



City Focus

Birmingham



A race towards regeneration

As it prepares to host some of the world's top athletes at next summer's Commonwealth Games, Birmingham's aspirations go beyond sports

The Commonwealth Games are coming to Birmingham, and the city is gearing up to make the most of it. In an interview with EG earlier this year, Ian Ward, leader of Birmingham City Council, talked about how the event will be "much more than 11 days of sport". The Games will be a catalyst for more regeneration, more development and more infrastructure.

But anyone who has kept up with EG News in 2021 will know how much is going on in the UK's second city. Though Manchester might object to that title, Birmingham has had more planning applications for commercial developments submitted in the past five years than any other regional UK city, EG Radius data shows. And those plans have started to bear fruit as global occupiers pile into the city. From PwC to HSBC, major companies are planting their flags in the West Midlands.

Joining them this year was Goldman Sachs. The bank signed an agreement with WeWork to take an entire floor at 55 Colmore Row while it looks for a more permanent location in the city. In the coming

years, Goldman Sachs plans to increase its Birmingham headcount to several hundred.

Meanwhile, one building in the city became the focal point for a possible future in real estate investment. In May, the Mailbox became the first building listed on IPSX, a new stock exchange created for single real estate assets.

On the residential front, EG has reported on several significant developments that are now coming out of the ground. From Argent being granted planning consent for a 49-storey build-to-rent tower at Paradise (Birmingham's largest new development and home to PwC) to Court Collaboration getting the go-ahead for its 51-storey BTR tower, gigantic residential projects are in full swing.

The sector is attracting eye-catching international investment as well, with Swedish residential investor Heimstaden Bostad agreeing a £160m forward funding deal for Soho Wharf. Originally planned as a 100% for-sale product, the BTR scheme has 650 flats across six buildings – and is the first UK investment for the company.

Of course, with schemes of this size there are bound to be speed bumps along the way. Last year, a £500m athletes' village in Perry Barr was scrapped. However, in July EG wrote about the city council preparing new financing and disposal options for 1,914 homes at the regeneration site. The area has consent for more than 1,400 homes, with a further 500 at the wider village project in the centre of Perry Barr.

There will be more projects of that size in the not too distant future on the outskirts of Birmingham. In Sutton Coldfield, Homes England recently purchased a 230-acre parcel of land to unlock 2,160 new homes. The site, the Langley Urban Extension, is one of the UK's largest development opportunities.

In the logistics world, Oxford Properties and Logistics Capital Partners teamed up to develop a 734-acre logistics hub near Birmingham. The joint venture partners will invest £1bn into the West Midlands Interchange scheme, which will include a rail freight terminal and new link roads to connect the A5 and A449.

As COP26 approached, the city also made its mark by announcing a "transformative" transport plan with proposals to become a low-traffic neighbourhood with a fleet of zero-emission buses and new cycleways.

And those are just the highlights. Development in Birmingham is steaming ahead, changing the landscape of regional powerhouse. If plans pan out as the city hopes, Ian Ward at the council will be right to call this a "golden decade" for Birmingham. ■

Return to the workplace

After several quiet quarters, Birmingham's lettings market heated up again in Q3, especially in the office sector.

Offices

The third quarter of the year was one of the most active in Birmingham in recent years. EG Radius recorded 358,605 sq ft of letting transactions – 25.7% above the five-year quarterly total. A handful of significant deals underpinned a truly active quarter for the city. These included Arup taking 68,479 sq ft at One Centenary Way and flexible workspace operator x+why expanding into 40,616 sq ft at 6 Brindley Place.

These chunky deals, alongside 29 other office lettings in the city, marked a notable turnaround after five relatively slow quarters since the pandemic hit. However, they were not quite enough to offset those slower quarters, and take-up in the 12 months to September 2021 was 43% below the year to September 2019, pre-pandemic.

On the investment side, Q3 was also relatively strong after several quiet quarters with about £111m of transactions, led by Ashtrom Properties' £39.5m acquisition of Colmore Gate.

