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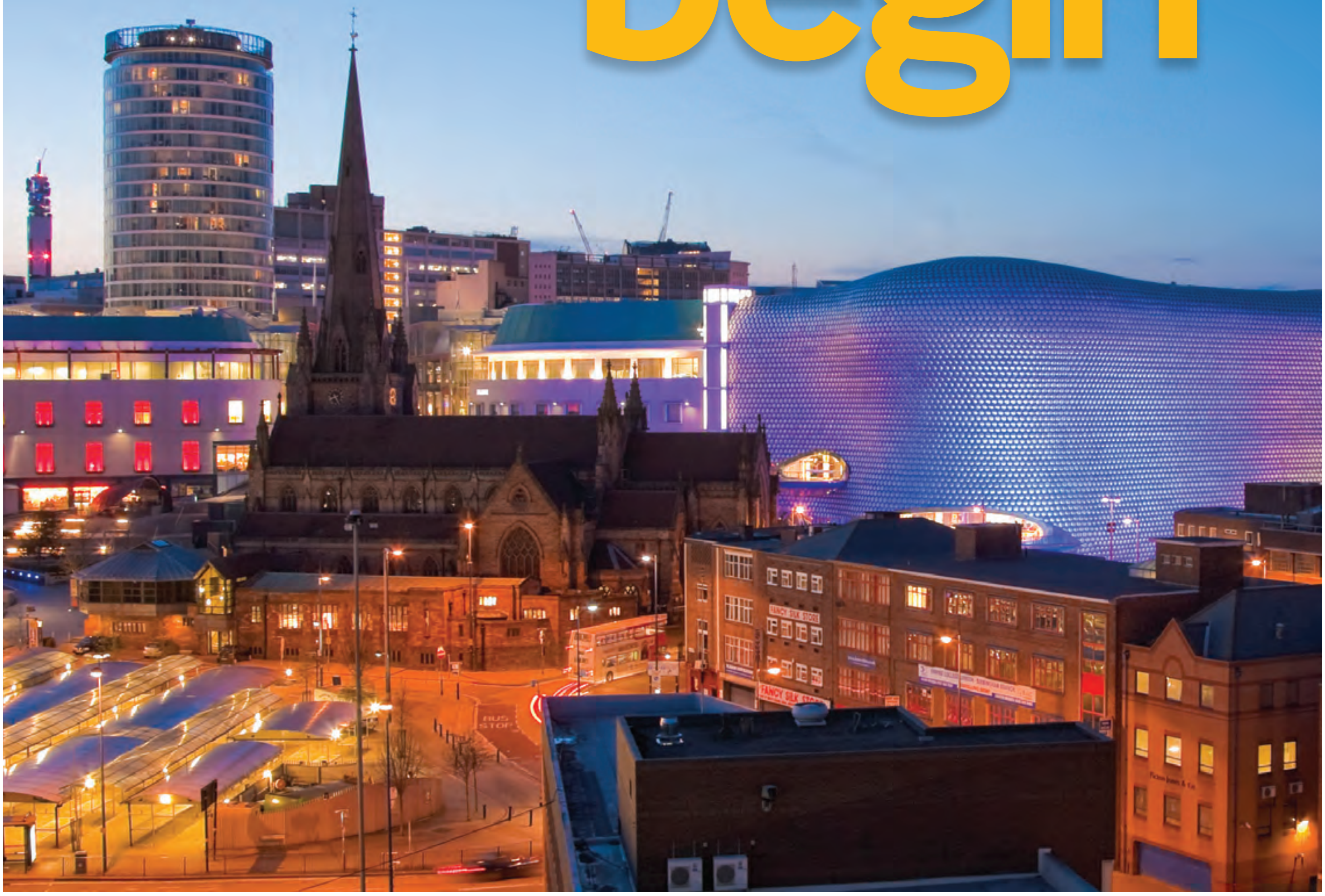
BIRMINGHAM GEARS UP FOR A NEW REVOLUTION AS HS2 COMES TO TOWN

