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Real Estate



Staying on Track
Birmingham Crane Survey 2021

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Why?
A report that measures the amount of development taking place across Birmingham City Centre and its impact. Property types include residential, office, hotel, retail and leisure, student accommodation, education and research facilities, and healthcare.

Where?
Birmingham city centre encompassing those areas largely within the outer ring road, including: Eastside, Westside, Southside, Digbeth, Jewellery Quarter and Gun Quarter.

What?
Developers building new schemes or undertaking significant refurbishments exceeding the following sizes: office – 10,000 sq ft; retail and leisure 10,000 sq ft; residential property – 25 units; education, healthcare and research – 10,000 sq ft; hotel – 35 rooms.

When?
Data for the Crane Survey recorded development activity between 11 January and 18 December 2020.

How?
The regional Deloitte Real Estate team has monitored construction activity and planning permissions granted over a number of years, supplemented by rigorous field research. This research has been verified by industry contacts and in-house research teams.



Foreword



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using the office in the same way as before. Whilst this may take pressure off public transport at peak times, the consequences could be far reaching.

One of the stand-out stats for Birmingham last year was that, for the 7th year in a row, the city topped the league for number of new start-up businesses outside London with 18,394 new ventures setting up. This sustained performance underlines growing confidence in the city as entrepreneurs put down roots across an exciting range of new and emerging businesses.

2020 may go down for many as a year to forget, but despite all the challenges developers continued their work to help shape a better city. As we start to emerge from the pandemic and look towards 2022 we should remain confident there'll be more cranes on the horizon and trains on the track.

Development activity continues across Birmingham city centre with great anticipation as we all look forward to hosting the Commonwealth Games in July next year. Beyond that, the arrival of HS2 and the first brand new intercity terminus station built in Britain for over 100 years, means Birmingham is continuing to attract national and international interest.

Infrastructure investments have been crucial to the success of the city and these continue. The improvements to Centenary Square and the extension of the tram system are just two examples in the last year, but all have helped to boost confidence and attract investors and developers to the city.

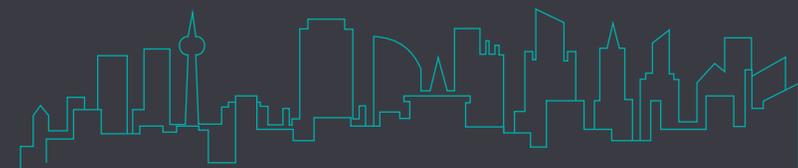
The decision by BT to take 283,000 sq ft to employ up to 4,000 people at Snow Hill last year was the latest in a long line of big wins for the city. Developers are continuing to push forward with new schemes and the pipeline is strong despite the pandemic.

Residential developers remain confident that the housing shortage, coupled with a migration towards city centre living will continue to drive demand, but it has been a more troubling year for office developers. Whilst all sectors have had to deal with interruptions and consequent delays the future for offices looks less certain than a year ago.

There is no doubt that many employees cannot wait to get back to the buzz of the city centre, but it's less clear whether they'll be back five days a week and

Development snapshot

Total number of schemes under construction by sector



Over **one million sq ft** of office under construction. Just over **210k sq ft** completed in 2020.

Just **1 new major development** in leisure started in 2020.



224 hotel spaces completed.

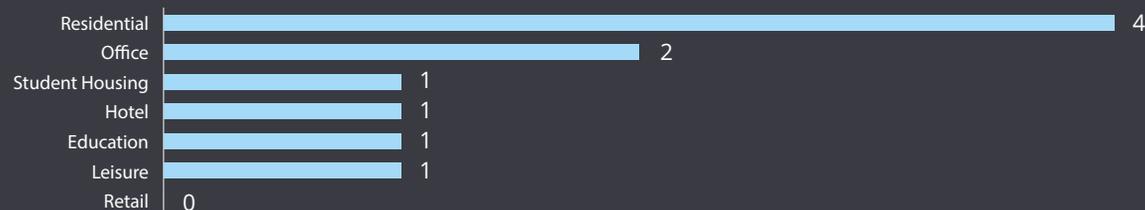
1,458 Student bed spaces completed.

No new **retail developments** in 2020.

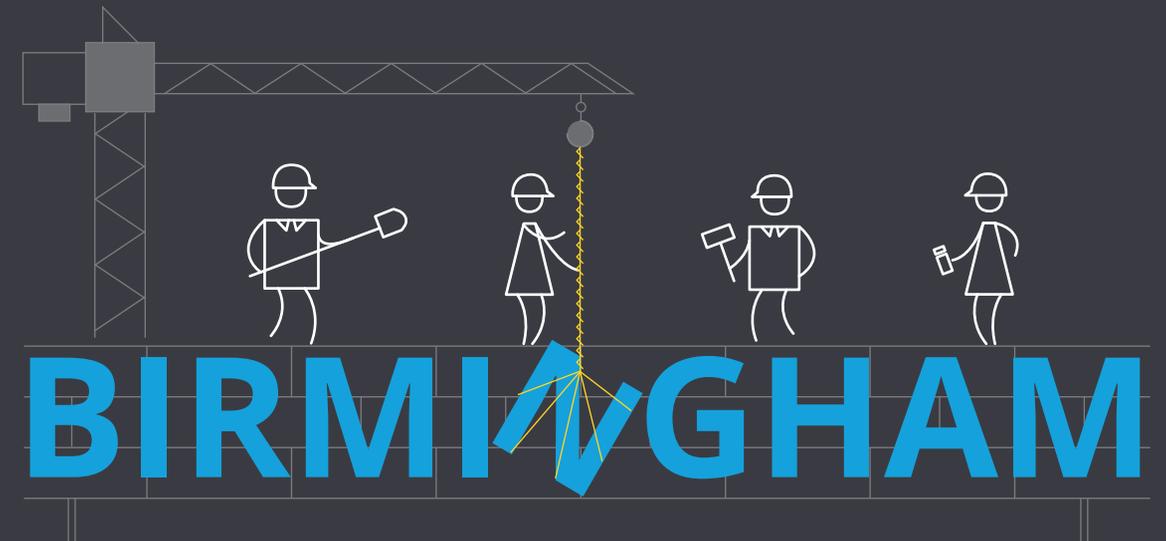
10 new schemes started in the city in 2020.

3,886 residential units under construction.

New starts per Survey



Key findings



2020 saw **34 schemes under construction** compared to **41** the previous year.

The amount of office space under construction fell for the fifth consecutive year. Completion of just over **210,000 sq ft** in 2020 - similar to the levels seen in 2016 and below the 10-year average.

Despite market challenges, pre-letting of offices remains strong with **51% of space** currently under construction pre-let. Difficult year for retail, with no major new schemes started for the second year in a row.