Whether either the leasing or investment figures represent the start of longer-term growth in activity is still unclear. The

Birmingham office market has historically been lumpy, particularly on the investment side, with several quarters racking up substantially higher totals than average because of one or two major transactions. But the market will undoubtedly be encouraged by what it has seen in recent months.

Industrial

Industrial lettings have not been as remarkable as office lettings in recent months. By one metric the sector is doing better: take-up in the year to Q3 2021 was up 1.2% to 1.6m sq ft, in contrast to the decline the office sector recorded. However, 46.6% of that came in Q4 2020. So far this year, quarterly industrial take-up has been 44% lower than it was last year.

Nevertheless, there were several large deals in Q3, such as Top Cloud Logistics taking 125,153 sq ft at Holford Industrial Park and EW Electrical Distributors taking 90,000 sq ft at Parkway Industrial Estate.

Industrial investment in Birmingham mirrored letting activity in the sector. Acquisitions totalled £285m in the year to Q3 2021 – double that of the year before – but that was driven almost entirely by an extraordinary Q4 2020 when Aviva

Investors' Lime Property Fund paid £138m for the Sainsbury's distribution hub in Hams Hall.

Since then, investment has averaged £29m per quarter, which is still respectable for the city. The total so far this year – £87.9m – is higher than most years since 2015 have been after three quarters, with the exception of 2018 (£205m) and 2019 (£113m).

Retail and leisure

The retail slowdown continued throughout 2021. EG Radius recorded 210,292 sq ft of lettings in the year to Q3, down 38% on the year before – which was already 38% below the year before that.

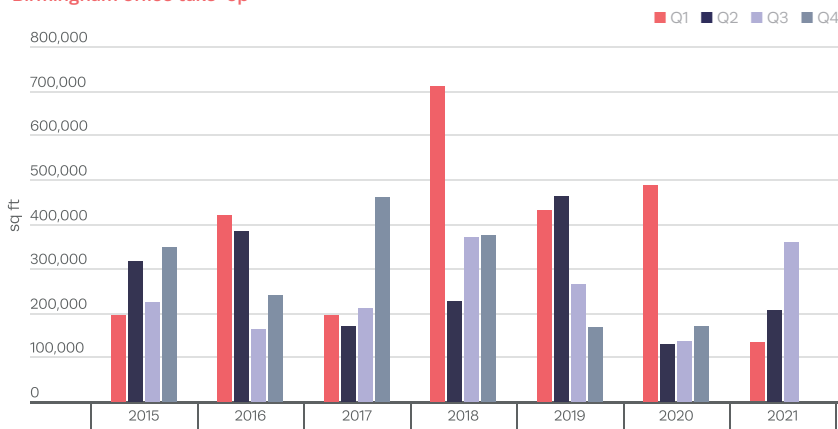
The one stand-out deal this past quarter was Lidl's 22,873 sq ft letting at 36 Warstock Road. Other than that, there has been a relative dearth of deals in the sector. In Q3, EG Radius recorded 16 retail deals in Birmingham, compared to 50 the year before.

In total, there were just 59 retail lettings in the first nine months of 2021, down from 108 in 2020. The average deal size picked up slightly to 2,251 sq ft from 2,162 sq ft last year.

Retail investment, however, hit its highest point since Q4 2019 – £93m – thanks to Invesco Real Estate's £84m acquisition of Fort Shopping Park. That one deal was bigger than Birmingham's combined retail investment in the previous six quarters, which totalled just £66m.