Let the journey begin



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fDi Magazine

THE BUSINESS OF GLOBALISATION

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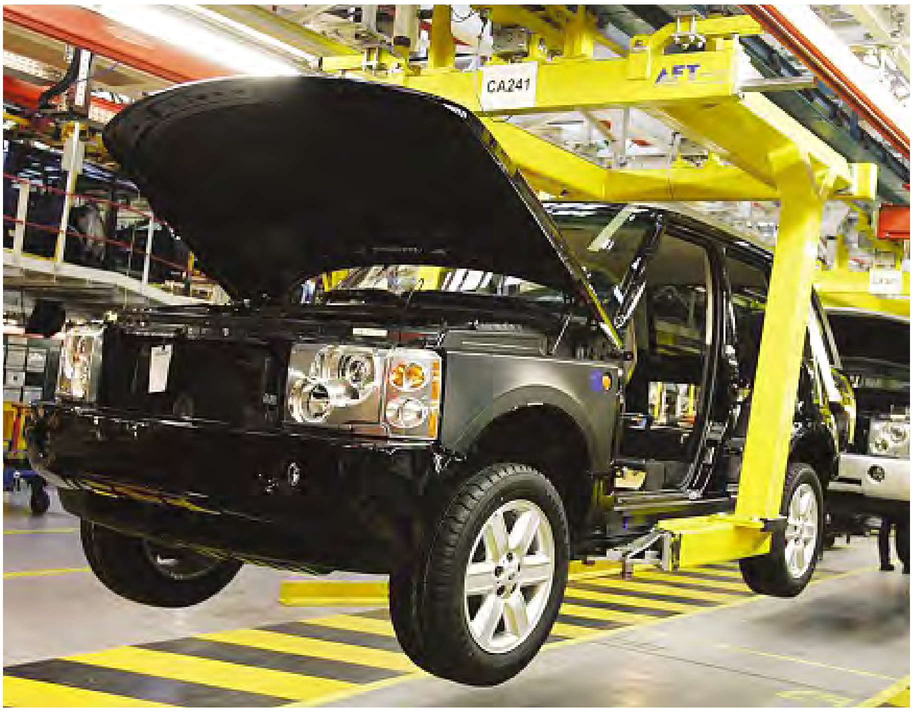

Published by The Financial Times Ltd, Number One Southwark Bridge, London SE1 9HL, UK Tel: +44 (0)20 7873 3000. Editorial fax: +44 (0)1858 461873.

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Subscription rates
One-year: full price
£415/€520/$670

Please contact us for details of other currencies

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Printed by Wyndeham Group in the UK

Birmingham's journey begins

THE WEST MIDLANDS IS GEARING UP FOR A NEW INDUSTRIAL REVOLUTION AS THE LABOUR MARKET PICKS UP AND THE HS2 RAIL PROJECT GATHERS STEAM. **JACOPO DETTONI** REPORTS

Its reputation as an unremarkable urban area has haunted Birmingham for years. The UK's second largest city, Birmingham and the wider West Midlands region have come a long way from an industrial past built on heavy manufacturing which stretches all the way back to the Industrial Revolution, to breathe new life into the local economy.

Unemployment, deprivation and a sluggish economy have been the hallmarks of this transition, but today things are falling into place as the region leverages its industrial know-how to become a centre of advanced manufacturing with global export links.

The evolving needs of next-generation production lines are also driving the development of a whole new offer in high-value-added services for manufacturing, also known as manu-services. Business activity has picked up, although this has not been fully reflected in the job market, where levels of employment remain low. The green light for phase one of the High Speed 2 (HS2) rail project, which was given royal assent on February 23, represents the missing piece expected to definitively unleash the region's potential in both manufacturing and services by making London accessible in as little time as 49 minutes from Birmingham city centre.

Export-driven growth

Advanced manufacturing and global supply chains have boosted the international profile of the West Midlands region in recent years. The total value of exports from the West Midlands grew by 55.9% between 2010 and 2015, far exceeding that of any other region in the UK, according to figures from Her Majesty's Revenue & Customs (HMRC). In the same period, exports from the East Midlands increased by 16.6%. Today, the East Midlands and West Midlands regions combined represent the UK's largest exporter, ahead of the south-east and London, with a total of $31.5bn in exports recorded in the first three quarters of 2016. This is 15% of the UK's total exports in the period, according to HMRC figures, most of which is in transport machinery and equipment and other manufactured goods.

