excess of 900,000 sq. ft. in 2017. Whilst significantly assisted by the GPU/HMRC pre let at Arena Central, 2017 continues to prove strong demand despite the challenging political/economic environment.



Demand

Reflecting 2016 (although eventually delivering stronger results) demand patterns for Birmingham's 2017 Central Birmingham Office Market will be the epitome of a year of two halves. Having successfully secured HMRC at Arena Central the second half of the year will account for some 70 % of overall 2017 take up. In addition to HMRC notable deals include:

- 55 Colmore Row – 48,000 sq. ft.; RICS and Savills
- Crossway – 81,000 sq. ft.; Regus
- One Chamberlain Square; 60,000 sq. ft.;

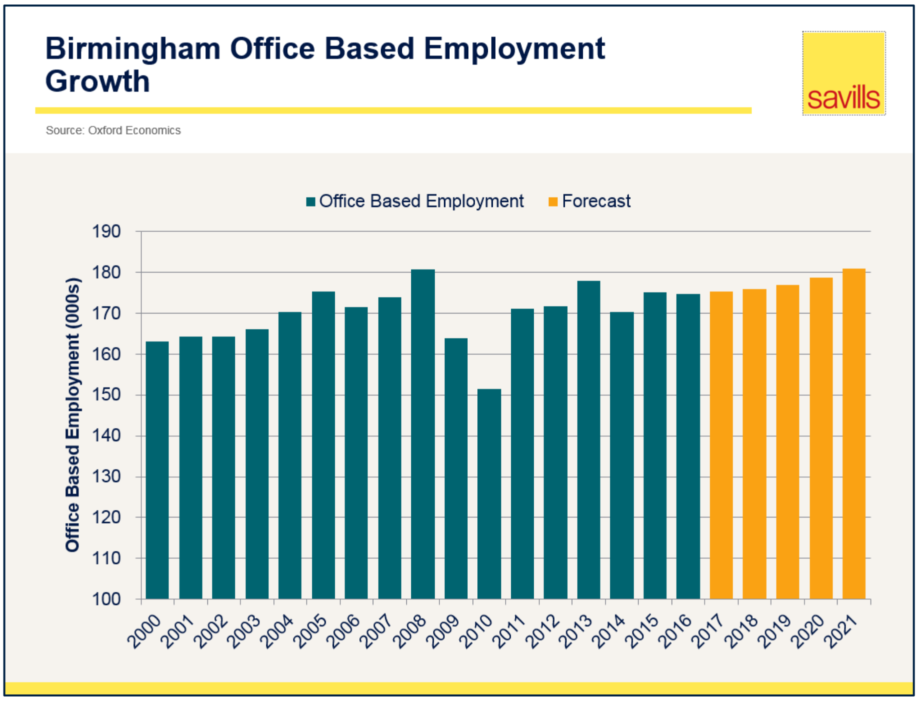
In addition there has been a distinct improvement within the smaller 5-10,000 sq. ft. Grade A market which has supplemented larger scale take up.

Looking forward we believe there remains a significant level of pent-up demand from the potential HS2 programme (up to 500,000 sq. ft. of requirements could emerge in the next few years); whilst further GPU activity could see over 500,000 sq. ft. of ongoing demand for modern efficient office space. In the main we anticipate a new build solutions with associated efficiencies in use and staff retention will be favoured for larger scale elements of above.

The much anticipated growth in demand based around the financial sector and completed moves from both HSBC and Deutsche Bank has inevitably taken a step backwards which is unlikely to change until the wider economic environment is somewhat more stable. Despite this set back the case for 'Northshoring' to dominant regional centres remains compelling when overall costs compared to central London are taken into account. This bodes well for committed and future prime core office schemes albeit anticipated impact may well be delayed until 2019 onwards.

Historic market influencers based around the professional sector are expected to continue to have a positive effect on the market. As at today three legal firms have potential requirements that are likely to focus on late 2018 onwards. These total some 80,000 sq. ft. of demand.

In addition we anticipate growing influence from the IT sector and in particular 'Fintech' associated business. The combination of modern but a cost effective office environment is felt to be a compelling argument for relocation and will assist in the predicted growth of office based employment (see graph below).



The fact that much of the footloose demand has opted for larger floor plate options on the West Side of the City Centre, augers well for Axis Square. 75% of major inward investment has opted for the West Side – where greater deliverability and better value is perceived to exist.