Residential development continues to thrive with a record **2,072 units** completed. **20 schemes** currently under construction, including **four new starts**.

A record year for student accommodation with **1,458 beds** completed - the highest recorded since the Birmingham Crane Survey started.

One new hotel was started in 2020 and **224 rooms** completed.

Similar to 2019, **10 new schemes** started across Birmingham city centre in 2020 - four residential, two office and one each for education, hotels, leisure and student accommodation. The four residential schemes will deliver **464 units**.

Residential



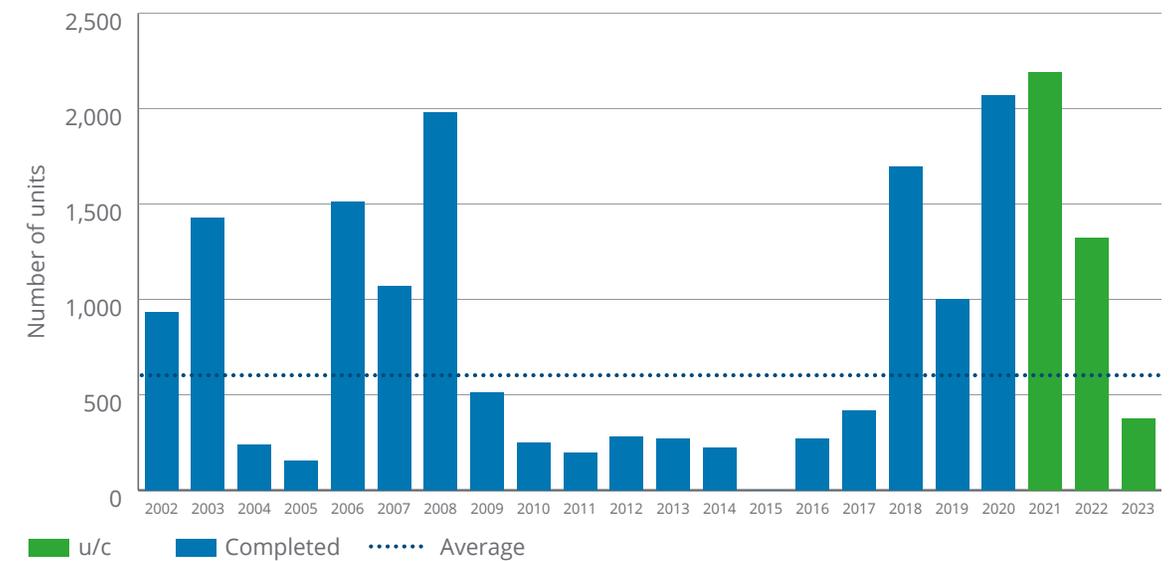
2020 was a record year for residential development with 2,072 units completed. This is well above the 10-year average of 607 and the highest total in the past decade.

Initial predictions estimated that around 3,100 units were due to complete in 2020 and although still below this figure, it is a record high.

The on-going pandemic has inevitably slowed construction, but with four new schemes breaking ground in 2020, it is the most active of all the sectors.

However, this record is set to be broken in 2021 as delayed schemes come to fruition alongside those that are due to complete.

Chart 1. Residential Development Pipeline

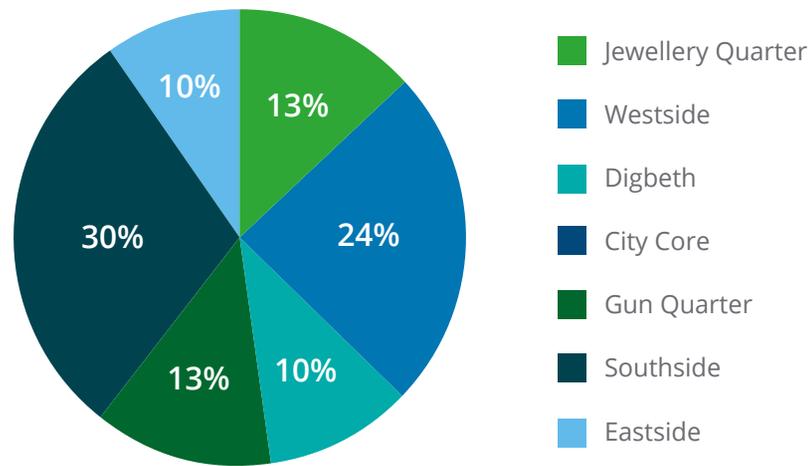


Perhaps what is more noticeable is the spread of schemes across the city centre. There are currently five schemes in the Jewellery Quarter, totalling 514 units. Westside (942 units), Digbeth (401) and Southside (1,150) all have four schemes underway.

The development of B5 Central in Southside has the largest number of residential units under construction, largely influenced by the demand for more affordable and family housing communities.

