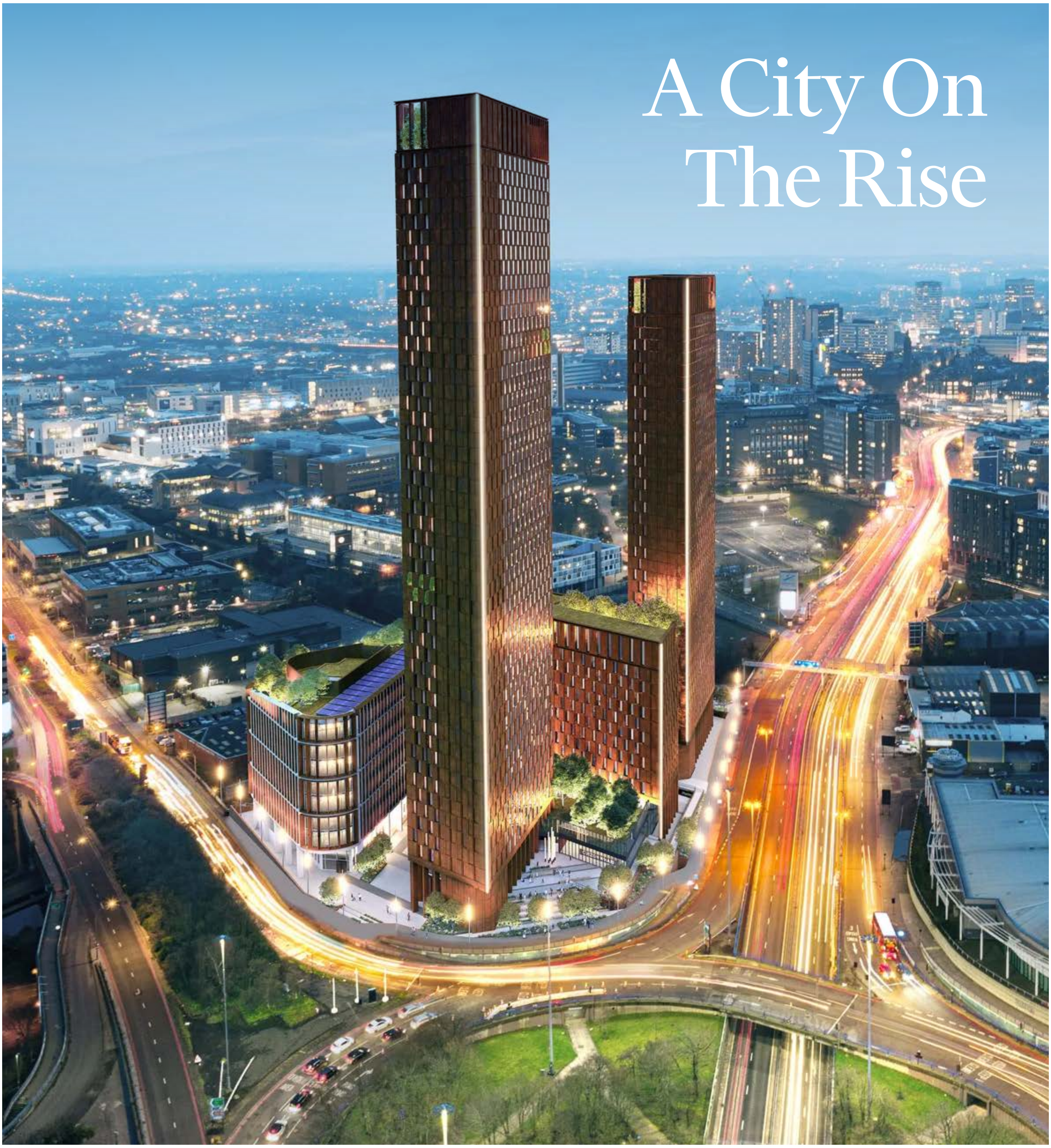
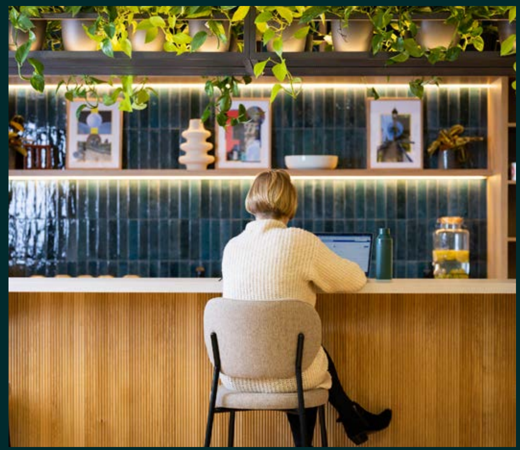
Better in Birmingham 2023

ISSUE 02





Time For Birmingham To Shine

By Will Ventham,
Head of CBRE Birmingham

Welcome to the second edition of CBRE's 'Better in Birmingham' magazine. A lot has happened in the city in the last 12 months, not least Birmingham hosted what was arguably one of the best Commonwealth Games in the event's history.

For two glorious weeks, Birmingham had its time in the sun in more ways than one. Five million visitors descended upon the city to attend the Games' events and soak up the atmosphere, as well as a few rays.

In total, the Games added more than £214m to the local economy, and whilst the legacy of the Commonwealth Games is still being calculated, there's no denying the profile of the city was turbo charged to a global audience. For investors and occupiers, it provided the perfect showcase for Birmingham and at CBRE we welcomed enquiries from potential new entrants on the back of this.

The Games was also a major boon for the city's real estate market, with the hotel, bar and retail sectors grateful beneficiaries of the increased footfall, following two years of pandemic induced trading.

Elsewhere, whilst there have been challenges for some sectors, the overall picture remains positive, with Birmingham's 'resilience' increasingly referenced.

The flex office market continues to thrive, driven by occupier demand and new flexible working practices. As a result, an increasing number of flex operators are launching or looking for space in the city. We are also seeing universities and other education institutions taking large amounts of office space in the city centre, accounting for a significant proportion of take-up since the start of the year.

As education providers expand their footprints in Birmingham, so too are student accommodation operators. Student beds is currently the best performing property asset class, closely followed by the build to rent market which, if not yet mature, is entering its teenage years. Both sectors offer low risk and good, long-term returns.

A metaphor for Birmingham's ambition - the city is reaching for the sky. There's been an 8% increase in the average height of commercial and residential buildings in the last year, with more skyscrapers in the planning pipeline. If that doesn't demonstrate a new, post-Games confidence I don't know what does.

Yields across all sectors have moved out over the last six months, but in certain sub-sectors, such as prime offices, they have moved back in and are trending stronger.

There has been more activity in value add offices, as opportunistic investors look to reposition assets to capitalise on the strength of the occupational market and lack of Grade A supply.

The following pages offer more insight into the local real estate markets.

01

Flexible Space Solutions; The New Way Of Working

Far from being a fad, flexible and co-working offices are increasing in popularity among corporate occupiers.

x+why, Colmore Row. *Courtesy of x+why*

Flexible office space has come into its own in the last 12 to 18 months. New working practices and a change in attitude towards "working from home", accelerated by the Covid-19 pandemic, have seen an increasing number of businesses turning – and returning – to flexible accommodation to meet their office occupational needs.

