

Meeting date: 11 APRIL 2019

Report to: Full Cabinet



Subject/report title: **ECONOMIC CONDITIONS – INVESTMENT REVIEW 2018/19**

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Wards affected:

- All Wards | Bickenhill | Blythe | Castle Bromwich | Chelmsley Wood |
- Dorridge/Hockley Heath | Elmdon | Kingshurst/Fordbridge | Knowle |
- Lyndon | Meriden | Olton | Shirley East | Shirley South |
- Shirley West | Silhill | Smith's Wood | St Alphege

Public/private report: Public

Exempt by virtue of paragraph: N/A

1. Purpose of Report

1.1 To update Cabinet on economic conditions in Solihull, specifically the investment trends for 2018/19, as a key indicator of economic health and an identified priority for the regional devolution agenda.

2. Decision(s) recommended

2.1 Cabinet is recommended to note the investment trends and their implications for the delivery of Managed Growth.

3. What is the issue?

3.1 The Council Plan explains the important role that economic growth plays in supporting the Solihull community. It is crucial Solihull continues to attract new investors and new companies to ensure the borough has a strong and vibrant economy over the coming years.

3.2 The full year for 2018/19 shows that whilst enquiries are slightly down compared to the same period in 2017/18 investments and jobs are up. The slow down in new enquiries may indicate some nervousness in the property market in the short term, but it is also showing that companies who have been looking in the medium/longer term are continuing with their investment plans and making a commitment to remain, expand or relocate to Solihull.

National trends:

- 3.3 It is always important to consider the performance of the national economy in relation to the regional and the local economy. UK GDP grew by 0.3% in the three months to November 2018, indicating a slow down in activity in Q4 2018 compared to 0.6% GDP growth in Q3 2018. Avison Young's Economic Property Market Winter Review (EPMR) 2018-19 suggested that Brexit-related uncertainty weighed on spending decisions by businesses and willingness to take on new projects across the service, construction and manufacturing sectors. The manufacturing sector in particular has indicated a sharp rise in stockpiling of raw materials and finished goods amid concerns over disruption. The Bank of England reduced its 2019 forecast from 1.7% to 1.2%.
- 3.4 Jones Lang LaSalle UK Office Market Outlook 2018 has indicated that 'The Big 6'¹ markets saw a further decline in available space as steady occupier demand and subdued development pipeline ensured pressure on vacancy rates.
- 3.5 Savills UK Cross Sector Outlook indicated that the growth of workspace as a service, co-working and serviced offices has been the key feature of the commercial property markets from 2016. Flexible space continues to grow in importance.

Regional trends:

- 3.6 GVA's 'The Big Nine'² Quarterly Update reported a strong finish to the year for both City Centre and out-of-town markets. City centre grade A availability is at its lowest point since 2005, but this is set to change as over 500,000 sq ft of speculative development will complete this year.
- 3.7 Knight Frank's 'Commercial Birmingham Report 2018' suggests that over the last 18 months Birmingham has witnessed an explosion in flexible space provision. More than 20% of Birmingham's transactions have been divided between various flexible models. The wellbeing of staff and the whole workplace is shaping occupier decision making. Access to open views, green walls, health and leisure facilities and high quality on-site catering are now key factors in the decision making process.³

Solihull

- 3.8 At the time of writing, the Council recorded 134 new enquiries in this period, a decrease of 40% in the same period in 2017/18, however still up on 2016/17 figures. This may indicate nervousness in the property market for new occupiers who have been searching in the last 12 months.

The Council recorded 57 investments in Solihull (*up 5% on 2017-18*) involving over 2,400 jobs (*safeguarded, relocated and new*). The economic and financial impact from these investments is clear, retaining and growing the business rate base is critical for the Council's financial sustainability and its ability to invest in the well-being of residents.