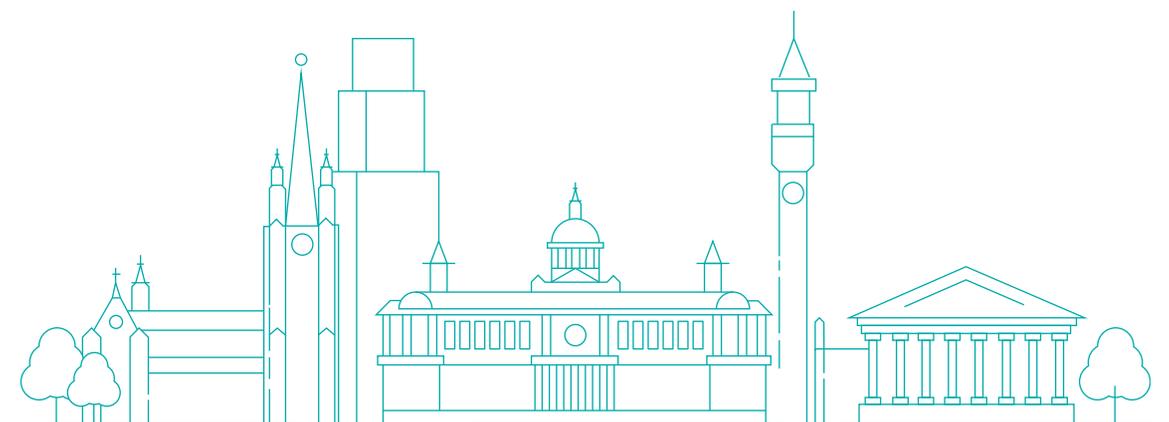
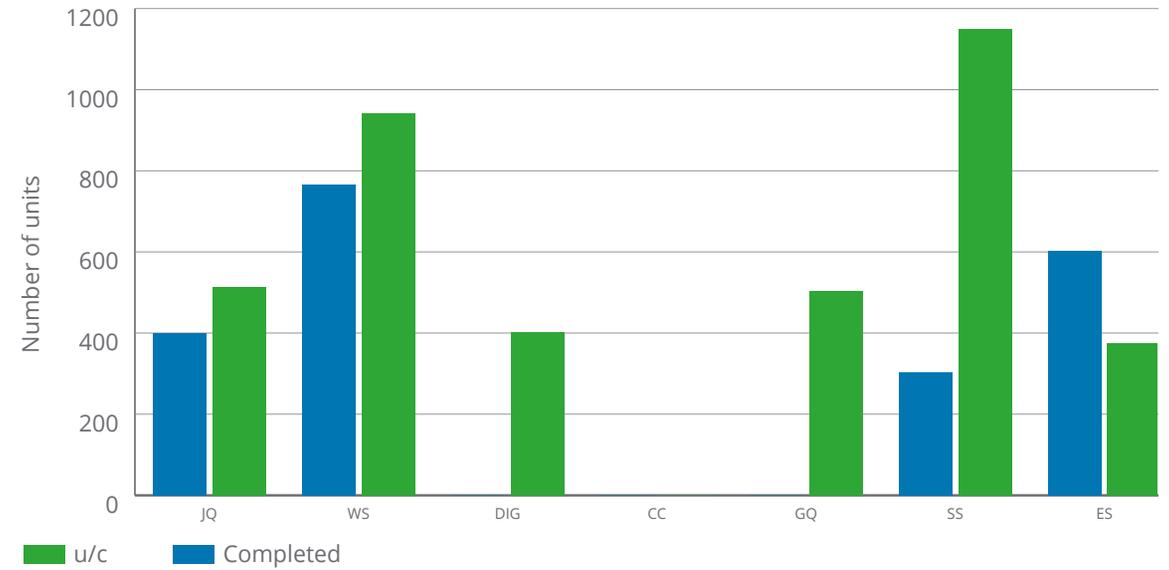
A notable new start in the residential sector is Exchange Square 2 in the city centre. Comprising of 375 build-to-rent apartments, Nikal has already pre-sold the development to Grainger. Exchange Square 2 is the only scheme in development in the City Core, which has seen no completions in 2020.

Chart 2. Units under construction



The demand for build-to-rent and the private rental sector continues to remain strong, with a sustained institutional demand for large, well-located schemes. The new business district at Paradise Circus and the forthcoming 2022 Commonwealth Games continues to drive investor confidence as well as the tram improvements and HS2.

Chart 3. Delivery of Residential Units vs Complete in 2020



Office

2020 saw two new office schemes recorded, with just over 200,000 sq ft of new and refurbished office space delivered. This is 50% down on new schemes from 2019, with levels similar to 2016.

Following a landmark year for office completions in 2019 with over 775,000 sq ft of new and substantially refurbished office space delivered, most notably through developments at Chamberlain Square and Three Snowhill, 2020 has seen a significant drop in floor space completed by almost 75% to 210,328 sq ft.

construction in the short-term with those delayed schemes expected to complete early this year.

2021 should see the delivery of more than 750,000 sq ft, a significant uptick from 2020 and similar to the landmark level seen in 2019.

Two major refurbishment schemes started in 2020, One Temple Row in the City Core and Albion Court in the Jewellery Quarter.

Good progress has continued at 103 Colmore Row, with 223,631 sq ft of office space due for completion early 2021. 3 Arena Central is also expected to complete in the early part of the year.

All of the three schemes which completed in 2020 were major refurbishments including, Six Brindleyplace, 4 St Philip's Place and Louisa Ryland House within the City Core.

Despite the significant drop in delivered office space, six schemes are currently in development and for the fifth consecutive year, over 1,000,000 sq ft of office space is still under construction, of which 51% is already pre-let.

2020 was initially planned to see the delivery of more than 600,000 sq ft, but the coronavirus pandemic stalled

Chart 4. Total office space under construction

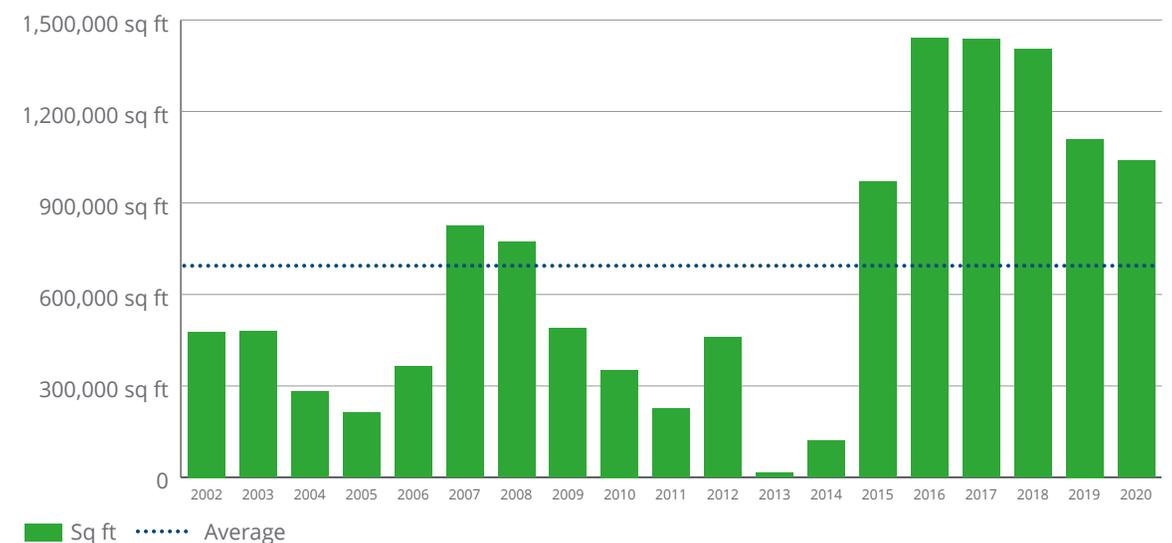
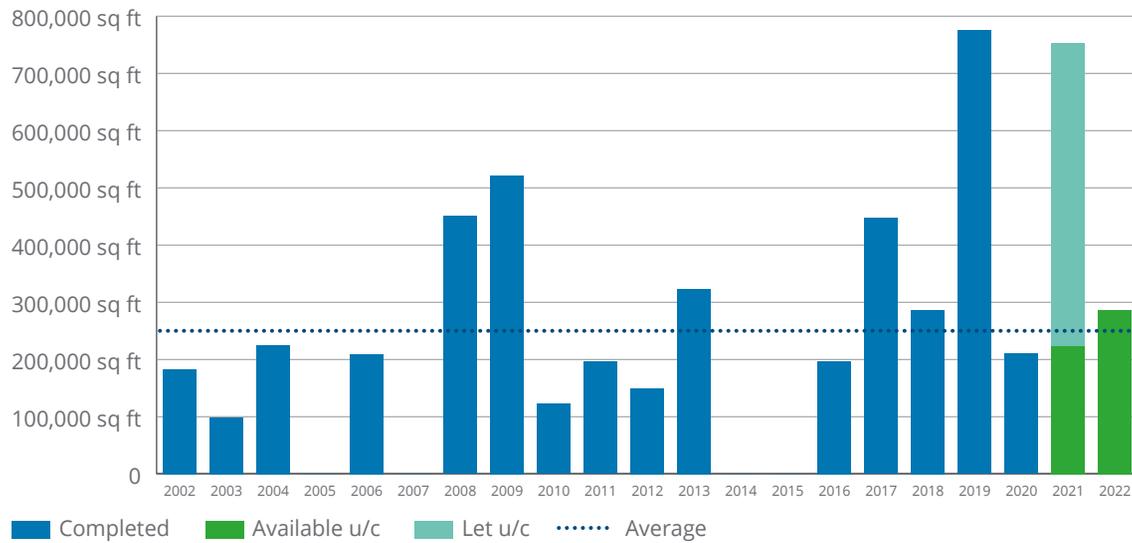