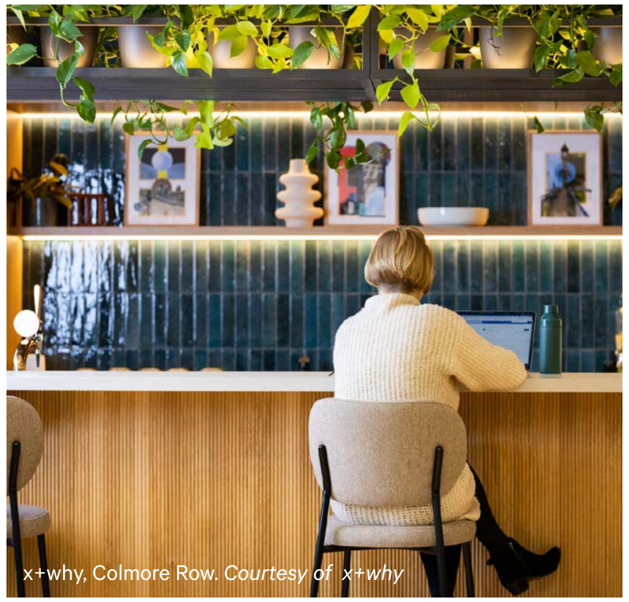
Ten years ago, the profile of a typical flex or serviced office user would have been very different from that of today. Businesses of all shapes, sizes, and sectors – from small tech start-ups to large multi-national blue-chip companies – are now choosing to base themselves in flexible office space.

The type and quality of flex offices has changed too, as has the number of operators. Where once you could count the number of operators in Birmingham on one hand, there is now a wide selection to choose from, each offering its own brand of flexible and co-working office space.

In 2022, the flex office market in Birmingham grew by approximately 38%, with several new operators launching space in the city. As a result, the market now totals circa 647,000 sq ft. Of the new space that did open in the last 12 months, the average occupancy is 79%, demonstrating the strong demand for flex.

> "Businesses of all shapes, sizes and sectors are choosing to base themselves in flexible office space."

Two Chamberlain Square



x+why, Colmore Row. *Courtesy of x+why*

13%

OF COMPANIES CURRENTLY HAVE BETWEEN 11% AND 50% OF FLEX SPACE AS PART OF THEIR OFFICE PORTFOLIO

"Where once you could count the number of operators in Birmingham on one hand, there is now a wide selection to choose from, each offering their own brand of flexible and co-working office space."

Last year, London-based operator x+why made a play for the Birmingham market, opening two new sites at Brindleyplace and 103 Colmore Row. Since launching in October, 103 Colmore Row is already fully occupied.

Another new entrant to Birmingham, Cubo, opened its first operation in May at Two Chamberlain Square, Paradise, which is also fully occupied. The operator is now looking for further space in the city.

Spacemade and Re-Defined will be the newest flex operators in Birmingham when they open their new co-working spaces at 10 Brindleyplace and Louisa Ryland House respectively later this year. Other operators, including Koba, Industrious and Runway East are also actively looking for space in Birmingham, adding further to the choice of locations for occupiers.

But with so many operators making a beeline for Birmingham, and those already in the city looking to expand their footprint, is there a danger of the market becoming oversaturated?

Not exactly. There is evidence to suggest companies are increasing the amount of flex space in their office portfolios. There are several reasons for this, including flex's ability to enable companies to set up in new markets quickly and scale at pace, without the capital expenditure traditional offices incur, for example fit-out costs.

Mumbai-based process management firm Firstsource utilised the benefits of flex offices when it opened its first operation in Birmingham last year. The company, which offers services such as back-office processes and platforms, automation and analytics for banking, financial services, communications and telecoms businesses, initially created 300 jobs in the city, with plans for a further 200. Recruiting at scale and pace was therefore important for Firstsource, while also being able to hit the ground running and be operational almost from day one. Flex enabled this.

So, with the flex office boom looking set to continue, does it spell the end of the traditional office? Not quite. As has been the case since the early days of serviced and flex offices, the two can happily co-exist and as increasingly happens, be complementary to each other, with traditional office occupiers using flex as supplementary space to scale their businesses up or down accordingly.

For some companies, flex offers a long-term solution to their occupational needs, while for others it's a stepping-stone to a more permanent, traditional leasehold office.

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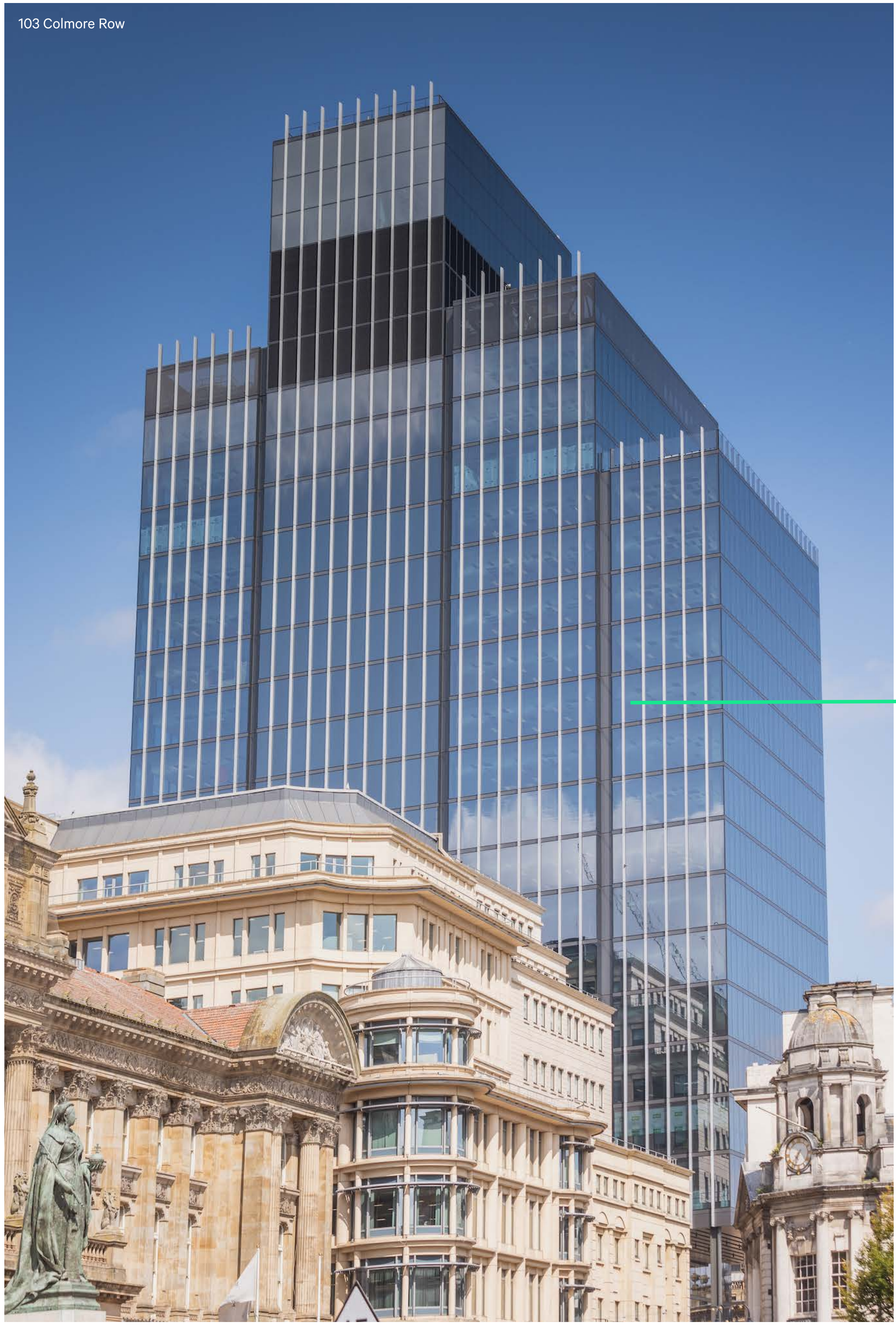
103 Colmore Row

02

Birmingham's Strong Occupational Market Means the City Remains an Attractive Proposition for Would-Be Investors

'Super prime' and value add assets at the top of investors' wish lists.