Although EU countries remain its main trading partners, the region also boasts a trade surplus with non-European countries, a testament to the high value add of its products. The West Midlands' trade surplus with China, largely rooted in the export of Jaguar Land Rover (JLR) vehicles and JCB agricultural machinery, reached £2.8bn ($3.51bn) in 2015 and remains an exception in a country that otherwise accumulated a deficit of more than £30bn with China in the same year, according to HMRC and Eurostat figures.

The robust performance of the region's export-oriented manufacturing sector, as well as a renewed economic activity in the services sector and new businesses springing up faster than in London or Manchester, means the area's economy is expected to grow at 5% in 2017 and 4.9% in 2018, up from 3.8% in 2016 and double the 2.5% projected for the UK economy in both 2017 and 2018, according to estimates from the West Midlands Economic Forum.

Mixed employment picture

However, the region's recent economic fortunes have yet to filter through to the job market. Employment rates in the Greater Birmingham area, as defined but the West Midlands Combined Authority, have improved the least of any city region in the UK since 2011, according to a 2016 report by London-based think-tank Resolution Foundation. The area showed an employment rate of 64.5% as of June 2016, way below a UK city regions average of 71.6%. The council of Solihull is a notable exception to the area's poor employment performance trend, having increased overall employment by 16% between 2010 and 2015, more than double the rate recorded in England and the West Midlands, largely on the back of investment from JLR in local production.

Nevertheless, Birmingham's vast pool of talent is beginning to stir the interest of recruiters.

"We selected Birmingham because we believe there is a latent demand for people who are in the region to stay in the region," says Andrew Hicks, chief financial officer of Advanced, a UK IT services provider that opened a new customer support base in Birmingham in 2015. "We looked at a range of alternatives and we felt that Birmingham was a good place to house ourselves with its university network and its developing start-up community."

With a pool of 100,000 graduates to draw from, Birmingham is increasingly on the radar of service providers. Financial powerhouses such as Deutsche Bank and HSBC are in the process of shifting whole functions and teams from London to the West Midlands, chasing cost savings without compromising on workforce quality.

FDI impact

As the labour market improves, foreign investment continues to play a key role in reviving the West Midlands economy. The investment by Mumbai-based Tata in the development of its local JLR facilities hit the headlines recently, and dozens of other foreign investors have flocked to the region in recent years.

Not even the Brexit vote has dented confidence in the region. If the UK as a whole saw announced greenfield FDI fall by annual 39.5% in 2016 as uncertainty over the country's future foreign trade policies put investment decisions on hold, greenfield FDI into the Midlands grew by 20% to reach $7.96bn in 2016, according to figures from greenfield investment monitor **fDi** Markets. Foreign developers of industrial areas contributed strongly to this performance, with the likes of US-based ProLogis and Australia's Goodman expanding their industrial and logistics spaces in the region to cater for the growing needs of the manufacturing sector.

Foreign investment was augmented by solid public investment in the development of local infrastructure. Some £750m has been invested in the upgrade of Birmingham's New Street railway station. Another £40m went into the extension of the runaway at the Birmingham International Airport to accommodate long-haul flights. City authorities also upgraded the urban light-rail transport system, and set up a Local Enterprise Partnership to support private investment in regeneration projects by carrying out preparation works and making the overall financial equation for the private sector viable.