Chart 5. Office Development Pipeline



Office development delivery 2019 vs 2020

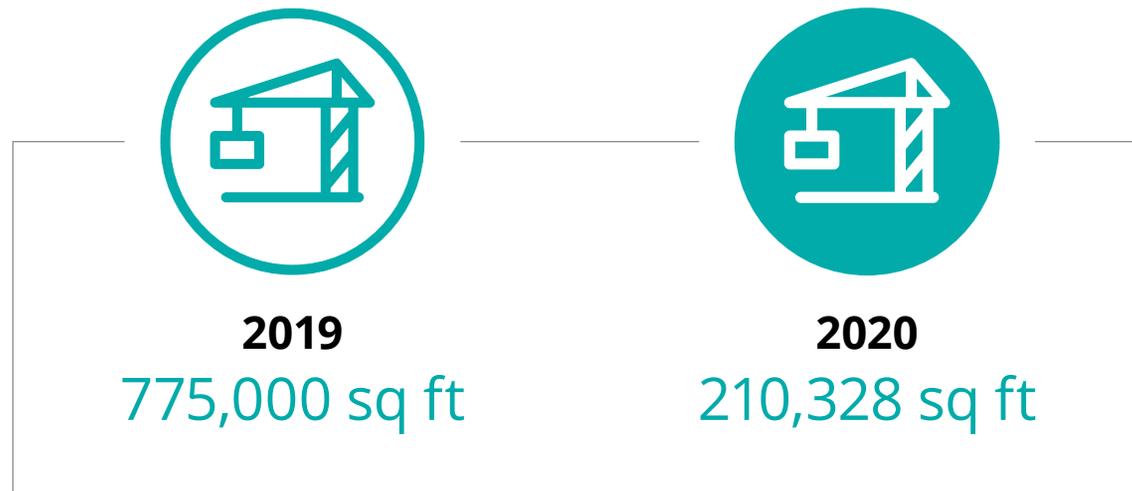


Chart 6. Number of new office starts

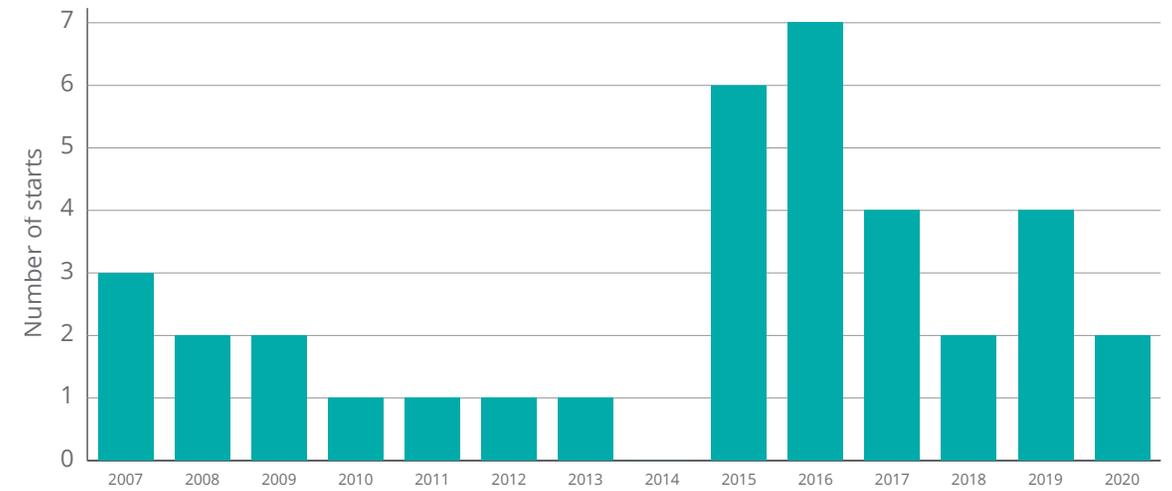
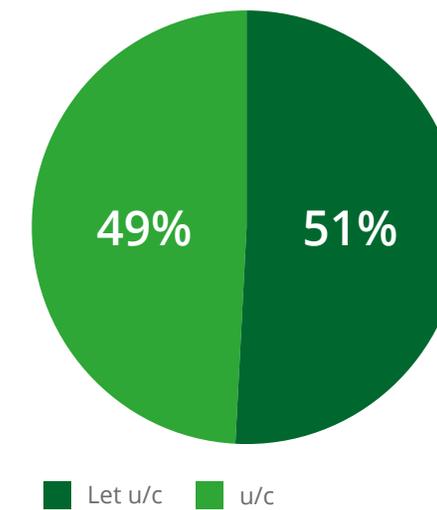


Chart 7. Office floor space - pre-let and available 2020



The private sector has taken the lead in terms of take-up of office space during 2020. At the turn of the year, BT committed to the largest office deal the city of Birmingham has ever seen, taking 283,073 sq ft at Three Snowhill.

The second largest deal was completed by the public sector with the Department for Work and Pensions committing to 48,787 sq ft at the B1 development³.

2020 marked the fifth anniversary of the Paradise development. Construction of Phase 2 started in 2019 and when complete One Centenary Way will bring 280,000 sq ft of office space to the market.