What next for Birmingham's office investment market? That was the question on everyone's mind at the end of 2022. Whilst it wasn't quite an "annus horribilis", neither was it a year to write home about in terms of transaction volumes.

Of the 13 deals that completed, just four broke the £20million mark, the largest of which was Blackstone's acquisition of The Colmore Building for £182million.

Investors employed a degree of caution with their investment strategies on the back of the global pandemic, and the economic uncertainty that followed the start of the war between Russia and Ukraine in February 2022. Many opted to 'sit tight' and wait it out.

However, caution has now turned to optimism, with investors keen to return to the market, despite the continuing challenging macro-economic and geopolitical landscape.

According to CBRE's Investor Intentions Survey 2023, investors are optimistic for European property markets this year. Buying and selling expectations, as well as allocations to real estate, are expected to remain stable, compared to 2022. The repricing of office assets has also piqued investor interest, especially among those looking to achieve higher yields. This bodes well for Birmingham, where office yields have moved out significantly and are currently circa 6% - the highest for ten years.

Opportunistic and value-add strategies are also expected to be widely employed by investors, with large amounts of pent-up capital ready to be deployed. Again, Birmingham is well positioned to take advantage of this.

The city's strong occupier market means Birmingham is an attractive proposition for would-be investors. Those who voiced concerns for the office market post-pandemic were thankfully proven wrong, with demand for space returning to pre-Covid levels. In Q4 2022, Birmingham take-up totalled 210,300 sq ft, rising 28% above the five-year quarterly average and 15% above the previous quarter. Office take-up for the year totalled 686,200 sq ft – the highest annual take-up since 2019.

Supply declined during the last quarter of 2022, with available stock standing at 2.3m sq ft, of which 485,000 sq ft is new grade A. The lack of supply, coupled with strong demand, has pushed rents on, especially at the top end of the market.

At 103 Colmore Row, a new headline rent was achieved exceeding £41 per sq ft, supporting the benchmark for best-in-class, grade A office space in Birmingham and indeed regional office markets.

The leasing success at 103 Colmore Row and other new buildings such as One Centenary Way at Paradise, demonstrates the willingness of occupiers to pay a premium for the best space.

The same can be said of investors, who traditionally have been prepared to pay a premium for 'prime' office buildings. However, the definition of 'prime' has narrowed, with core investors targeting 'best in class' assets with strong ESG credentials.

Whilst there is still strong interest in 'super prime' offices from investors, opportunities to acquire them are currently few and far between. At present, there are no best-in-class office buildings on the market to buy in Birmingham.

Instead, most of the recent investment activity in the city centre has been centred around value-add assets, where opportunistic investors are looking to create Grade A product to capitalise on the strength of the occupational market.

Brindleyplace is a case in point. HSBC Alternative Investments is selling its stake in the estate, comprising five office buildings, totalling more than 500,000 sq ft, and a multi-storey car park.

But while Brindleyplace remains a popular commercial and leisure destination, many of the buildings included in the sale require investment to bring them up to modern, grade A specification. For the right investor and for the right price, this could turn out to be a shrewd investment.

The true test of the market will be when the next big trophy office building is put up for sale and sold. We'll have to wait and see.

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> "The definition of prime has narrowed, and core investors are targeting 'best in class' assets with strong ESG credentials."

Brindleyplace

03

New Homes Will Be At The Heart Of City's Major New Regen Projects

… with Build to Rent a prominent feature

Proposed City Quarter Scheme, Martineau Galleries

Residential property will make up a significant proportion of the three biggest regeneration schemes coming forward in Birmingham city centre – Smithfield, Martineau Galleries and Paradise.

Mixed use schemes are undoubtedly more palatable to the local planning authority, not least because it helps deliver on their challenging housing targets. They're considered more sustainable too, encouraging integration rather than isolating single uses. In its Our Future City Plan, Birmingham City Council confirmed one of its goals for 2040 is to "promote mixed use developments."

The latest outline proposals for Hammerson's Martineau Galleries, approved in 2020, provide for 1,300 homes, alongside a new 200-bed hotel, up to 1.4m sq ft of office space, restaurants, cafes, and shops, and a new public square.

This blend of multiple classes creates an ecosystem where different uses can support one another. What better way to sustain the High Street than provide shoppers right on the doorstep? And those same customers can live, work and play on site. In the current climate, mixed-use makes sound economic sense.

"A mixed-use scheme with a blend of multiple classes creates an ecosystem where different uses can support one another."

What's more, the residential sector itself is diverse. Investors and developers can pick from several different tenures - including open market and affordable homes or social and private rental housing - depending on their need to generate capital and/or income.

Build to Rent (BtR) is likely to feature prominently in the mix at both Martineau Galleries and Smithfield. It has proved a top performing asset class and demand for sites is keen.

At Paradise, MEPC is making a statement with Octagon, the world's first residential octagonal high-rise building. Comprising 370 BtR homes - with amenity space, retail units and landscaped public realm – it will sit alongside 1.74m sq ft of office accommodation, 120,000 sq ft of retail and leisure space (including a hotel), and three new public squares.

According to CBRE's latest research, rental collection rates on BtR assets ran at 99% in Q4 2022, with occupancy rates at 97%. Funds with BtR assets in the city are reporting that they are running at circa 10% above business plan.

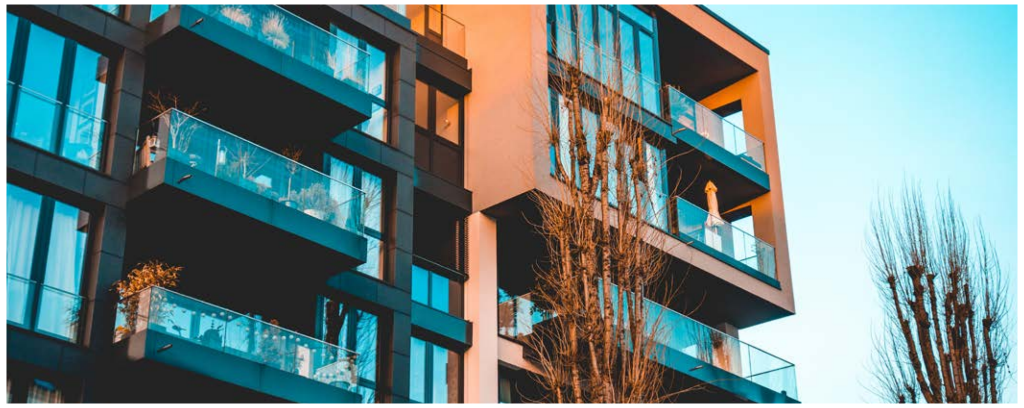
With these fundamentals, it's no surprise that the size of BtR assets in Birmingham is increasing. The city's first wave of BtR schemes averaged 322 units. The next wave under construction or contract averages 491. Encouragingly, inbound capital looking for opportunities in the city shows no sign of slowing down. Birmingham's total BtR transactions now exceeds £2bn.