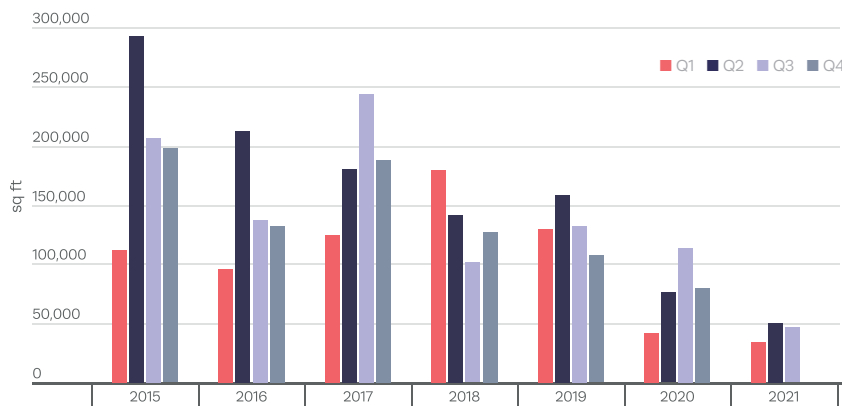


Birmingham office take-up



Source: EG Radius

Birmingham retail take-up



Source: EG Radius

Residential

Birmingham has made a name for itself in build-to-rent throughout 2021. Several of the largest regional deals in recent months have been in Birmingham, such as Australian bank Macquarie's first direct UK BTR investment: a £130m acquisition of Eutopia's Camp Hill Gardens in Q3.

Other major deals earlier this year included the £160m forward funding of Soho House by Swedish investor Heimstaden Bostad. Edmond de Rothschild REIM agreed a near-£80m forward-funding agreement for 400 flats at Birmingham's Kent Street Baths in April, while Patrizia and Homes England sold The Residences, a 375-home scheme, to a private investor for £70m. ■

Occupier trends and predictions

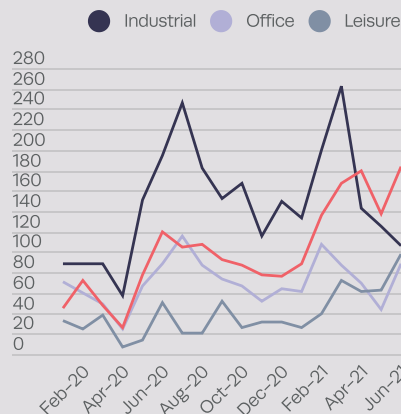
In the early days of the pandemic, industrial was the big winner – for obvious reasons at a time when the country was confined to being indoors. Between April and July 2020, enquiries in the sector more than quadrupled in Birmingham in a short, sharp rise that left all other sectors behind.

Compared to the UK as a whole, Birmingham's industrial sector grew staggeringly, both in terms of its percentage increase and how much sharper that increase was compared to retail or offices. This should not come as a surprise: as a major city with a population of more than one million, lockdown logistics was crucial for the area. Moreover, located in the Midlands, Birmingham and its surrounding areas are a natural magnet for the sector.

Retail takes over

More recently, though, retail and leisure have been rallying. Enquiries in the two sectors rose by a whopping 141% and 216%, respectively, between December 2020 and June 2021. By Q2, retail was the most popular sector for

Enquiries by sector



Source: EG Propertylink

three consecutive months as industrial dipped down close to pre-pandemic levels.

Leisure similarly overtook office searches in the spring, nearly catching up to industrial in June 2021. Nationally, there was no contest: industrial recorded three times more enquiries than leisure in June, but in Birmingham, the gap was just 8%.

This is likely a reflection of Birmingham as an urban centre. With swathes of commercial

space, it presents a considerable opportunity to invest in, occupy or reimagine the city's landscape. Occupiers and investors, anticipating the end of lockdown, would finally have started considering their future strategies and looked more seriously at the potential in front of them.

And where do offices sit in all of this? As has been evident in other major UK cities, interest in offices has not kept pace with other sectors. While the sector made up 29% of enquiries in H1 2020, that share fell to 22% in H1 2021. By comparison, office enquiries nationally also grew less than other sectors but the sector, as a percentage of total enquiries, remained steady at 25%.

Despite ongoing disruption to the sector amid the rise of hybrid working, few would expect the downward trend to continue for too long in Birmingham. Offices will remain vital to the future of work in some form or another, and once occupiers figure out what works for them in the long run, the sector should see a rebound. ■

Customer spotlight: CBRE



Theo Holmes, director in CBRE's Birmingham office, explains the changes he has seen in the city's office market and the wealth of opportunities that lie ahead

Congratulations on your recent position in the On-Demand Rankings. Can you tell us about some of your deals and how you used EG Radius to aid these transactions?