According to the Birmingham Office Market Forum, there were a total of 50 office lettings in central Birmingham amounting to a total take up of 520,810 sq ft over 2020¹. This is lower than the previous year and at levels not seen since 2012².

Argent's £700 million Paradise development has already attracted tenants such as DLA, Knights and Mazars, and is an important development for the area. Once complete, it will deliver a new business district with innovative office space alongside retail and leisure.

Construction activity has declined for the fifth consecutive year, which is reflected in the pipeline.

Only time will tell whether Covid-19 has driven a permanent shift in employers and employees' expectations around agile working. Several recent surveys have suggested that office-based workers would prefer to spend about half their working week at home, whilst employers are weighing up the pros and cons⁴. In the meantime, developers are left to decide how best to adapt designs to satisfy demands for emerging requests such as 'greater collaboration space', 'healthy offices' and 'future pandemic proof' workspace.

Local Covid-19 recovery plans highlight the importance of investing in sectors such as green manufacturing, technology and healthcare, as well as harnessing the impact the 2022 Commonwealth Games will have on tourism and cultural sectors.

As developers cite funding as the second biggest challenge to the commencement of new office construction⁵, it will be interesting to see if schemes in the pipeline break ground in 2021. What is certain, is that development must continue to ensure that Birmingham can play a full and active part in the government's levelling-up agenda.

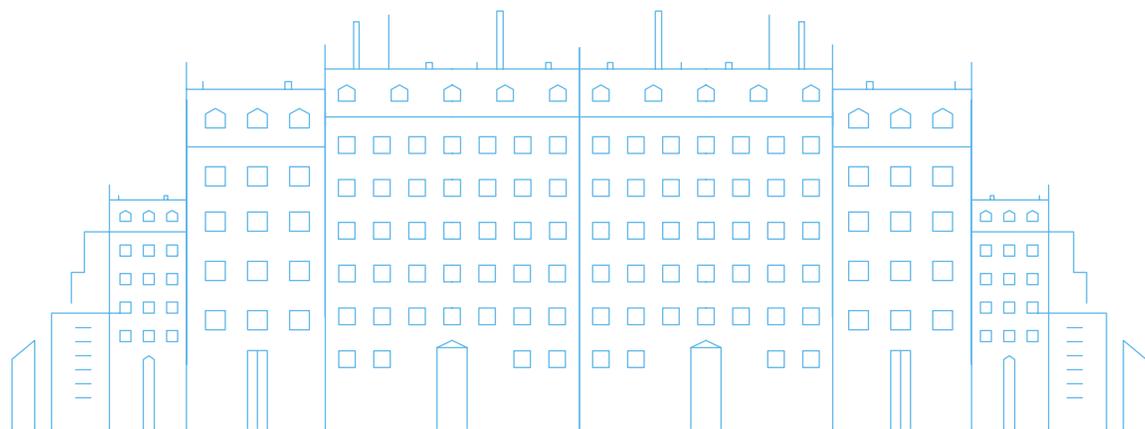
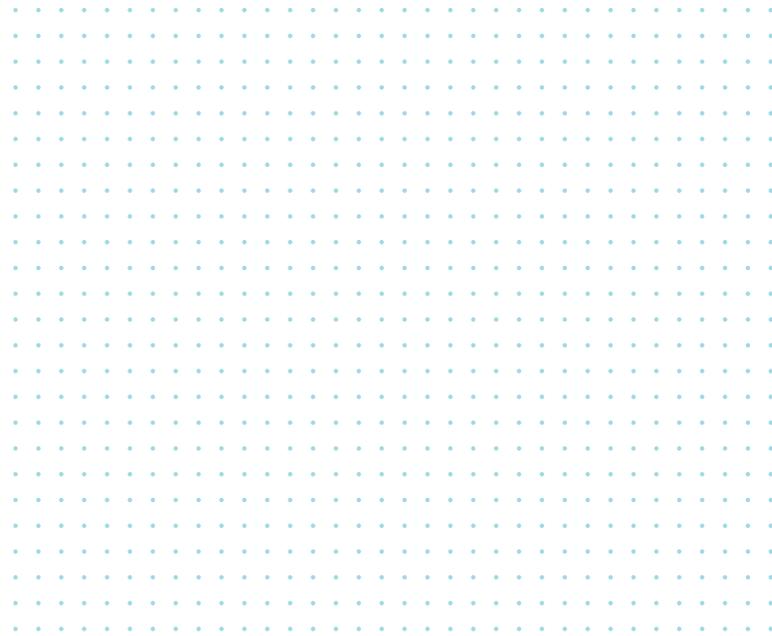
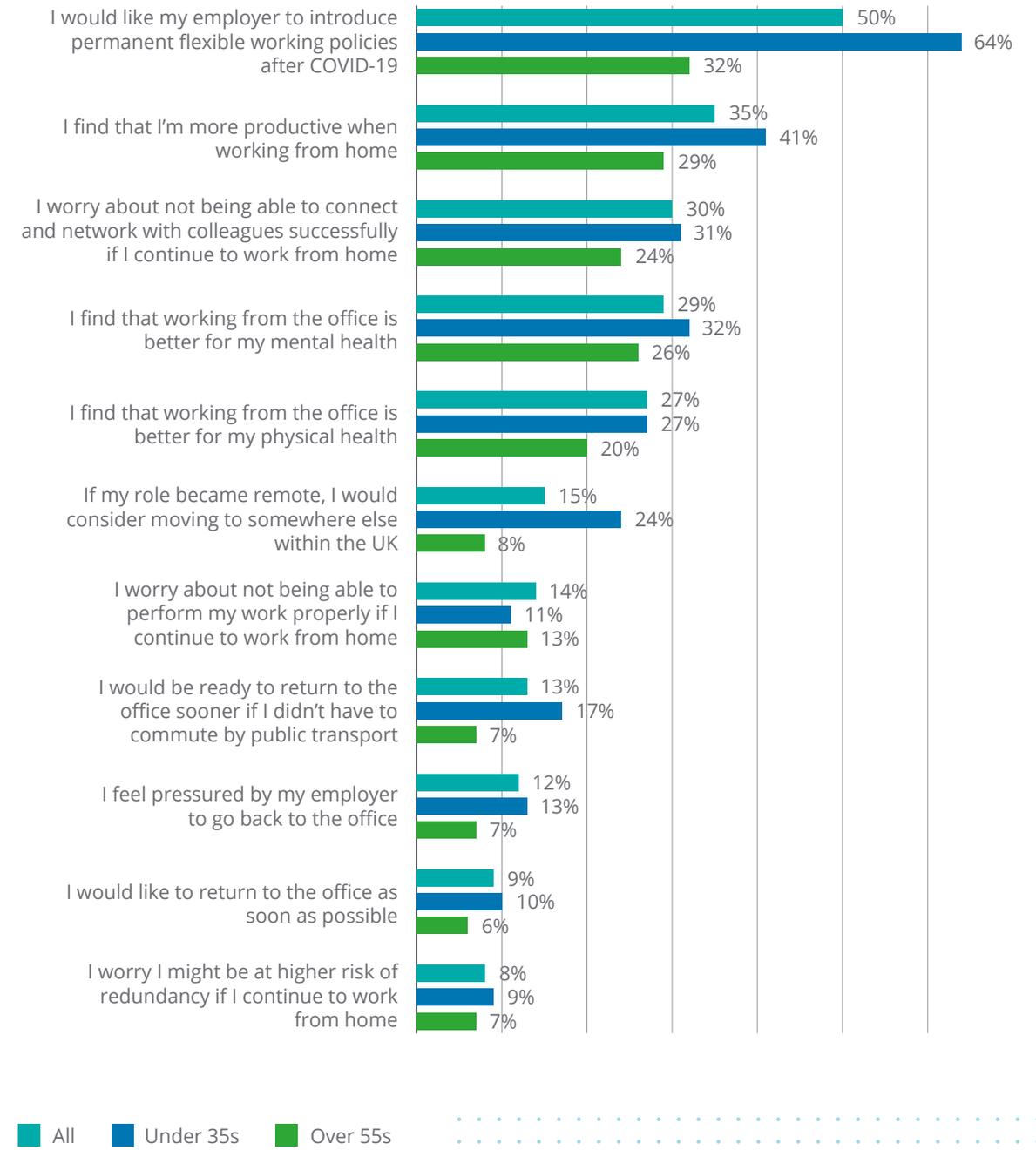
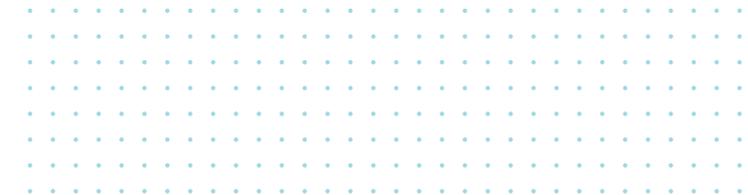