One of Birmingham's most successful mixed use regeneration schemes is Brindleyplace, now 30 years old. The early development of 143 townhouses and apartments at Symphony Court proved the catalyst for the development of more than 1m sq ft of office space on a

17-acre site incorporating leisure attractions the National Sea Life Centre, Ikon Gallery and the Crescent Theatre, a hotel and more than thirty retail and hospitality operators.

Proposed Martineau Galleries development, in relation to Curzon Street Station

"BtR assets in Birmingham are increasing in size, as owners and operators gain confidence in the sector's performance."



BIRMINGHAM'S TOTAL BTR TRANSACTIONS NOW EXCEEDS

£2bn

Proposed Smithfield Scheme

The 143 homes now look decidedly small beer compared to the next generation of regeneration projects. And BtR wasn't even a concept 30 years ago.

At 34 acres, Lendlease's Smithfield is one of the biggest regeneration sites in Europe and recently played a starring role as a host site for the 2022 Commonwealth Games.

In addition, 2000 new homes are planned at the £1.9bn scheme, along with a new base for the city's historic Bull Ring markets, leisure and cultural spaces, a festival square and landscaped park, integrated public transport and community facilities. This dynamic mix of uses will create a major new city destination.

Phase 1 plans are now with the Birmingham City Council (Lendlease's joint venture partner) planners and include 547 one, two and three-bed homes. No affordable homes are planned in this phase.

Hammerson's Martineau Galleries is 7.5 acres. On the doorstep of Curzon Street Station, the site will have 2,400 residents. It is the first of Hammerson's new 'City Quarter' concepts, which aims to "create vibrant mixed-use neighbourhoods surrounding its flagship destinations" (Hammerson owns and manages both the Bullring and Grand Central).

The proportion of homes to other uses at both Smithfield and Martineau Galleries is significantly higher than in predecessor schemes.

City living has come a long way since the late 1980s/90s. And as evidenced, residential is set to play a significant role in Birmingham's regeneration.

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04

A City On The Rise

The sky's the limit for Birmingham as the city rings in a new generation of skyscrapers

There's something obvious happening in Birmingham – the city is getting taller. Once characterised by often drab, low-rise concrete buildings, built during the post-war boom era, Birmingham is redefining itself as a modern metropolis, complete with its very own 'skyscrapers'.

Ten years ago, the height of the 20 tallest buildings in Birmingham totalled 1,782m. Today, the city's towers collectively stretch to 1,928m – an increase of eight per cent.

TODAY, THE CITY'S TOWERS COLLECTIVELY STRETCH TO

1,928m

Curzon Wharf Development


Octagon

"Enabling more tall buildings to be built supports Birmingham City Council's longer-term vision for the city."

New developments including The Mercian (132m), 103 Colmore Row (108m) and Left Bank Tower II (102m) have contributed to the rise in height. And with further buildings already under construction, such as City Developments' Octagon, a 49-storey apartment scheme comprising 370 new homes at MEPC's Paradise, and The Square on Broad Street, which includes a 32-storey residential tower, Birmingham's skyline looks set to be transformed further still over the next few years.

At Eastside, developer Woodbourne Group has been granted planning permission for what will be the tallest residential tower in Birmingham. The 53-storey, 172-metre-tall building at the proposed Curzon Wharf development will surpass the current holder of 'the tallest tower' title, The Mercian, by 11 storeys. Other tall residential towers are also in the pipeline, such as the consented Court Collaboration schemes at the Irish Centre in Digbeth and One Eastside, which is being forward funded by Pension Insurance Corporation plc after it agreed a £200m deal with Court Collaboration, advised by CBRE.

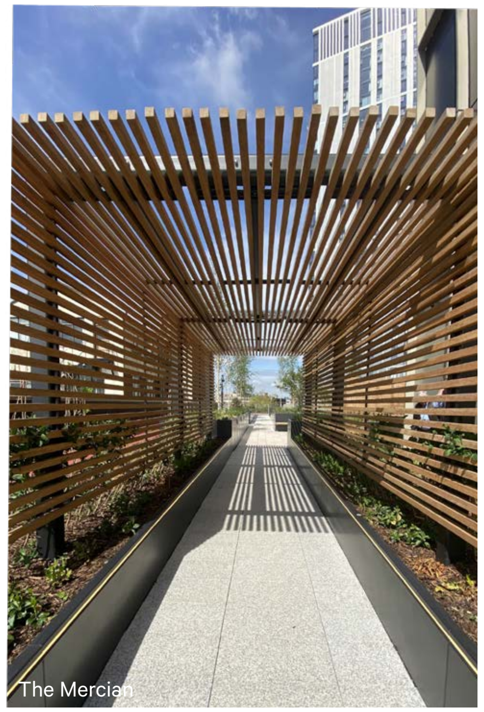
These are just some of the many examples that highlight the trend of Birmingham's buildings getting increasingly taller, as developers race to the top.

But it's not just Birmingham where buildings are getting taller. In many of the UK's main regional cities, residential and commercial skyscrapers are rising from the ground at pace. In Manchester, the height of the city's tallest buildings has increased 37 per cent over the last decade, with Deansgate Square's South Tower, at 201 metres tall, the only regional entry in the top ten tallest towers in the country. London, unsurprisingly, is home to the other nine.

So, what's driving the tall building trend? In Birmingham, as with many cities undergoing significant regeneration, there is a scarcity of large development sites, especially in the city centre, where space is at a premium and sites are often constrained. The only viable option, therefore, is to build up rather than out.

From a planning perspective, there has also been a shift in Birmingham City Council's stance on tall buildings. In its latest Design Guide Principles Document, published last year, the Council recognises the increasingly important role tall buildings will play in the future of the city. It states,

The Mercian



The Mercian

BIRMINGHAM'S TALL BUILDINGS

Name	Developer	Height (m)	Use	Development Stage
Curzon Wharf	Woodbourne Group	172	Residential	Consented
2 Snowhill Plaza	HUB	158	Residential	In Planning
Irish Centre, Digbeth	Court Collaboration	158	Residential	Consented
Octagon	City Developments	155	Residential	Under Construction
One Eastside	Court Collaboration	154	Residential	Under Construction
Brindley Drive	Court Collaboration	148	Residential	Consented
The Mercian	Moda Living	132	Residential	Operational
Great Charles Street	Moda Living	129	Residential	Under Construction
Martineau Galleries	Hammerson	115	Residential	Outline Planning
The Square	2020 Living	111	Residential	Under Construction
103 Colmore Row	Sterling Property Ventures	108	Offices	Operational
Left Bank Tower II	Regal Property	102	Residential	Operational
Upper Trinity Street	Cole Waterhouse	102	Residential	Consented
Stone Yard	Court Collaboration	98	Residential	Consented

"Through their efficient use of land, tall buildings will help the city respond to, and balance, the competing land use needs across the city centre; ensuring housing and employment requirements are met, whilst enabling resilient transport and green infrastructure networks to be created."