HS2 hopes

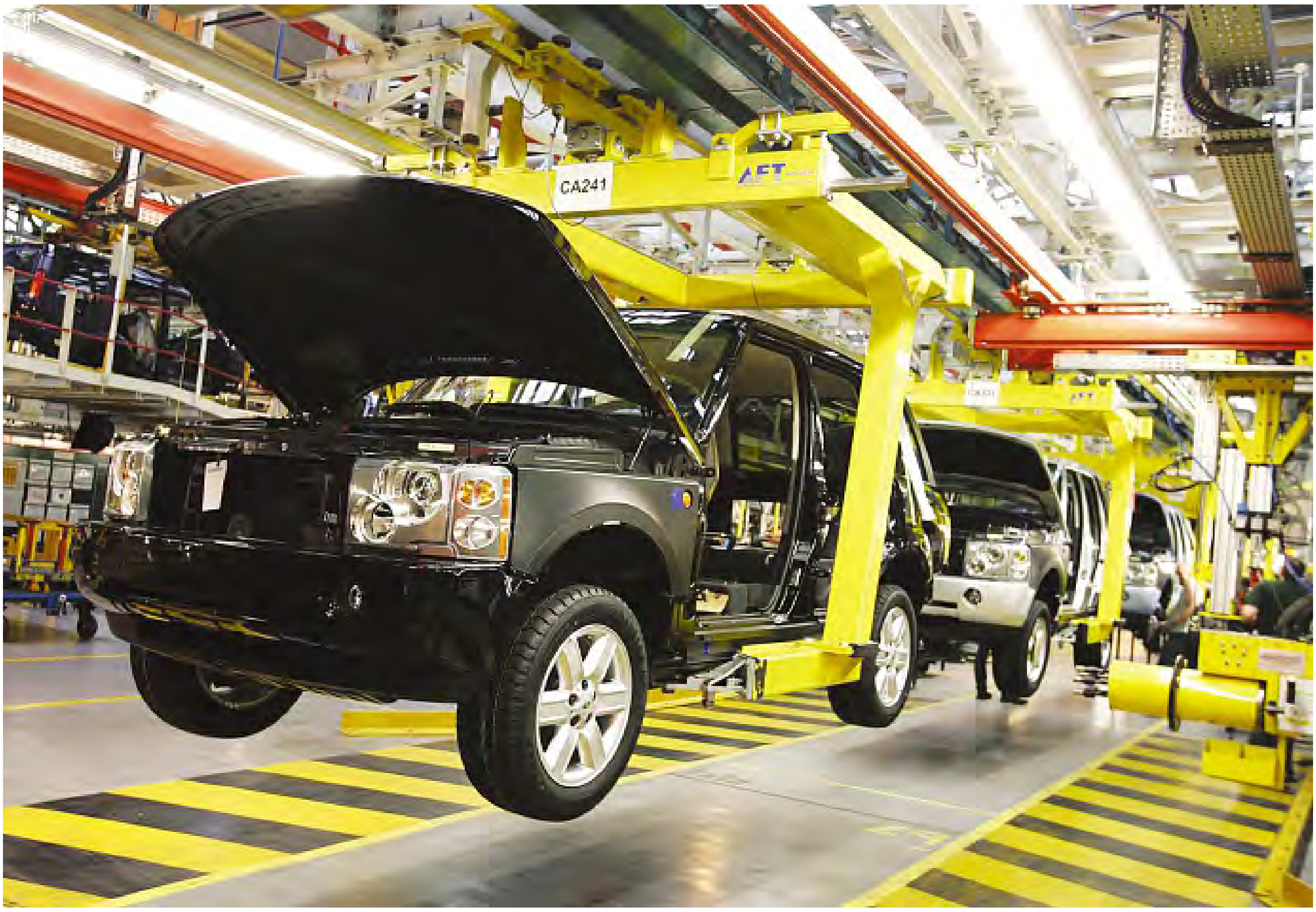
For the arrival of HS2, local authorities have already set aside £907m for the redevelopment of the Curzon Street railway station and the regeneration of the surrounding area. The project is expected to create 36,000 jobs, build 4000 new homes and develop 600,000 square metres of commercial space.


Urban renewal: Brindleyplace is a symbol of the rebirth of Birmingham's city centre

"HS2 would probably add 2% to the growth of the whole region [East and West Midlands combined]," says professor Paul Forrest, head of research at the West Midlands Economic Forum. "The big problem with the Midlands is that it doesn't connect to Europe. If we can get high-speed access to France, Germany and the Netherlands, our main markets in Europe, that would be a big boost to our export performance, even in a Brexit scenario."

HS2 is now expected to accelerate the development of the city and the whole West Midlands region, bringing its talent and companies significantly closer to London and mainland Europe, while increasing the city's overall business proposition. The £56bn project will not come online until 2026, but its development phase will be a major catalyst for development and investment for the region, managed out of an office in Birmingham city centre.