1.2. Supply

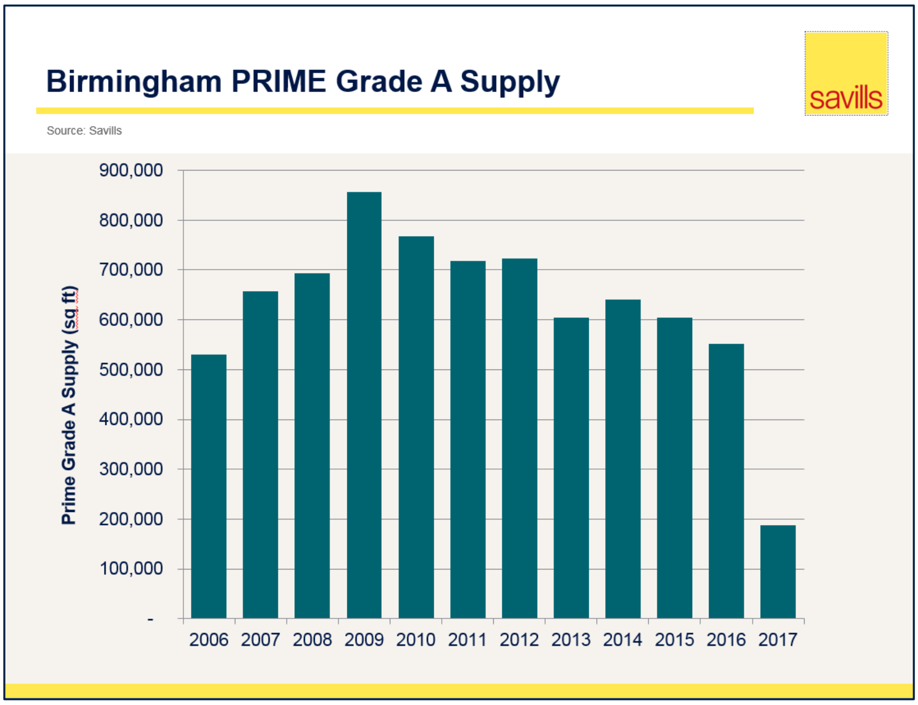
The take-up figures and current demand are set in the following availability context:

Stock	Sq. ft.
Total Birmingham office stock*	17.3 million
Total vacant	1.7 million
Total new build available	Sub 100,000 sq. ft.

*within city centre i.e. excludes business parks

Vacant office space accounts for approximately 10% of the total Birmingham office stock. New build is highly limited and whilst this has stimulated commitment to well located refurbishment programmes there is a clear gap until the delivery of committed pipeline schemes (Paradise Circus and Three Snowhill) in early 2019 onwards.

New build totals some 770,000 sq. ft. however the early pre let to PWC at Paradise Circus plus the recent announcement that they will take the remainder of One Chamberlain Square means the net addition to market as at today will be some 550,000 sq. ft. When contrasted to average Grade A take up of approximately 275,000 sq. ft. the market looks well placed for additional office development for 2019 plus delivery.



The following table sets out office accommodation which is either completed new build or under construction as well as refurbishment stock. Current active pipeline (new build and refurbishment):

Address	Developer	Sq. Ft.	Status	Completion Date
Three Snowhill	Ballymore / M&G	420,000	Under Construction	2019
2 Chamberlain Square	Argent / Hermes	183,000	Under Construction	2019
1 Chamberlain Square	Argent / Hermes	172,000	Under Construction Now all pre let to PWC	2018
Platform 21	Evenacre / Lasalle	112,000	Refurb	2018
Cornerblock	Bruntwood	108,000	Refurb 90% let	2017
The Lewis Building	Ediston / L&G	93,617	Potential part letting to Regus	2018
Crossway	Dunedin	81,000	Let to Regus	2017
Mailbox	Brockton	80,000 (area assumes mezzanine is retained)	U/O	2017
Arena Central	Miller	212,000	Under Construction Pre-Purchased by HSBC	2018
Arena Central	Miller	240,000	Construction to start Q3 2017 / in solicitors hands	2019

2017's success is underlined by the above with large elements of refurbished stock being pre let, Cornerblock, Crossways and potentially Mailbox being strong examples and underlining limited nature of supply through to 2019.

2. Rental Evidence and Considerations

2.1. Rents

The following table sets out current typical rents across a range of office specifications and scenarios:

Spec	£ per sq. ft.
Prime Grade A (existing)	£33.00
Prime Grade A (pre-let)	£32.50 - £33.00
Grade A (legacy)	£28.50
Refurbished	£24.00 - £26.00

3. Summary

Despite a challenging start to 2017 Birmingham's Central Office market has delivered strong results close to record take up. Economic uncertainty has undoubtedly had a negative impact however this may well be short-lived assuming a relatively smooth Brexit. This aside there remains a compelling case, based on cost savings alone, for continued relocation from the South although the continued impact of the financial sector is expected to be later than anticipated. In the mean time alternative sectors including fintech and back office functions look strong options for more immediate demand.

Existing and pipeline supply remains favourable for the introduction of new office space. Current pipeline predominantly set to PC during 2019 looks limited when contrasted against anticipated Grade A demand supporting the introduction of additional Grade A new build.