Our Future City Plan, Birmingham City Council's blueprint for Birmingham over the next 20 years, also states that new areas for tall buildings will be promoted to help provide more new homes and, in doing so, support retail, leisure and cultural economies through increased activity and footfall in the city centre and surrounding areas.

But whilst there is recognition of the need for more residential towers, gaining planning and then actually building them comes with its own set of challenges. The architecture and design must be of the highest quality and integrate with the streetscape, positively adding to the skyline. Amenity and open/green spaces, such as roof gardens, are also key planning considerations, as is sustainability. At Curzon Wharf, for example, Woodbourne Group is proposing the world's first net zero carbon mixed-use scheme as an exemplar for future development and urban regeneration.

Birmingham is a city on the rise in more ways than one and its tall buildings are a symbol of its bold vision and towering ambitions. If all goes to plan, in 20 years' time, the city skyline will look dramatically different to today.

The sky's the limit.

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05

The Bullring Effect

Now trading for 20 years, the Bullring is reinventing itself to appeal to a new generation of shoppers

Two decades on from its opening in 2003, the Bullring remains the jewel in Birmingham's retail crown.

Around a fifth of the city's retail space is here. Anchored by Selfridges, and key brands including H&M, TK Maxx, Next, Zara and Boots.

Fears that the closed Debenhams store – one of the shopping centre's original anchors - would be shuttered for a long time were short-lived. The countdown is now on for the opening of the new Marks & Spencer store in Autumn 2023. M&S will occupy the two lower floors, some 65,000 sq ft of space, including a dedicated 16,000 sq ft food hall. The remaining upper floor of the former Debenhams unit is under offer to an international fashion brand.

Void rates are reducing and rents have stabilised. Elsewhere within the estate, the ex-Hollister store is set to reopen as a flaship Nike store, while fashion brand Tessuti has taken the former Gap unit.

40m

THE BULLRING'S ANNUAL FOOTFALL

Hammerson's strategy to diversify the Bullring Estate's appeal by introducing new entertainment and experiential concepts has been fundamental to its success. A Lane7 bowling complex, with a rooftop bar above TK Maxx, is set to open this summer, supplementing the Treetop Adventure Golf experience. Virtual reality firm Sandbox has also selected Grand Central (which is part of the Bullring estate) for its largest site and its first outside London. Interactive football experience TOCA Social is also opening later this year.

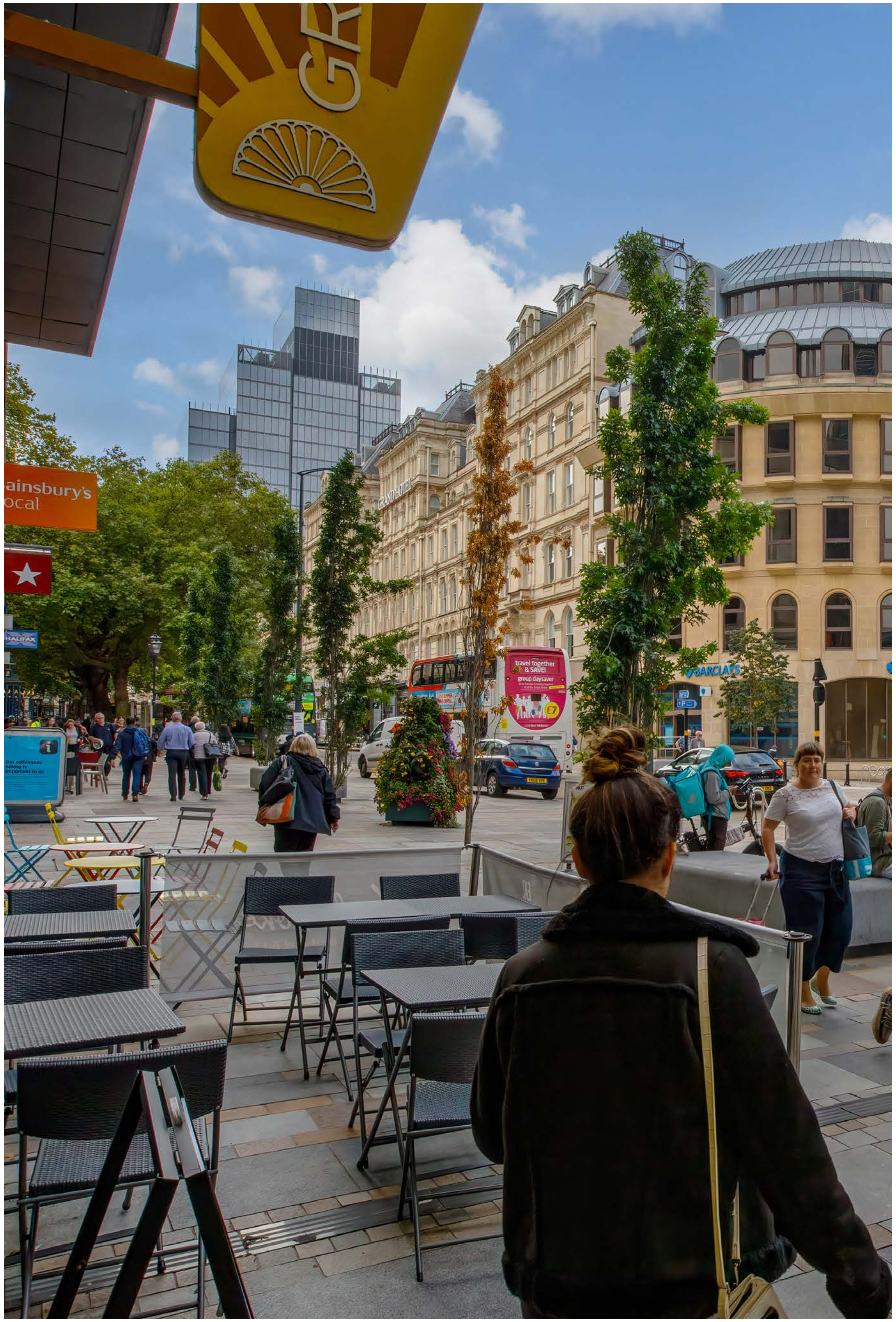
Hammerson is 50:50 owner of the Bullring with Canadian Pension Plan Investments (CPP). The companies are also jointly invested in Grand Central, where plans are advanced for the repurposing of the former John Lewis store above New Street Station. The Drum, a 200,000 sq ft office scheme, with a ground floor retail and leisure provision, has been unanimously approved by planners. It's a move which mirrors what has happened at Mailbox, where retail space has been repurposed and brought back into active and viable use as offices.

The Bullring's annual footfall levels are now very close to pre pandemic levels and this has benefited the surrounding retail offerings, including the Primark on High Street (the biggest Primark store in the world), and the Hollister Gilly Hicks and new flagship Sports Direct on New Street.

By pivoting its offer at the Bullring away from pure retail, Hammerson is aiming to lure shoppers away from their digital devices. The truth, however, is that the balance of clicks v bricks was already shifting.