At the end of September 2021, acting on behalf of Aegon Asset Management, we secured a letting to Arden University at Lock 14, a newly refurbished office scheme in Birmingham city centre. The higher education establishment acquired the entire 19,738 sq ft in the building, agreeing a 10-year term.

Aegon Asset Management invested £1.8m in a comprehensive refurbishment of the three buildings, including significant structural alterations and a change of use – which previously housed a bar and nightclub,

Significantly, the deal was agreed prior to practical completion of the refurbishment works and during varying degrees of lockdown. It also underlined our advice to speculatively refurbish the building to offices, due to our confidence in the building's location and unique attributes, which included dedicated terrace, outdoor space and a variety of period features.

Another stand-out deal was British Transport Police's 17,000 sq ft letting at Baskerville House, on which we advised the landlord, Hermes Investment Management.



Theo Holmes

With existing occupiers including Network Rail and Colas Rail, there were some synergies with it being a transport-focused building. Again, this requirement was secured during lockdown.

Arguably the biggest win for 2021 was Arup committing to 69,000 sq ft at 1 Centenary Way, the third building being development by MEPC/Hermes at the award-winning Paradise development. It is great to see such sizable commitments, underlining corporates' belief in the office sector.

EG Radius is vital as a go-to platform when looking at office stock and interests in the market.

What changes have you seen in the market over the past 12 months across Birmingham?

The flexible office market has been particularly buoyant, as more

corporate occupiers consider their long-term property requirements. The popularity of flex space has resulted in desk/office rates increasing and vacancy rates decreasing over the past 12 months. This has largely been driven by corporate occupiers using it as an interim measure before making a permanent move to traditional office space, Goldman Sachs at 55 Colmore Row being a case in point.

This combined with the fact Birmingham is regularly ranked as one of the UK's most entrepreneurial cities and has the highest number of start-ups outside London. The flex market is a natural home for these businesses to establish themselves.

As a reaction to the growth in flex, we have seen our traditional clients looking to provide their own fully fitted solutions (CAT A+) to give occupiers another option when entering the market. These solutions provide all the benefits of the serviced model – ie, fully fitted flexible space – but with the benefits of having more control over their building and environment.

We have also seen a flight to quality, with a lot of the deals this year reflecting occupiers' desire to provide the best environment possible for their staff when they return to the office. The focus is now very much on health, wellbeing



and sustainability and how offices can support this.

There has been a squeeze on grade-A office supply, following a number of recent large deals, which has put upward pressure on rents. However, there is a balanced pipeline of grade-A stock, both new and refurbished, over the next five years, which will be important for attracting further inward investment to the city. In the next 12-18 months, more than 800,000 sq ft is committed, of which less than 624,000 sq ft is available.

It has been a tough year for everyone, how have you been supporting clients at CBRE?

We have a fantastic research department that provides us with valuable market insights. Our clients come to us knowing that we are at the forefront, enabling them to make informed decisions based on quality research. In the Birmingham office we have a dedicated flex advisor and data analyst, which is unique for a regional office. We have slowly been returning to face-to-face meetings with clients, which has been really beneficial. Zoom and Teams meetings were a useful substitute, but you can't beat meeting in person, especially in our line of work.

Some sectors and regions have been more resilient than others over the past two years, what is the outlook for Birmingham in 2022 and beyond?

The future for Birmingham looks and feels really positive. To borrow Birmingham City Council leader Ian Ward's phrase, Birmingham is enjoying its "golden decade". With the Commonwealth Games being hosted in the city next year and

the arrival of HS2 a few years later, there is a lot of positivity. We are seeing more and more occupiers looking at moving functions out of more expensive urban centres, and Birmingham is very much on the agenda. The city's central location, with one of the largest catchments in terms of population within a two-hour drive of other major cities, combined with a deep talent pool, make it an attractive proposition for businesses looking to relocate. Again, Goldman Sachs is testament to this, having selected Birmingham based on the young population (the youngest in Europe), demographic and access to talent.

