2021 Forecast

Birmingham

AVISON YOUNG

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Executive Summary

- Investment in infrastructure is having a transformative effect on Birmingham and will continue to improve this year with the completion of the second phase of the Metro extension, helping boost the economy and unlock development opportunities. The guarantee of HS2 whilst some time away will be a key long term driver of change.
- We expect office requirements to re-emerge as the year progresses with occupiers taking less but better-quality space. This will return grey space to the market but have a positive impact on new developments.
- There is a lack of development land for large pre-let logistics units, which will be partially alleviated by some large sites coming forward in the wider area.
- Birmingham was the most popular city destination for those migrating from London in 2019 and has been a hot spot for Build to Rent (BTR) activity. Strong demand from investors is set to continue, underpinned by attractive fundamentals.
- There remains significant risk to retail investment, although in some areas value now looks compelling, particularly where re-purposing or redevelopment is an option.

Before Covid-19 Birmingham's economy had been performing relatively well and accelerating. It had higher GDP growth than the UK and European city averages in three of the last five years and the highest population growth in the UK outside of London. Its strength in the professional & other private services sector, which accounts for roughly a quarter of regional output, is one of the underlying factors that has been driving the healthy economic performance since the Global Financial Crisis. Only the South East and London have a larger share of GVA in this sector.

Unfortunately, Birmingham has been more exposed to the impact of Covid-19 than most cities. It has a high concentration of sectors most impacted by the pandemic; most significantly manufacturing and tourism. Many of the city's manufacturers are also closely linked into European supply chains, and so the pace of manufacturing recovery on the European mainland is important to Birmingham. It also leaves the city more exposed to delays and non-tariff barriers to trade following the Brexit deal. Broadly though, these should be largely resolved in the first half of the year and the absence of any tariffs is certainly good news. Despite manufacturing being more exposed to some short-term negative factors, it has been a strength for the city in the last ten years and ultimately will continue to be. The accelerated trend of on-shoring and the "building back better" initiative with its focus on environmental, energy storage technologies and green manufacturing etc will in the long term be a significant contributor to industrial property demand.

Investment in infrastructure is having a transformative effect on Birmingham and is one of the factors that has driven the relocation of functions to the city from London by high profile corporate occupiers. The infrastructure picture will continue to improve next year with the completion of the second phase of the Metro extension. This will help boost the economy, property values and unlock development opportunities in areas where it improves connectivity. Longer term, HS2 is a major opportunity for the city and will be a catalyst for investment and development across property sectors.

Similar to other regional office markets during 2020, Q1 take-up figures were robust but the remainder of 2020 amounted to just a third of the long-term average. A number of enquiries have been temporarily put on hold but we expect office requirements to re-emerge as the year progresses, and as uncertainty lifts. However, we are expecting grey space to return to the market this year as occupiers rationalise their space, resulting in an increase in secondary office vacancy rates, with requirements stronger for better quality space. This may help underpin prime rental levels.

This bodes well for the limited level of immediately available grade A space in the city centre and those speculative developments under construction. 228,000 sq ft 103 Colmore Row is fully available and due for completion this summer and 280,000 sq ft 1 Centenary Way, Paradise is due to complete towards the end of 2022, where 70,000 sq ft is already under offer and architects have been appointed on the next phase, 3 Chamberlain Square. In addition, CBRE GI have just commenced the major refurbishment of 8/10 Brindleyplace (213,000 sq ft), which completes in 2022.