In just two weeks, the Covid pandemic saw online spend reach levels that had not been anticipated for another ten years. However, in their 2022 Christmas trading statements, many retailers highlighted increased footfall to their stores. In contrast, ONS figures showed online penetration fell to 25.4 in December. The disruption caused by the postal strikes no doubt helped this. More retailers are now introducing return fees for online purchases and offering in-store click and collect/return facilities. This is helping to revitalise the high street.

> "The good news for retailers is the balance of clicks v bricks is shifting; customers spend more in store than they do online."



Another reason for cheer is the business rates revaluation. Business rate bills from April this year were slashed for many retailers and that should lead to further occupational interest/activity.

As an investment class, retail has, for years, typically underperformed in comparison to the office and industrial markets. But in CBRE's latest monthly Valuation Index (April) retail outpaces all property, with total returns of 1.7% and 1.1% respectively.s.

The cost-of-living crisis has reduced disposable income and it's the hospitality sector that has been hit the hardest. Christmas trading was also affected by train strikes.

Those in prime city centre locations and strong suburbs are faring best. The area around St Philip's Cathedral/ Colmore is the top of operators' hit lists, particularly London brands looking for a foothold. Ground floor space in 2 St Philips Place, former home to RBS, is under offer to an Irish bar/restaurant operator.

And just to prove it's not all retail-to-office conversions, 30,000 sq ft of ground floor retail/leisure space is being considered at Two Colmore Square and Cannon House.

Shops at the top section of New Street have also been repurposed. The units are small and, frankly, have become obsolete for traditional retail use. Instead, they now serve the booming 'grab and go' sector, with operators including KFC, German Doner Kebab, Tortilla and Extrawurst among the newcomers.

There are ongoing requirements for Birmingham city centre from convenience stores and pub/bar operators. For the latter, the cost of fit-outs has spiralled, with many seeking significant landlord contributions or to take on existing units if fitted out.

Although living costs remain a concern, signs that inflation is starting to move south is encouraging for both the retail and hospitality sectors. We're hopeful that consumer spending will pick up in the second half of this year.

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06

Relief For Birmingham's Hospitality And Retail Sector

Business rates slashed across the city.

Birmingham's hospitality and retail industries were hard-hit during the pandemic.

And despite the easing of Covid-19 restrictions, the sectors continue to struggle. A global energy crisis, food shortages, the rise of hybrid working resulting in fewer customers, and escalating staff costs have eaten away at already meagre margins.

As a result, social media is awash with hostelries calling time on their businesses and much-loved traders announcing they are shutting up shop.

But at last, it seems, the Government has thrown some of these businesses a lifeline, through a business rates reduction.

The new rating list was published by the Valuation Office Agency (VOA) last year and took effect this year on 1 April 2023. Rateable values are assessed on the basis of the annual rental value of a property. A 'multiplier' is then applied to arrive at a property's annual liability.

"Across England, rateable value for retailers fell by 10%. In Birmingham city centre, shops have benefited from even weightier reductions"

BIRMINGHAM RETAILERS: BUSINESS RATES LIABILITY

	2017 List RV	2023 List RV	% Reduction
House of Fraser*	£1,930,000	£855,000	43.94%
Next	£1,460,000	£820,000	43.94%
Victoria's Secret	£395,000	£320,000	19.00%
Chaophraya*	£116,000	£100,000	13.8%

*CBRE client

The last revaluation was in 2017 – the scheduled 2021 rating list was postponed when the pandemic intervened. The health crisis resulted in a shift in values for the retail and hotel sectors, which is reflected in this latest revaluation.

Across England, while the total rateable value for all businesses rose by 7.3%, for retailers it fell by 10%; pubs saw a hefty 17% drop.

In Birmingham city centre, shops have benefited from even weightier reductions. Over at the Bullring, Next has seen a 43.94% fall in business rates, from £1,460,000 on the 2017 list to £820,000 in 2023. M&S's move to the vacant Debenham's unit also looks astute, and it will enjoy a 47% reduction in business rates, saving more than half a million pounds.

For Birmingham's food and beverage sector, the VOA provided smaller portions of savings. Since the latest revaluation was based on values on 1 April 2021, the cost-of-living crisis, and rising staff and supply chain costs had yet to come into effect. Consequently these have not been fully factored in.

So, in contrast to the Bullring's retailers, Thai eatery Chaopraya has seen its rates bill shrink by just 13.8%.

Birmingham's hoteliers fared better. Although they enjoyed a much-needed boost due to the Commonwealth Games, the bigger picture points to the massive downturn these hotels have seen in weekday trade as a result of the changes in office occupier habits and the rise in hybrid working.

To support their recovery, many hoteliers in the city pre-agreed assessments with the VOA. As a result, reductions average 36.5%. Birmingham's premier hotel, The Grand has shaved £262,000 off its Rateable Value, resulting in a reduction of £134,144 per annum off its annual rates bill - a saving of 37%.

For any business scoring a rates reduction, the other good news is that for the first time in 33 years the Government is passing on these savings with immediate effect. Previously, reductions were phased in over time. Retailers lobbied the Chancellor hard on this, and their persistence has paid off.

The Grand Hotel

BIRMINGHAM HOTELIERS: BUSINESS RATES LIABILITY

	2017 List RV	2023 List RV	% Reduction
Holiday Garden Inn	£626,000	£421,000	32.5%
Hotel du Vin	£312,000	£181,000	42.0%
The Grand	£710,000	£448,000	37.0%
Premier Inn	£472,500	£330,000	30.00%
Crown Plaza	£796,000	£464,000	42.0%

Whilst retail and hospitality traders in Birmingham city centre have business rates cuts to look forward to, traders elsewhere are being hammered. It's something of an irony that local high street traders, who served their communities during the pandemic, have been hit with higher bills. Takeaways, who kept the nation fed, are seeing an average hike of 7.5%.

Retail warehouses have seen a 35% average rise in their rates bills, as a result of the spike in online trading during the pandemic. Yet online sales are now on a downward trajectory.

For those businesses hit with a rise, it's worth examining the rateable value assigned to their premises. There is an avenue to appeal and due to pressures on Valuation Office resources it is vital that appeals are made as soon as possible. The next revaluation won't be until 1 April 2026 and will be based on values on 1 April 2024. We are already working with clients on pre-agreements to provide certainty and to avoid the need to appeal.

In the meantime, those Birmingham retailers and hospitality operators who have scored savings have an opportunity to claw back some of the losses accrued during the pandemic. Against the backdrop of challenging pre- and post-pandemic trading, if these business rates reductions don't feel like a windfall, they at least provide a respite.

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07

Brum Hoteliers Boosted By Commonwealth Games

The global spotlight was on Birmingham for the 11-day sports event, with more than five million visiting the city.

Commonwealth Games 'Raging Bull'

If medals were handed out to the hosts of the Commonwealth Games, Birmingham would bag a gold.

In the glorious two weeks in 2022 when the city was home to the world's second biggest multi-sports event, record attendances were achieved, with 1.5 million ticketed fans across the 11-days.

There were more than five million visitors to the city during the Games, and a massive £214.6m* generated for the local economy.

Birmingham's hoteliers enjoyed a much-needed boost as a result, in what was their first Covid-free year since 2019.

Hotel occupancy levels and Average Daily Rate (ADR) across the UK were already starting to recover post-pandemic, but Birmingham saw a stronger performance thanks to Games.