Tech and life sciences is a growing sector in Birmingham, much for the same reasons as cited by Goldman Sachs. We have the largest regional financial services cluster in the UK and a huge pipeline of graduate talent which combine to make Birmingham one of the UK's largest and fastest growing fintech clusters. In fact, Birmingham was identified as one of the only "established" fintech clusters outside of London in the government's recent Kalifa Review and home to the UK's first professional services technology cluster, Supertech.

We have seen a renewed focus on the city core, with occupiers looking to move to a more central location. With people working more flexibly, when they do come into the office, they want the benefit that a city centre location has to offer, such as shops, bars, restaurants, and transport links.

Have you been seeing sustainability trends in CRE recently? How do you think the market is developing to reach global targets?

In Birmingham, we have a number of buildings which are now looking to target net zero carbon. Ten Brindleyplace, which comes to the market in July 2022, is expected to be the first. The next wave of developments are focusing on net zero and trying to be as energy efficient and as technologically enabled as possible, from the fundamental specifications and design of the buildings – whether it's thermal efficiencies through cladding, glazing, and air conditioning – to the technology that runs through the DNA of the building. They are using AI to work out when the building is at peak occupancy and how it can operate in the most efficient way. It's the synergy between tech and sustainability that is really exciting to see and be at the forefront of.

With limited ground-up development opportunities, Birmingham developers and investors are looking to repurpose existing buildings, which burgeons creative solutions, design and, with the level of embodied carbon contained within, is actually a very sustainable approach.

Is there anything that CBRE is focusing on in 2022 that you can share with our readers?

A massive drive for CBRE is diversity and inclusion. We have partnerships with Career Ready, a charity whose mission is to boost social mobility among young people. Our joint aim is to get the real estate sector in front of students from a wider variety of socio-economic backgrounds. We hosted our first programme during the October half-term break and the feedback from both students and our CBRE teams has been superb. ■



With On-Demand Rankings, you can access an up-to-date picture of how agencies are performing across the UK by sector, geography and deal type. Here we get a snapshot view of the West Midlands market

Deals transacted on EG Radius 01/01/21 to 12/11/2021*

Birmingham Top contributors – office

Contributor	Space transacted (sq ft)
CBRE	204,844
Savills	125,634
Cushman & Wakefield	71,045
Colliers	28,903
Avison Young	19,457

West Midlands Top contributors – office

Contributor	Space transacted (sq ft)
CBRE	264,916
Cushman & Wakefield	152,631
Savills	143,988
Bromwich Hardy	103,756
Avison Young	83,034

West Midlands Top contributors – industrial

Contributor	Space transacted (sq ft)
CBRE	884,003
Bromwich Hardy	622,982
Darby Keye	605,174
JLL	575,791
Colliers	392,732

West Midlands Top contributors – industrial

Contributor	Space transacted (sq ft)
CBRE	145,305
Strettons	57,754
Savills	42,959
JLL	33,909
Cushman & Wakefield	32,126

West Midlands Top 10 individual dealmakers

Agent	Company	Total space transacted (sq ft)	no of deals
Ben Truslove	John Truslove	270,230	68
Paul Jeffries	Butters John Bee	118,762	50
James Brookes	Bromwich Hardy	50,1224	47
Alessio Dyfnallt	Cooper Green Pooks	38,046	24
Tamzin Eales	Butters John Bee	34,686	24
Richard Day	Butters John Bee	37,580	21
Ryan Lynch	Siddall Jones	84,832	19
Sam Cooper	Bromwich Hardy	148,441	18
Edward Siddall-Jones	Siddall Jones	114,447	18
Theo Holmes	CBRE	84,051	18

For more information and to find out how to contribute your data, get in touch at

deals@eg.co.uk