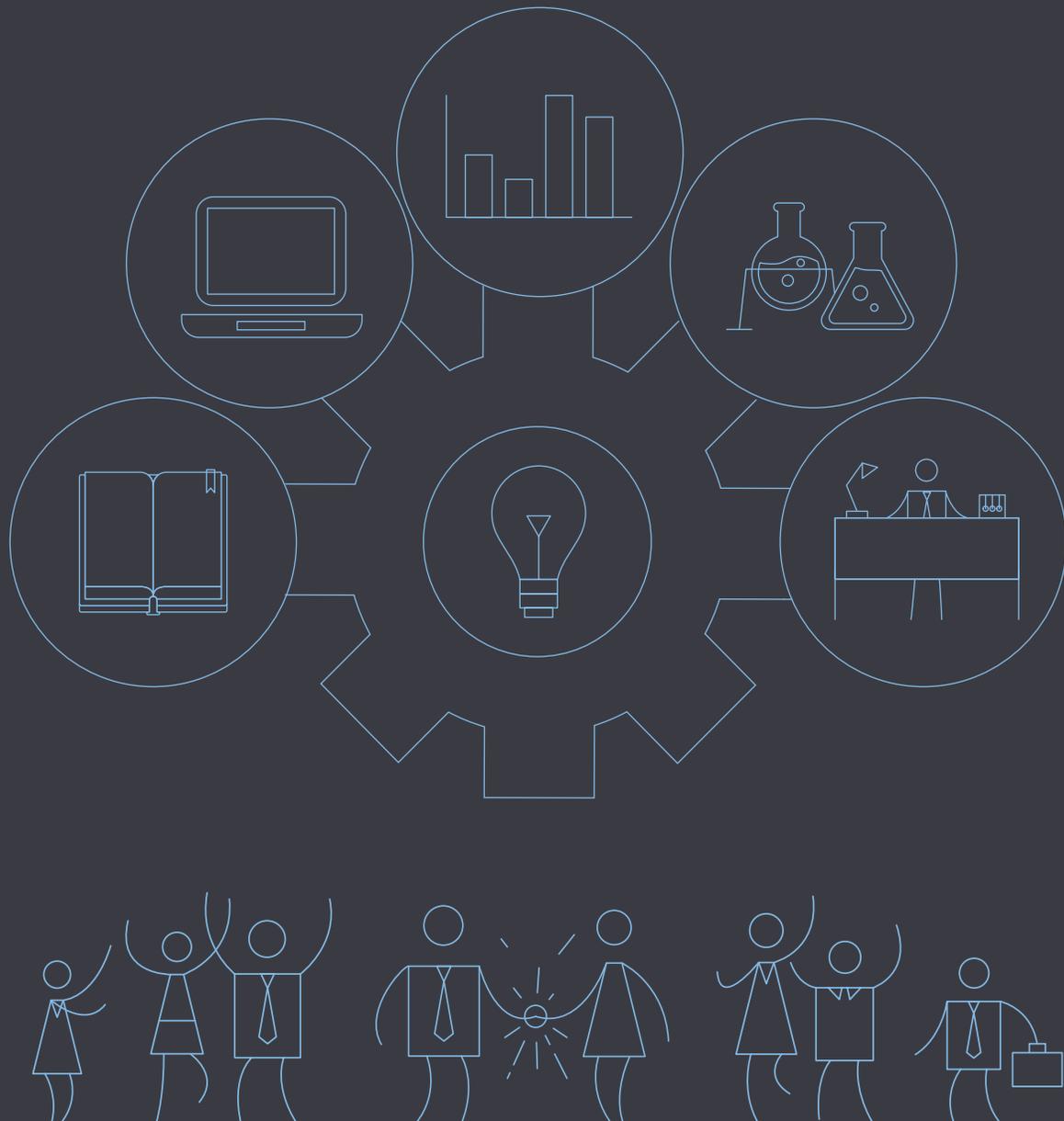
Chart 8. Percentage of consumers who selected each statement, by age



Source: The Deloitte Consumer Tracker



Student, education and research



A record-breaking year for completed student bed spaces in Birmingham and the highest level ever recorded in the Crane Survey, with 1,458 delivered in 2020.

Although slightly lower than the levels predicted of around 1,850 new student beds becoming available in 2020, it is still well above the 10-year average.