¹ The UK's 'Big 6' office markets - Birmingham, Bristol, Edinburgh, Glasgow, Leeds and Manchester

² GVA's 'Big 9' markets - Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester and Newcastle

³ Knight Frank – The Birmingham Report 2018

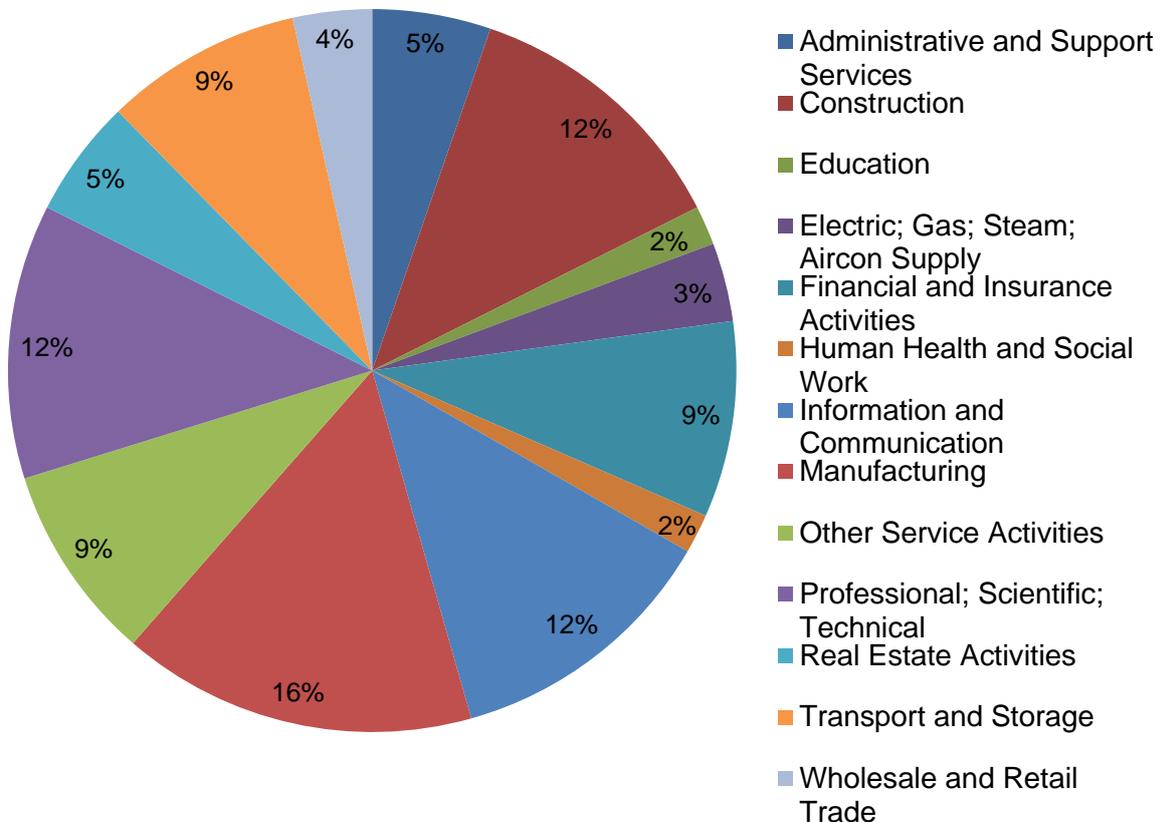
3.9 16 of these investments resulted from Foreign Direct Investment (FDI); 6 coming from EU / European Free Trade Area; 8 from US/Canadian companies; 1 from China and 1 from New Zealand (see table below). 3 are new FDI, 7 are retained FDI and 6 are relocated FDI.

	FDIs Investments	Total Investments	Total Jobs (<i>safeguarded, relocated and new</i>)
2018-19	16	57	2,440
2017-18	10	54	1,600
2016-17	15	49	1,440

3.10 The most important sectors were Business, Professional Financial Services (BPFS), which accounted for a combined proportion of 21% of lettings. Manufacturing (16%) ITEC (12%) and Construction (12%) were also major sectors for this period.

3.11 Total take up for office and industrial space was 570,042 sqft. Some 66% of office space taken up consisted of 5,000 sq ft or less – up 1% on last year and up on 2016-17 figures. Looking ahead, offices will serve increasingly as a place to improve communication, collaboration and innovation. Occupiers will look towards buildings and settings that can offer a comprehensive lifestyle package.

Sector Breakdown Apr - March 19



- 3.12 51% of all Investments came from businesses already based in Solihull, highlighting how important it is to retain, grow and support our existing businesses through co-ordinated relationship management.
- 3.13 One of the largest deals completed this year was secured to ZF, one of the world's leading global technology companies, which is relocating its existing Shirley based workforce to Blythe Valley Business Park (BVP). IM Properties sold a nine acre plot to ZF for the company to develop a purpose built regional technical centre and office building, bringing current staff under one roof, from its current campus of four buildings in Shirley.
- 3.14 ZF specialises in driveline and chassis technology as well as active and passive safety systems. Its global workforce of almost 150,000 operates from 230 locations in 40 countries.