Trend watch

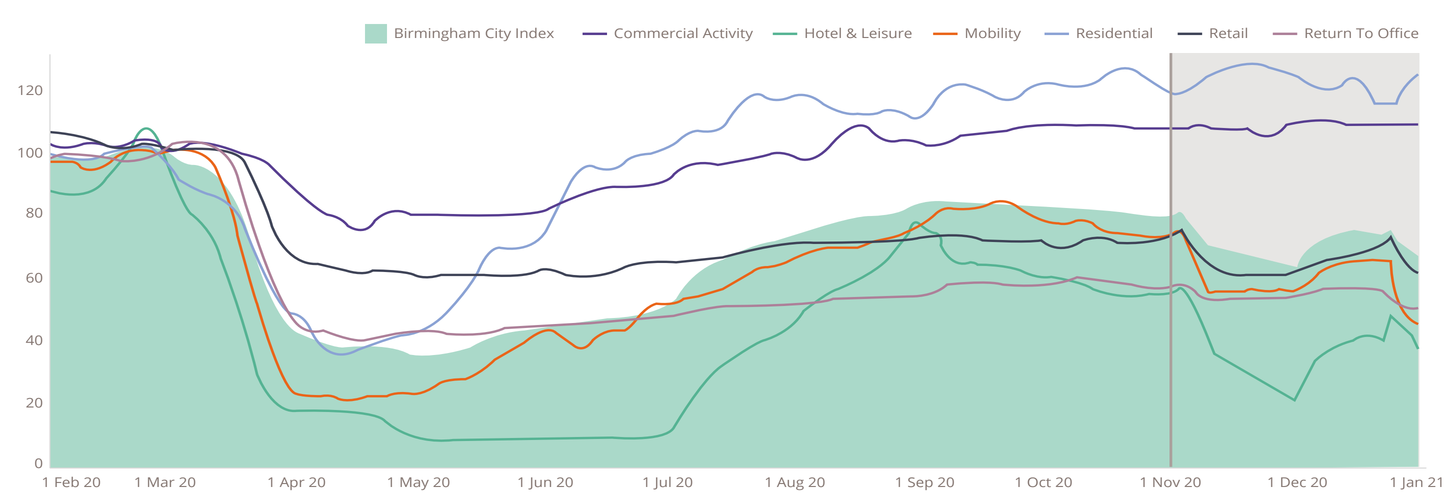
Deglobalization 2.0
We anticipate an increase in onshoring of manufacturing operations and the stockpiling of goods as companies continue to de-risk their operations, increase contingency and 'just-in-time' becomes 'just in case'.

Building a recovery
Investment in infrastructure will help boost the economy, property values and unlock development opportunities in areas where it improves connectivity.

Love thy neighbourhood
In contrast to the pre-Covid trend of the city centre performing better, in 2021 we expect out of town destinations and some local high streets to continue to be relative beneficiaries, as people will still be spending more time closer to home.

UK Cities Recovery Index | Sector Indices for Birmingham

Avant by Avison Young



In a year of record big box take-up nationally, preliminary figures in the West Midlands indicate demand in line with, or slightly above the five-year average. This compares to a record year of activity in the East Midlands, as a result of a greater supply of existing buildings and development land able to cater for large design and build deals.

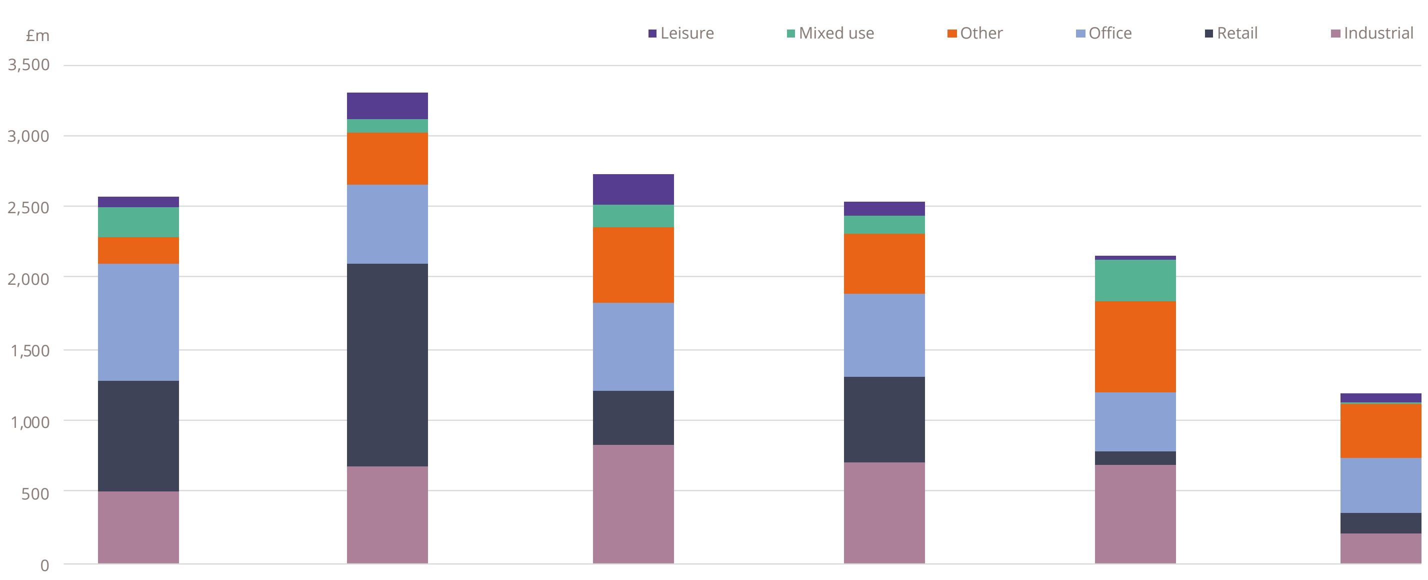
While there is around 18 months' supply of standing stock in the West Midlands, this is weighted towards the smaller 100,000 sq ft to 200,000 sq ft size band. This supply imbalance will be partially alleviated by some large development sites coming forward. In particular, the 90 acre, 3 million sq ft Peddimore scheme will commence infrastructure works in the first half of this year, with the earliest delivery of completed buildings potentially in H1 2022.