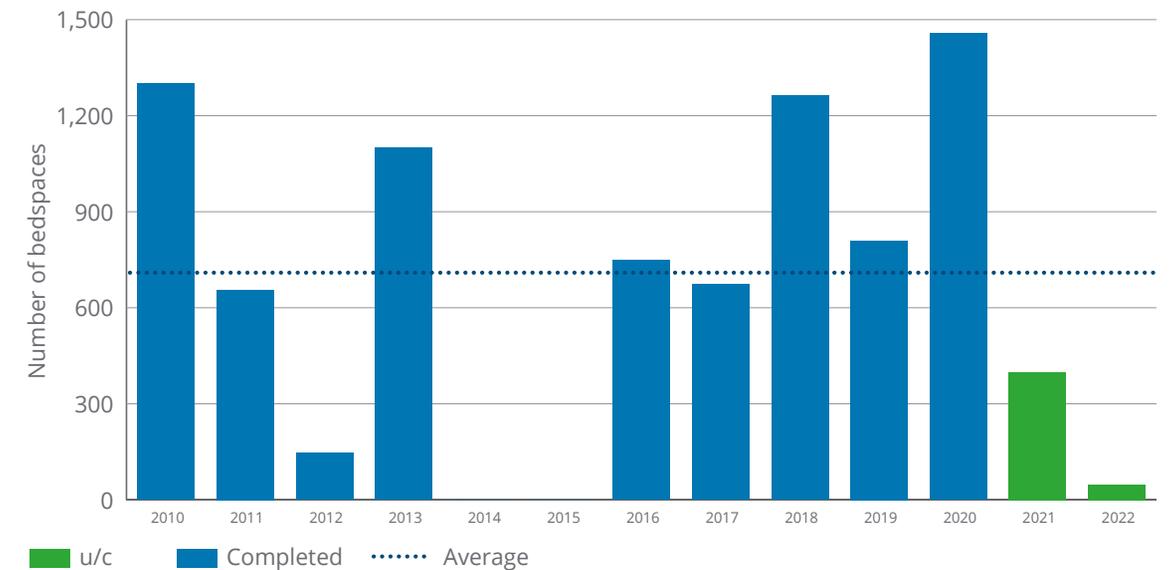
Over two-thirds of new beds available follow the completion of the 1,023-bed Lancaster Circus in Eastside. The remaining 435-beds are on Bath Row in Westside, which also includes a new gym and retail space.

Two schemes are currently in development – TruBirmingham on Upper Dean Street which will deliver 399-beds with provision for a gym and retail units, and Hanley

Street in the Gun Quarter, which will provide 48-beds upon completion. However, there are other developments outside the survey's search area in the city centre.

Going forward, there are questions around future demand and pressures in the sector due to Covid-19 interruptions. At present, the pipeline is weak and looks to be below the 10-year average of 741-beds.

Chart 9. Student Housing Development Pipeline



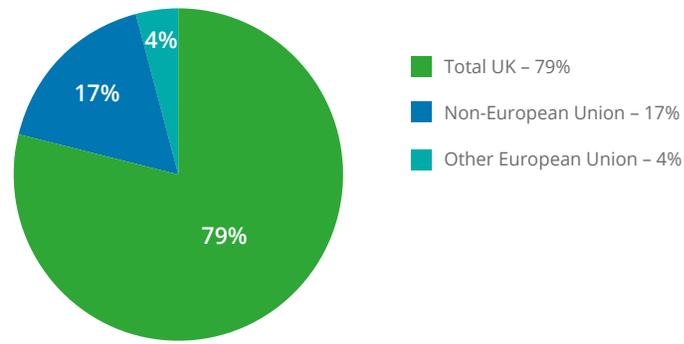
Birmingham continues to attract students, both from the UK and internationally. It is estimated by the Higher Education Statistical Agency that in 2019/20 academic year there were over 85,500 students in the city⁶. International students represent just over 20% of the total student population and tend to demand higher-end facilities closer to the city centre.

Universities and colleges have continued to invest in their education facilities. The University of Birmingham's refurbishment of 3 Centenary Square at Arena Central is due to complete mid-2021. The 55,000 sq ft mixed-use scheme will provide an education hub, exhibition halls, as well as space for community use.

Birmingham City University currently has one scheme underway – STEAMhouse phase 2. The final phase of the university's Jewellery Quarter campus, Moss House completed this year delivering 140,000 sq ft of space including a Student's Union and 100-seat lecture halls.

STEAMhouse is due for completion in 2021 and will provide Birmingham City University with new teaching and learning space, alongside facilities and space for businesses and the local community.

Chart 10. Total Birmingham student population 2020 (HESA)



Education facilities under construction



145,000 sq ft
STEAMhouse



55,000 sq ft
3 Centenary Square

Hotel, retail and leisure

After two years of no supply, 2020 brought 224 hotel rooms completed, just above the 10-year average.

The much-anticipated completion of The Grand hotel on Colmore Row by Hortons Estate and hotel company Principle, dominated the hotel sector in 2020.

The refurbishment of the Grade II building delivered 185 new rooms to market, as well as space for 10 retail units.

Work is still underway at The Royal Angus in Snow Hill and once complete, it will bring an additional 93 rooms and new roof-top terrace.

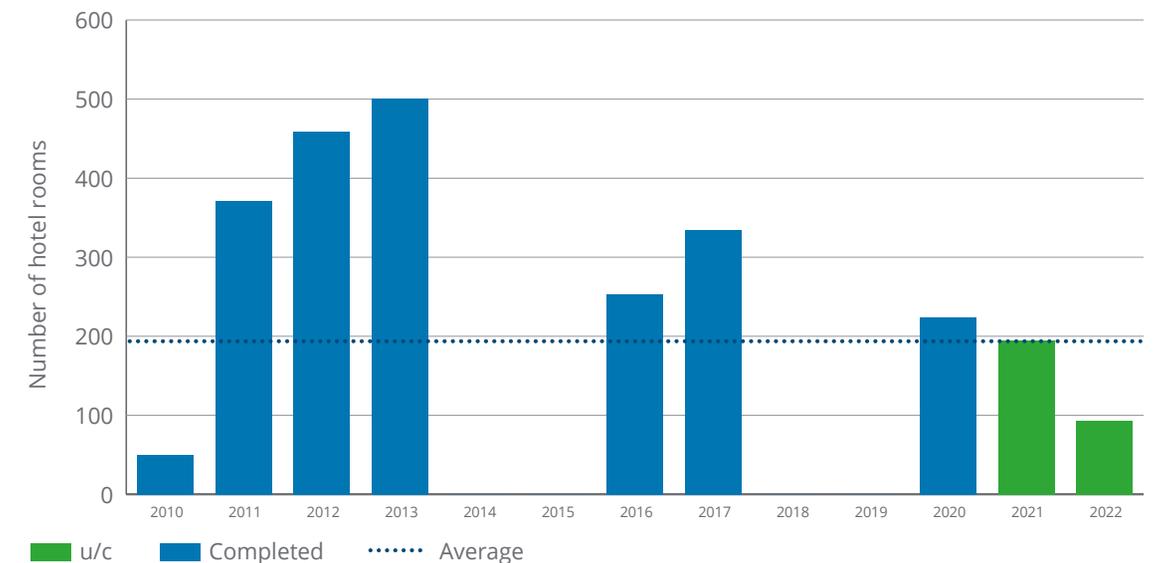
2020 also saw one new hotel breaking ground. Exchange Square is being developed by Nikal on behalf of Whitbred Plc. The 235-room Premier Inn, with the inclusion of a bar and restaurant, is expected to complete in 2023.