Occupancy levels in the city in 2022 reached 60.1%, up from 35.9% the previous year and 22.7% in 2020**. However, 2022 performance was still below the pre-pandemic level of 80.1%, despite the injection of visitors resulting from the Games and the Conservative Party Conference, held in October.

Encouragingly, Average Room Rate (ARR) is up on even pre-pandemic levels, breaching £90 compared to £81.84 in 2019, £73.30 in 2020 and £80.03 in 2021**. The addition of new hotels in the upscale and higher-end segment – including the Grand Hotel – have assisted in driving this rate.

Much has been made of the 'legacy' of the Games. The event was certainly a showcase for the city, broadcasting in 134 countries with an estimated global TV viewership of 834.9m. The BBC reported that streaming of the event was six times higher than for the Gold Coast event in 2018.

In 2019 the value of Birmingham's visitor economy peaked at £7.9bn. This dropped by more than half during the pandemic but is on track to recover by 2024, supported by the legacy of the Games.

The £24m Business and Tourism Programme (BATP), launched in July 2021, aims to leverage this and the signs are Birmingham is already seeing an uplift in the number of meetings, conferences and sporting events being booked in future years. A deal with UK Athletics means the city will host Indoor Championships and Grand Prix events until February 2032 and in 2026 Birmingham will host the European Athletics Championships at Alexander Stadium.

Proposed development of the Grade II Central Methodist Hall

The West Midlands will stage the 2025 Kabaddi World Cup, a sport played in more than 50 countries with the UK being the first destination outside of Asia to hold the tournament. The IWG Women & Sport World Conference also announced the UK as host of its next quadrennial period (1 October 2022 – 30 September 2026). Their culminating conference will be held in Birmingham in 2026, adding to the city's exceptional portfolio of sporting events.

This is all good news for the city's hoteliers, but work needs to be done to diversify the range of accommodation on offer.

Close to two-thirds of Birmingham's hotel beds are in the budget/economy and midscale range, which delivers a lower ADR compared to other regional cities. Discerning travellers – and more affluent ones – lean towards design-led hotels. There is a definite opening for more lifestyle hotel offers in the city.

The proposed development of the Grade II Central Methodist Hall on Corporation Street will help address this. The 4-star 150-bed operation will include multiple food and beverage offers, a rooftop restaurant and bar and a 1,500 capacity entertainment venue. The hotel represents the UK debut for Ireland's Press Up Hospitality, the largest hospitality group in Ireland, whose portfolio includes Dublin's iconic Clarence Hotel. The Birmingham operation will be part of its 'The Dean' stable.

Birmingham's serviced apartment offer also lags behind that of other regional cities. Just 3.7% of the city's accommodation falls in this sector, compared with 7.4% in Manchester and 13.6% in Liverpool.

Looking forward, the hotel sector will be eager to greet a new influx of visitors.

5M

VISITORS TO THE CITY DURING THE 2022 COMMONWEALTH GAMES

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> "Average Room Rates (ARR) in Birmingham are up on pre pandemic levels, breaching £90. The addition of new hotels in the upscale and upper upscale segment have assisted in driving this rate.."

08

Record Rental Growth Underpins Confidence In PBSA Sector

Strong rental growth on prime assets in Birmingham

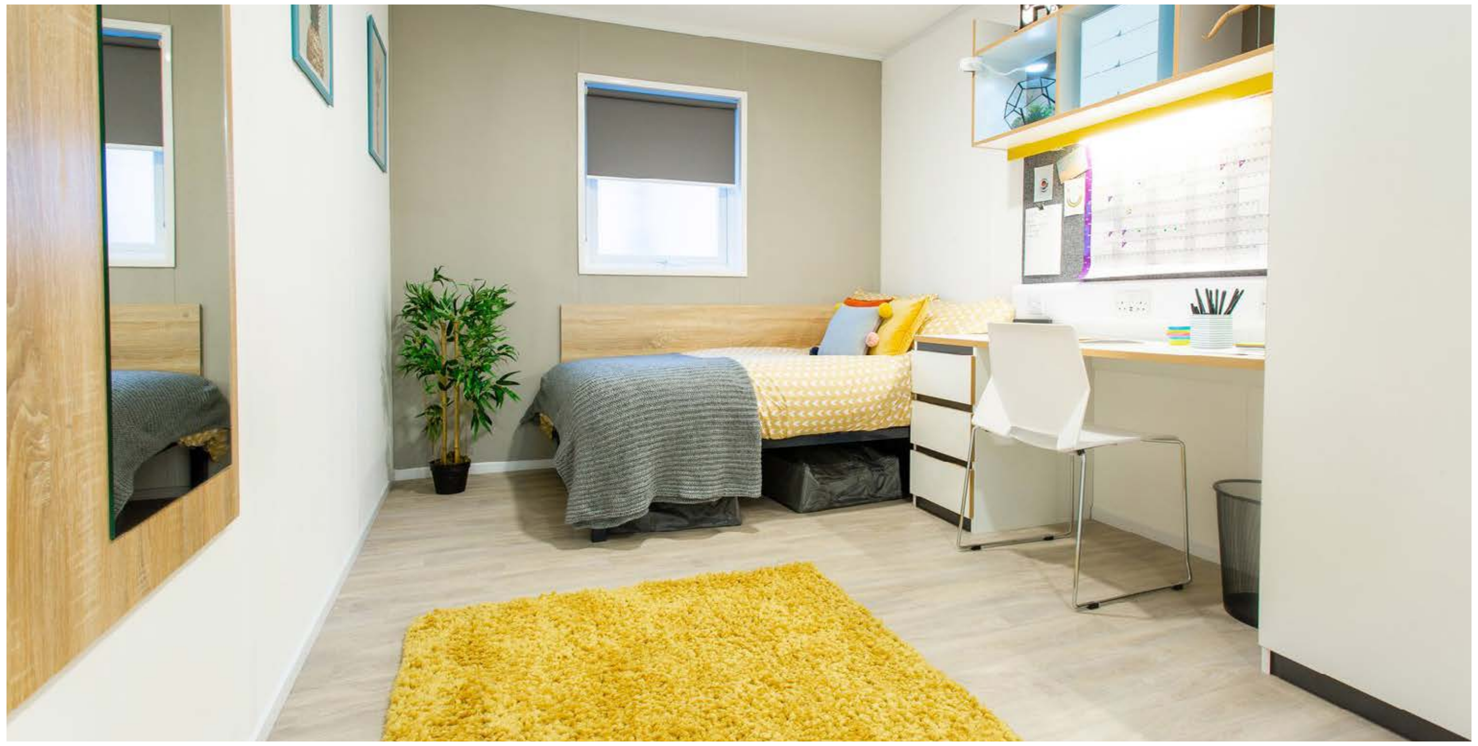
There's only one sector in Birmingham's real estate market where rental growth is showing double-digit growth and that's prime purpose-built student accommodation (PBSA).

While stellar rental returns in part reflect demand for PBSA outpacing supply, there are other factors at play, not least the rise operators are facing in overhead costs. Energy prices – which typically make up around 30% of operational cost budgets - have risen since the start of the war in Ukraine and the subsequent turmoil in energy markets. Staffing costs are also an issue, with operators needing to keep pace with pay on offer in alternative sectors.