Other key investments for this year include:

- **CGI Group (*ITEC, Canadian*)** acquired 16,833 sq ft at 31 Homer Road (The building will house 150 staff).
- **Beiersdorf (*Human Health, German*)** acquired 25,000 sq ft on Trinity Park (The building can house over 150 staff)
- **Jerroms (*Business, Professional Financial Services, UK*)** acquired 15,000 sq ft on Blythe Valley Business Park (The building will house over 100 staff).
- **CRRC Zhuzhou Times Electric Co Ltd (*Manufacturer, China*)** acquired 11,474 sq ft on Birmingham Business Park. The building will house Zhuzhou's new UK research and development innovation centre for electric vehicles. The overall investment being made by the Chinese company is reported to be up to £50 million and will see the employment of over 150 engineers by 2022.

3.15 Investment and acquisitions in Solihull have also been improving, with some notable transactions in 2018-19 including:

- Announced in February, the Fujitsu building at Birmingham Business Park has been sold.
- Integrated marketing agency Cogent acquired Solihull-based communications firm NC Creative Group. Cogent reports that the deal bolsters its B2B offering, as NC Creative's client base including Volvo Bus, Sandvik and the Commercial Vehicle Show, move to Cogent.
- Property group BPG acquired Warwick House in central Solihull. BPG is putting down strong roots in Solihull as it recently moved its headquarters from central Birmingham to a new office in Solihull in order to have the space to expand its team as the business grows.
- Solihull businesses Gymshark and Grenade, located on Blythe Valley Park and Hampton-in-Arden respectively were ranked in the top 100 fastest-growing private companies in the UK.
- According to KWB's Annual Report 2018, the shortage of space in the Solihull office market coupled with strong demand will continue. Contributing to that is the conversion of office space to residential, particularly in Solihull town centre. The office vacancy rate is now only 3% in Solihull town centre. As a result, KWB suggest the shortage of stock and strong demand should galvanise more owners to invest to bring outdated office space into line.

3.16 The key messages and implications for Solihull are:

- In the face of limited Grade A stock, the success in refurbishing and subsequently letting office space, like 31 Homer Road, One Central Boulevard (BVP), and Birmingham Business Park, has motivated other landlords to upgrade their

properties. 31 Homer Road, had a comprehensive refurbishment and secured four lettings (Serco, CGI, Sales-i and BPG Investments) totaling 52,547 sq ft.

- One Central Boulevard on Blythe Valley Park also had a high-quality upgrade and subsequently attracted key occupiers, including Wavenet, GKN Aerospace, Oracle and Taylor Wimpey. It remains the case that landlords choosing to upgrade their space should see successful lettings, as transactions in recent years have proven. Demand for commercial property that is well-located and provides the right specification to meet occupier requirements continues to be strong.

3.17 More recently, key development opportunities within Solihull town centre were showcased to investors at MIPIM 2019. Solihull's vision identifies deliverable mixed-use development opportunities with the potential for over 70,000m² of new office development and 11,000m² of commercial and leisure space.

3.18 There are signs of investor confidence within the Industrial sector with developments such as Connexion, a £26 million industrial and distribution scheme at Blythe Valley Park, which was completed late 2018.

4. What options have been considered and what is the evidence telling us about them?

4.1 Not applicable

5. Reasons for recommending preferred option

5.1 Not applicable.

6. Implications and Considerations

6.1 Delivery of the Council's priorities:

How will the options/proposals in this report contribute to the delivery of Council Priorities (*select which priority/priorities and also specify which key programme/s*):

- Improve Health and Wellbeing -
- Managed Growth -
- Build Stronger Communities -
- Deliver Value -

6.2 Implications for children and young people, vulnerable groups and particular communities:

6.2.1 Not applicable in respect of this report

6.3 Consultation and Scrutiny:

6.3.1 N/A

6.4 Financial implications:

6.4.1 None arising directly out of this report. Investment and business growth makes a significant contribution to increasing Solihull's business rates base, which is a crucial part of the Council's financial planning.

6.5 Legal implications:

6.5.1 None arising out of this report

6.6 Risk implications:

6.6.1 None arising out of this report

6.7 Statutory Equality Duty:

6.7.1 Not applicable in respect of this report

7. List of appendices referred to

7.1 None

8. Background papers used to compile this report

8.1 None

9. List of other relevant documents

9.1 None