With the Commonwealth Games just around the corner, there is expectation that further hotels will be required and we are seeing a pipeline of projects within the city centre area, although it is likely most hotels to meet the demand of visitors will be outside of the survey's research area.

Following a decade of growth, hotel occupancy rates are forecast to be 55% across the UK in 2021⁷ and could take four years to reach pre Covid-19 levels.



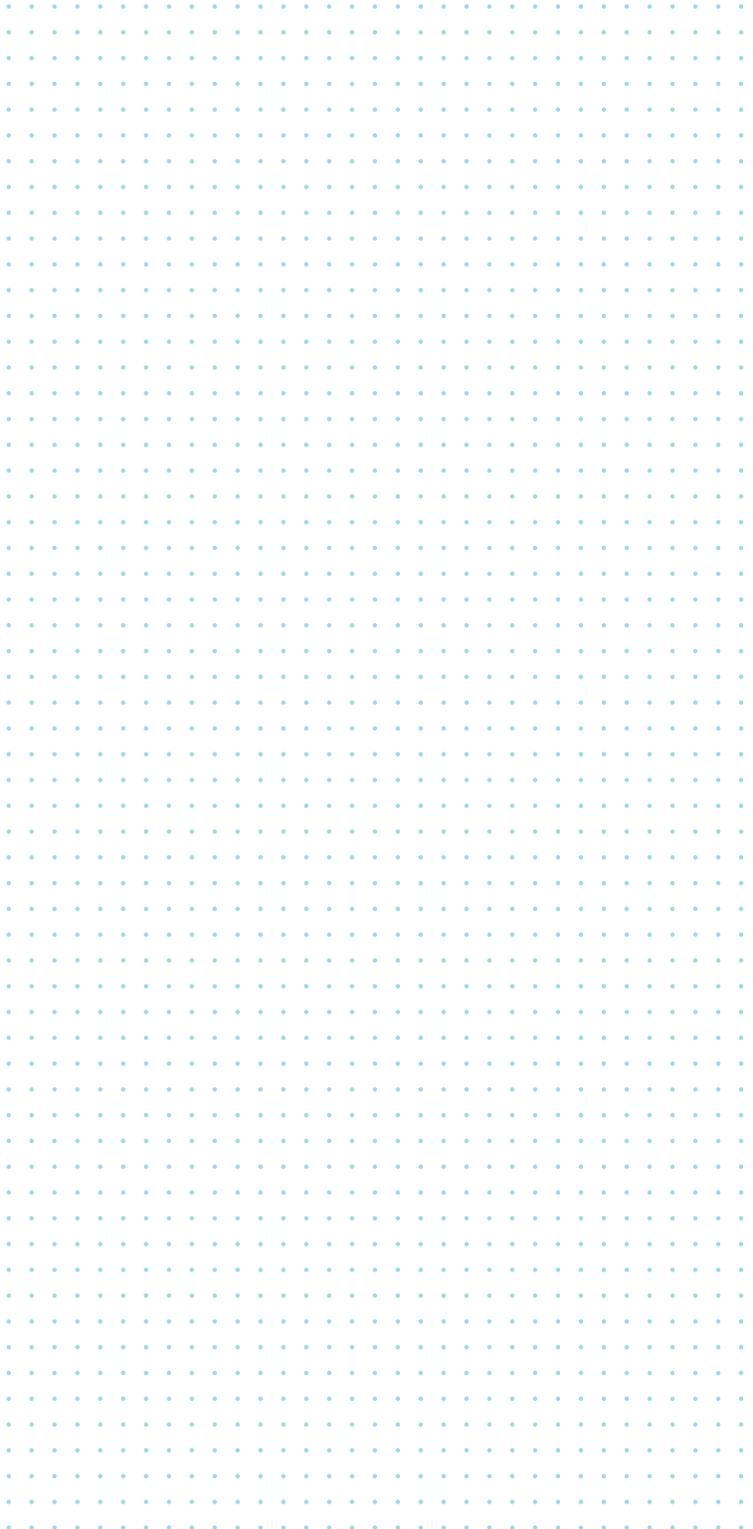
Chart 11. Hotel Development Pipeline



Retail has taken a real hit in 2020. Most reports throughout the year have focused on CVAs, rent concessions and delayed rental payments. John Lewis announced it would not be re-opening its flagship store at Grand Central due to on-going financial challenges cited before lockdown, and the Bullring is set to lose one its anchor stores following Debenhams going into administration.

With the closure of all non-essential stores for a large part of 2020, online sales rose significantly during the pandemic, a shift that was already occurring pre-pandemic and why owners and developers are focussing on repurposing secondary retail property rather than adding to supply. Although no new retail schemes broke ground in 2020 and no standalone retail schemes are in the pipeline for the foreseeable future, there is retail activity in the city.

Mixed-use schemes provide the only evidence of new retail development – a trend which has been building over the past few years. The significant regeneration of Paradise and Exchange Square will bring with it new retail opportunities. In leisure, Unite’s Aloft Hotel and Conference Centre is expected to complete early 2021 and will deliver 45,750 sq ft of conference space, as well as 195 hotel rooms and 55,260 sq ft of office space.



Endnotes

1. Birmingham Office Market Forum: Office Take-up | Birmingham Office Market Forum
2. The Business Desk: City's office market take-up plummets to eight-year low | TheBusinessDesk.com
3. Birmingham Office Market Forum: Office Take-up | Birmingham Office Market Forum
4. Deloitte Consumer Tracker: The Deloitte Consumer Tracker Q3 2020 | Deloitte UK
5. Deloitte Winter Crane Survey 2020. See also The Deloitte Consumer Tracker Q3 2020 | Deloitte UK
6. Higher Education Statistical Agency Data: UK 2019/20: Where students come from and go to study | HESA
7. PwC UK Hotels Forecast 2020-2021: UK Hotels Forecast 2020 - 2021 – PwC UK

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www.deloitte.co.uk/cranesurvey

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