

BIRMINGHAM OFFICES

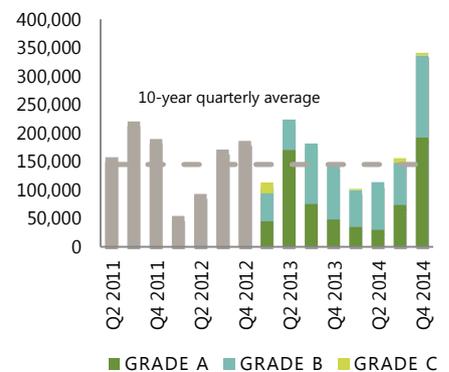
MARKET UPDATE H2 2014

Occupier market

The second half of 2014 saw particularly strong occupier activity in Birmingham city centre, with take-up in Q4 alone totalling 341,164 sq ft, more than doubling the preceding three quarters. This drove take-up for H2 2014 to 497,366 sq ft.

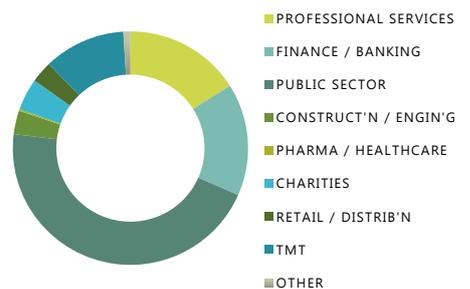
- Total take-up for 2014 was 713,460, up 7% year-on-year. Activity continued to be driven by the public sector, professional services and banking & insurance sectors, which accounted for 72% of total activity in H2.
- The largest deal was HS2's relocation to Birmingham at 2 Snowhill. The rail link took 97,958 sq ft in total. Other significant deals included HSBC's expansion into 120 Edmund Street, taking an additional 37,530 sq ft, while BDO took a sublease of 24,307 sq ft from Wragge Lawrence Graham at 2 Snowhill.
- Despite strong take-up levels, active named demand fell by 37% during H2 to 559,589 sq ft, and was down 13% y-on-y. In Q4, another 192,000 sq ft of Grade A space completed however, new Grade A availability currently stands at an alarmingly low 205,500 sq ft.
- The completion of the Edmund House refurbishment for 70,000 sq ft has helped deliver good quality refurbished space, but availability is now less than 6 months' supply. Additional refurbished space will come forward in early 2015 from Baskerville House and The Mailbox totalling 100,000 sq ft.
- Deals which are expected to be on site in 2015 include Rockspring and Sterling Property Ventures purchasing the site of the former NatWest tower from British Land, one of Birmingham city's key development opportunities. The site, which is located on 103 Colmore Row, will deliver a landmark office scheme of circa. 225,000 sq ft. Property company Bruntwood completed the purchase of the former KPMG Headquarters at 2 Cornwall Street and will be on site shortly with a major refurbishment and extension of the building.
- Construction work has also begun on Birmingham's most anticipated new development scheme – the transformation of 17 acres at Paradise Circus in the heart of the city centre. The £500m scheme is aimed at revitalising this part of Birmingham; creating a substantial number of jobs and helping to attract significant commercial investment.

FIGURE 1
City centre take-up by grade (sq ft)



Source: Knight Frank LLP

FIGURE 2
H2 2014 take-up by sector



Source: Knight Frank LLP

Agent's view

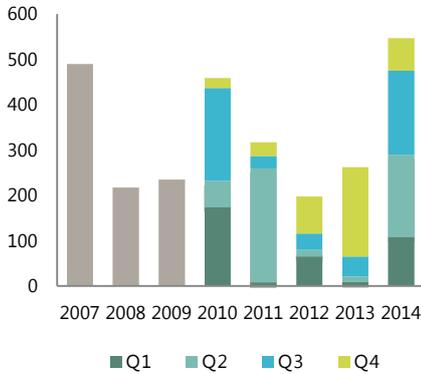
Birmingham net effective rents have continued to sharpen throughout the year and reached £24.00 by the end of 2014, while prime rents remained stable at £24.00 psf. We forecast prime headline rents to rise 12%, from £28.50 to £31.00, between now and year end 2016.

Consumer confidence is a major factor that is helping to push forward a number of development schemes in 2015 with the prospect of a city core speculative development commencing later this year.



House of Fraser has been acquired by Legal & General for £73.15m reflecting a NIY of 6.54% - KF acted

FIGURE 3
Birmingham offices investment turnover (£m)



Source: Knight Frank LLP, Property Data



Investment market

- Birmingham has been home to a healthy level of investment activity over the past six months, with appetite for office stock in the core regional office markets improving dramatically since the latter half of 2013 and continuing apace into 2014.
- Total volumes in H1 2014 exceeded the annual total for each of the past two years and this appetite continued in H2. Total volumes for H2 2014 reached £257m; a 12% decrease on the first 6 months of the year. On an annual basis, total investment volumes were up 52% in 2014 to £546m.
- The second half of 2014 saw the largest deal for a single building outside of London & South East for some years with the sale of Two Snowhill to M&G Real Estate for a reported £140m at a NIY of 5.8%.
- Another notable transaction was that of 103 Colmore Row by Rockspring and Sterling Property Ventures. This saw the acquisition of the most prominent redevelopment site in the city for speculative office development, further demonstrating the growing demand for assets in the city. There is little doubt that activity may have been higher had it not been for the shortage of buying opportunities readily available.
- The secondary market in the city has not witnessed the same level of growth but with an increasing number of investors looking at the city, it appears it's only a matter of time until this market becomes active due to a lack of prime stock as investors seek higher returns.

TABLE 1
Selected investment transactions in H2 2014

Date	Address	Purchaser / Vendor	Price	NIY(%)
Dec-14	House of Fraser	Legal & General	£74.00m	6.54
Dec-14	158 Edmund Street	F&C UK Property Fund	£11.65m	5.75
Nov-14	103 Colmore Row	Rockspring /Sterling Property Ventures	£15.0m	n/a
Sept-14	2 Snowhill	M&G Real Estate	£140.0m	5.80
Aug-14	10 Colmore Row	CBRE GI	£15.1m	7.40

Source: Knight Frank LLP



COMMERCIAL RESEARCH
Simret Samra, Senior Analyst
 +44 20 7861 5008
 simret.samra@knightfrank.com

CAPITAL MARKETS
Ashley Hudson, Partner
 +44 121 233 6443
 ashley.hudson@knightfrank.com

LEASING
Jamie Phillips, Partner
 +44 121 233 6403
 jamie.phillips@knightfrank.com