Over the last three years, CBRE has valued more than half of the private sector beds in Birmingham. Our data shows rental growth of up to 11% for the best assets in the city for the 2023/2024 academic year.

> "Birmingham's student population is the largest outside London."

The Altura development



60%

OCCUPANCY LEVELS IN THE CITY IN 2022, UP FROM 35.9% THE PREVIOUS YEAR

And there's no sign that rental hikes are frightening off students. By November last year, the best schemes had already 'sold out' in key markets across the UK for the 2023/24 academic year. The constraints on supply have resulted in earlier letting cycles in key locations.

Birmingham is the largest regional university town with more than 84,000 full-time students studying at the city's nine universities. These universities comprise the five indigenous universities and now four regional universities with a secondary campus in the city. Birmingham is home to around 8,000 more full-time students than Glasgow and circa 10,000 more than Manchester. Both Aston University and Birmingham City University have more than doubled their intake over the last ten years, with the University of Birmingham seeing a circa 30% rise in numbers.

Although PBSA is the preferred mode of accommodation for the city's students, many are unable to access it. At the time of writing, the consented pipeline of circa 5,500 beds will make a dent in this – though just 1,300 of those have known pre 2024/25 completion dates. Planning permission is currently being sought for a further 1,000 beds. However, taken together, these schemes will satisfy less than a third of the existing demand across the city.

Selly Oak – close to the University of Birmingham – and Aston – which serves the city-based campuses – are the favoured locations, though they are two distinct markets and demand pools. However, opportunities in the former B29 postcode are increasingly limited, while the area around Aston and parts of the city centre continue to be well supplied. Going forward, any new planning applications in the city are now required to submit a Student Accommodation Statement under Policy TP33, demonstrating the need for new student development in the city.

Despite macroeconomic headwinds and a more challenging UK real estate investment market in H2, 2022 was a record year for PBSA investment, with £6.7bn transacting across 70 deals.

In December, Harrison Street sold its Utopia portfolio to City Development Ltd, a new entrant to the PBSA market. The £185m deal included the Altura asset on Birmingham's Bath Row.

While some £1.5bn of potential deals were withdrawn in Q4 - and there was a slow start to Q1 2023 – CBRE is aware of some £3bn of opportunities in the current pipeline and we anticipate a bounceback in the second half of the year on the back of strong rental growth in 2023/24. There's certainly no evidence of distressed selling.

The sector fundamentals remain strong, with the record rental growth in prime areas underpinning investor confidence. According to CBRE's Student Index, total returns for PBSA for the year ending September 2022 exceeded 16%. At 11.3%, growth in capital value was also stronger than the previous year, with larger assets of 500+ beds reporting the best growth. This performance saw PBSA enjoying higher total returns and higher capital value growth compared with 'all commercial property' in the year to Q3 2022.

Although yields softened last year – with even prime regional benchmarks moving out by 25bps – the unprecedented rental growth prospects in key markets are providing a cushion.

The changes to EPC requirements and new requirements placed on property owners under the Building Safety Act could see some delays in deals completing. However, overall the outlook for the most popular UK residential markets remains strong and lenders continue to remain keen on the living sectors, including PBSA and Build to Rent.

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09
Special Focus

Proposed new 129,000 sq ft, 10-storey landmark building at Aston University

Unlocking The Value And Potential Of Public Sector Real Estate Assets

Across the UK, local authorities, education institutions, government agencies and public sector organisations own significant land holdings and built assets capable of being repurposed and developed. Whether assets are surplus to requirements, no longer fit for purpose or in need of investment, having an Estates Strategy is key to maximising their value and potential.

CBRE recently worked with the University of Southampton to help shape and deliver its five-year estates strategy.

As a founding member of the prestigious Russell Group of universities, the University of Southampton is consistently ranked as one of the top 100 universities in the world and is in the top 13 in the UK, providing places for around 24,000 students every year.

However, in what is an increasingly competitive sector, the University recognised that if it is to continue attracting and retaining both students and staff, it needs to provide first-class teaching and learning facilities, with the quality and character of its buildings and campuses central to achieving this.

The purpose of the estates strategy is to identify strategic goals the University's estate needs to address to support its growth, whilst also setting out key challenges, opportunities and solutions. Timing was a critical factor, as the estate needs to be developed to meet the University's projected increase in student numbers.


Part of Heart of Campus, University of Southampton


Sir James Matthews Building, University of Southampton

"The purpose of the estates strategy is to identify strategic goals the University's estate needs to address to support its growth, whilst also setting out key challenges, opportunities and solutions."

“Revitalising the University’s deteriorating assets for the benefit of staff and students will also be a key priority of the Estates Strategy over the next five years.”

Highfield Campus, University of Southampton

To understand the University’s current challenges, CBRE’s team, led by Andy Higgs, Executive Director in the Project Management and Building Consultancy team and Head of Education, started by undertaking a detailed space analysis and benchmarking against similar universities, together with understanding the University’s business plans and strategies, identifying planning and development opportunities, and condition and suitability reviews.

The team also undertook extensive interviews with key stakeholders, including the senior management team, as well as deans of faculty, culminating in several workshops with university staff and the University Board.

Based on the feedback from the interviews and CBRE’s own research and analysis, several sites at the University’s main Highfield Campus were identified for development to provide new specialist collaborative teaching and research space and improved public realm.

Revitalising the University’s deteriorating assets for the benefit of staff and students will also be a key priority over the next five years.

Andy Higgs said: “The ambitious plans set out in the estates strategy, while helping to maximise the value and potential of the University’s real estate assets, will support its goal to become carbon neutral by 2030 by enabling the refurbishment of some of the older buildings, removing those that are no longer fit for purpose and designing new environmentally sustainable buildings to replace them.

“This is a strategy being increasingly implemented by further and higher education institutions, and the public sector, that are sitting on underutilised real estate assets.”

In Birmingham, CBRE was instructed to prepare a detailed planning application for a new landmark building at Aston University. The 129,000 sq ft, 10-storey building will provide work, teaching and social learning space, as well as a ground floor café and public arcade at the University’s city centre campus.

Proposed new 129,000 sq ft, 10-storey landmark building at Aston University

"CBRE is growing its Public Sector business in the Midlands and helping clients unlock the value of their substantial land and property assets."

The building represents the first stage of Aston University's masterplan and long-term strategy to create a campus that offers an outstanding experience for staff and students, as well as bringing improvements to surrounding communities and the city of Birmingham.

Key considerations during the preparation of the planning application included the role of designated and non-designated heritage assets, the existing Tipping Triangle Fountain, servicing arrangements and the site's wider context within the Aston University Campus.

Plans for the building were approved by Birmingham City Council in August 2021.

CBRE also undertook a planning and market-led option appraisal for Aston University to inform the development of circa ten acres of surplus land at the North and the South Campus on the University's estate. The appraisal considered the demand for alternative land uses including residential, academic and commercial.

Louise Wyman, Executive Director for Planning & Development at CBRE, said: "CBRE is growing its Public Sector business in the Midlands and helping clients unlock the value of their substantial land and property assets. This often starts with an asset review, analysing how well an existing estate matches a client's future business plans, which underpins our estate strategy advice.

"The key is knowing how to create value and benefit, navigate the planning system and introduce credible development partners to help clients optimise their estate for the future."

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Proposed internal view of the 129,000 sq ft, 10-storey landmark building at Aston University

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