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MIDLANDS MARKETS

Brummie bounce

Take-up of office space in Birmingham recovered towards the end of last year as occupiers sought to secure new space ahead of a looming supply shortage. **James Wilmore** reports

Birmingham's office market endured a rollercoaster ride last year. In the first half of 2025, take-up collapsed to just 185,804 sq ft, halving year on year, according to agency Knight Frank.

But by the third quarter, a recovery was under way. Take-up totalled 223,108 sq ft in the three months to the end of September, double the amount seen in the second quarter, the agency's figures show.

So, what sparked this recovery, and what lies ahead for the city's office market?

Ben Thacker, Savills' director of office agency in Birmingham, says people "sat on their hands" at the start of last year due to the geopolitical situation and the threat of US tariffs. "That had an impact on decision-making and businesses," he says. "Then we had all the UK Budget noise, which was a distraction."

But then came a wave of activity, which Thacker attributes to the lack of new office space coming through in Birmingham. "There was a realisation that the pipeline for new build is genuinely drying up," he says.

Among those that have pressed the button on new space is professional services firm Deloitte, which last month agreed to take 46,000 sq ft at One Centenary Way, part of the Paradise Birmingham regeneration scheme.

Theo Holmes, head of office agency in the Midlands at CBRE, says with grade-A space in high demand and supply in the city low, "many wanted to ensure that they completed their deals before it was too late".

A slice of Paradise: Deloitte is among the firms to have signed up for space at the Birmingham regeneration scheme

Higher costs and funding challenges

The lack of new-build offices in the city has a number of root causes. Birmingham has been affected by the same UK-wide challenges that have hit the overall office market. Higher construction costs and the funding challenges of developing the type of office blocks now demanded by tenants – energy-efficient buildings with a range of amenities – have created viability issues for developers.

However, there is no lack of demand for prime space, especially now that many employers expect staff to be in the office more often.

In the case of Goldman Sachs, which became a tenant at One Centenary Way in 2022, its staff are required to work five days a week from the office.

"There's no doubt that occupancy is up significantly," says Thacker. "Businesses last year were ready to start leaning on their people to make it clear what is expected."

However, he believes employees are now willingly coming back to the office rather than being forced to. "People have recognised that the jobs market is changing," says Thacker. "Things are not entirely certain out there and being present is probably a good idea."

It has led to more employers seeking extra space. "In almost every deal last year, the requirements were revised during the process, and in most cases upwards," says Thacker.

At Paradise, around 850,000 sq ft of commercial space has been created so far and a further 550,000 sq ft is due to be completed under the next phase.

Construction costs peak

Ross Fittall, commercial director at MEPC, which is overseeing the £1.2bn development, is relaxed about the costs of bringing forward new elements of the scheme. "I think we've seen the peak [of construction costs]," he says. "There's a bit more predictability to it."

He says the fundamentals that underpin the Birmingham office market are strong, pointing to the local talent pool, the quality of life, the cost of living and the plethora of graduates.

> **Rents will increase for refurbishments as they fill the vacuum**
>
> Theo Holmes, CBRE

Thacker adds: "You've got five universities with a 40-odd-percent graduate retention rate, which is very high.

"You've got specialist sectors in terms of technology, automotive engineering, plus one of the largest financial, professional services sectors outside central London. And all of that is underpinned by being in the heart of the UK infrastructure network."

These factors have helped drive up rents across the city. In 2020, headline rents were around the £32/sq ft mark; now they have risen to around £46/sq ft, according to Knight Frank.

With no new-build office developments set to come on to the market any time soon, Holmes expects to see more refurbishments take place. "Rents will increase for back-to-frame refurbishments as they fill the vacuum left from the recent new-build wave," he says.

As for the types of occupiers that will require space, he believes professional and financial services will "continue to dominate".

Like in London, Birmingham might also see demand from companies in the AI space. "Although AI continues to make the headlines, we wait to see how this can positively increase the technology sector demand in Birmingham," says Holmes.

However, he warns that government policy changes on international students could lead to a softening of demand for office space from local universities.

Nascent flex market

While much of the city's office market is performing well, Birmingham's flexible market remains relatively nascent compared with London and Manchester.

CBRE research published last October reveals that just 4% of Birmingham's office space is occupied by flexible operators. By comparison, the rate in London is around 12%, according to the agency. But it is a growing sector in Birmingham.

Flex office specialist x+why has two sites in Birmingham among its portfolio of 13 properties. Its site at 103 Colmore Row is predominantly occupied by accountancy and finance firms, whereas its Foundry site in Westside is home to start-ups and social impact, tech and creative firms.

Phil Nevin, the firm's co-founder, says it continues to look for more sites in the city, believing the flex market has got further to grow. "The managed office market is particularly interesting," he says. "That is going to be a space to watch."

Looming in the background of Birmingham's office market is HS2, the high-speed rail scheme that will run between Birmingham and London. The mega-project has suffered multiple delays, with the government confirming last summer that it would miss its target of a 2033 opening.

Thacker says the rail project is not yet a factor in local office market decision-making. "Occupiers will benefit from that [HS2] in due course," he says. "But, fundamentally, Birmingham is already really well connected to the South East and the North."

CBRE's Holmes agrees, saying that HS2 and the £1.3bn expansion of the West Midlands Metro system are still too far off to be an influencing factor in occupiers' decision-making. However, he adds: "For investors, it is going to point in the city's favour, especially when comparing with counterparts such as Leeds, Glasgow and Manchester."

Overall, he concludes: "The outlook is hugely positive for Birmingham's market." ■

Case study: Smithfield

Amid Birmingham's revival, the Smithfield project stands out as a beacon of proposed regeneration. The long-discussed, £1.9bn mixed-use scheme is still in its infancy, with work on site due to start later this year.

Guy Thomas, head of place assets at the project's developer, Lendlease, talks of the multi-phase scheme "stitching together" key districts including Digbeth, China Town, the Gay Village and the city core. "With a new markets building, green public realm, bars and restaurants and new homes, it's going to be a compelling place to work within a highly connected city," he says.

He argues that with London and other cities facing supply constraints, Smithfield will "help fill that gap".

The office part of the scheme is expected to be launched to the market in "late spring or early summer", says Thomas. "Our goal is to create an occupier ecosystem that provides both opportunities and resilience across the estate. As well as a broad range of occupiers, from start-ups to SMEs to academia, we'll partner with flex operators to help bring this to life."

Lendlease is hoping the first occupiers will move in late in 2029 and early in 2030, with construction of the site to be completed by 2035.

Ben Thacker, Savills' director of office agency in Birmingham, believes the scheme will be a boon for the local market, helping attract businesses from the wider Midlands region and nationally. "It will be something new in a central, urban location that's fully amenitised with lots of infrastructure and talent on the doorstep," he says.