Outline planning consent has also been granted on phase 1 at Symmetry Park, Rugby, a potential 3.5 million sq ft scheme where bespoke design and build opportunities of individual buildings up to 1 million sq ft will be available. Design and build opportunities are also available at Longbridge, where St Modwen can offer unit sizes up to 300,000 sq ft.

Ecommerce and particularly the urban Logistics and parcel delivery companies continue to drive the mid-box market although there is a greater variety of businesses in this size band. However, demand for those units serving the night-time, leisure and restaurant economy in Birmingham city centre is likely to be muted.

Investment in infrastructure is having a transformative effect on Birmingham and is one of the factors that has driven the relocation of functions to the city from London by high profile corporate occupiers. The infrastructure picture will continue to improve next year with the completion of the second phase of the Metro extension.

Investment in the West Midlands region



Despite the relative affordability of home ownership in the city, the demand for rented housing is strong and accordingly Birmingham has been a hot spot for Build to Rent (BTR) activity.

In the five years to September 2020 average house prices in Birmingham have risen 26%, well ahead of the national level of 20%. Despite the strong growth, housing in Birmingham is relatively affordable compared to other parts of the UK, particularly London and the South East. It has an average house price to earnings ratio of 6.7, compared to 13.3 for London and 9.9 for the South East. This is a pull-factor for the city and one of the reasons it was the most popular city destination for those migrating from London in 2019. This comparable affordability and a shortfall in supply relative to need in recent years are two factors which will help support house price growth next year.

Despite the relative affordability of home ownership in the city, the demand for rented housing is strong and accordingly Birmingham has been a hot spot for Build to Rent (BTR) activity. With just over 5,000 BTR homes either completed or under construction/in planning, only London has more. The appetite from investors could be seen in 2020, despite the difficult circumstances, with Birmingham attracting some of the year's biggest deals, including the £260m Moda Living scheme at Great Charles Street. The demand from investors is set to continue, underpinned by attractive fundamentals; Birmingham has one of the youngest populations in Europe, the city centre has a very high (56%) proportion of people living in the private rented sector and it has seen strong rental growth, average asking rents across the city have risen by 28% since the end of 2009.

Covid has had a disproportionately adverse impact on the hospitality, leisure and retail sectors. Unfortunately, in 2021, there are likely to be more business casualties as government support schemes come to an end and the damage from Covid takes its toll.

This will undoubtedly lead to a rise in vacant space in the city and businesses that survive will have to evolve to stay relevant. This may also create more opportunities for change of use. In contrast to the pre-Covid trend of the city centre performing better, in 2021 we expect out of town destinations and some local high streets to continue to be relative beneficiaries, as people will still be spending more time closer to home.

In the investment market a low volume of large office deals has transacted in Birmingham in 2020. We expect prime office yields to hold and we believe this could lead to activity for quality stock this year. Prime out-of-town markets have seen a resurgence with investors where there are strong levels of occupational demand but yields on secondary property are moving out. Investment in logistics assets will continue to be very competitive.

There remains significant risk to retail, although pricing on retail warehousing is seeing a renewed interest. In some areas of retail, value now looks compelling to cash rich high return investors. This is particularly the case where re-purposing or redevelopment is an option, such as the Lower Ground at the Mailbox and John Lewis at Grand Central, both of which are being considered for office use. With the distress increasing on secondary shopping centres a number of councils are reconsidering redevelopment predominantly for residential, such as Red Rose in Sutton Coldfield and Queens Square in West Bromwich.

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