"HS2 is not about 2026, it's about today," says Neil Rami, chief executive of Marketing Birmingham. The next stage of the journey for Birmingham and the West Midlands is just beginning. ■



Rolling on: Jaguar Land Rover's production facility in Solihull has been quick to adopt cutting-edge manufacturing techniques

Making and doing

THE WEST MIDLANDS REGION HAS A STRONG REPUTATION FOR MANUFACTURING, WITH THE LIKES OF JAGUAR LAND ROVER AND ROLLS-ROYCE AMONG ITS SATISFIED CUSTOMERS. HOWEVER, THIS CLUSTER NOW FACES NEW CHALLENGES, SUCH AS CATERING TO ADVANCED MANUFACTURING DEMANDS AND ADJUSTING TO A POST-BREXIT LANDSCAPE. **JACOPO DETTONI** SURVEYS THE SCENE

At the heart of the Industrial Revolution 200 years ago, the West Midlands is now at the forefront of the development of high-value manufacturing. Local authorities are strengthening production clusters around global players from the automotive and aerospace sectors, such as Jaguar Land Rover (JLR) and Rolls-Royce, whose success extends along the whole supply chain to boost production, exports and investment.

With the development of the HS2 high-speed rail line expected to lead to greater connectivity infrastructure in years to come, and Brexit forcing a rebooting of the regional supply chain, the region is staking its future on these high-value manufacturing sectors.

Jaguar's territory

JLR has historically had a strong presence across the West Midlands. Headquartered in Whitley, Coventry, the group operates assembling facilities in Castle Bromwich and Solihull, a brand new engine production plant in Wolverhampton and research centres in Whitley and Warwick. The takeover by Mumbai-based Tata Group in 2008 turned around JLR's fading fortunes by leveraging the global brands of Jaguar and Land Rover and turning them into champions of advanced manufacturing.

In 2016, JLR's global sales hit a record of more than 538,000 vehicles, an increase of 20% on the previous year and almost three times the 200,000 vehicles at the time of Tata's takeover. The group's renewed fortunes have prompted an overall upgrade of its local operations and forced a rethink along the whole supply chain, as suppliers scramble to keep up the pace of production and meet JLR's demand.

"We certainly see growing demand for industrial space coming from JLR's suppliers," says Tom Westley, a representative for the

Black Country's local enterprise partnership. "JLR has doubled its production, and that feeds immediately into all the companies doing supplying elements of the car, from metal casting to electronic parts, and so on."

A global draw

The development of local automotive and aerospace clusters is raising the region's international profile, and exports increased by 55.9% between 2010 and 2015, more than in anywhere else in the UK, according to figures from the West Midlands Economic Forum. Foreign investors are also increasingly buying into local suppliers.

"There are 641 firms owned by US-based parent companies in the West Midlands," says professor Julian Beer, deputy vice-chancellor of the University of Birmingham. "There is a lot of supply chain integration in the automotive and aerospace sectors. Many US firms like to invest here and buy up parts of the supply chain for things that may be marketable back in the US."

Manufacturing, which today makes up about one-quarter of regional GDP, attracted more than $8.1bn in greenfield FDI between 2010 and 2016, out of a total FDI of $36.6bn in the period, according to figures from greenfield investment monitor **fDi** Markets. Thanks to Tata, Indian investors were the largest source of FDI into local manufacturing, followed by investors from the US, **fDi** Markets figures show.

An emerging ecosystem

The development of advanced manufacturing is driving the growth of a range of professional services in the West Midlands region, tailored to the needs of cutting-edge production facilities.

"A substantial proportion of service industries, particularly but not exclusively in the burgeoning professional services sector, are wholly or partially dependent on manufacturing," says a 2017 report by the University of Birmingham. The report estimates that 42% of all professional, scientific and technical activities in the West Midlands serve the manufacturing sector, and the university is adjusting its curriculum accordingly.

"We work closely with the manufacturing sector all the time in areas such as virtual reality, augmented reality and robotics, which are increasingly becoming means of production," says Mr Beer, who points out that 76% of the university's curricula are practitioner-based. "The majority is making and doing, [which is] very useful for the economy," he adds.

AREAS SUCH AS VIRTUAL REALITY, AUGMENTED REALITY AND ROBOTICS ARE INCREASINGLY BECOMING MEANS OF PRODUCTION

Local councils are also adjusting to make the most of the growing momentum of the local manufacturing sector, thanks to the long-awaited approval of HS2.

"Our growth profile will accelerate with the arrival of HS2," says Huw Lewis, managing director of the Urban Growth Company (UGC).

The UGC is the entity established by Solihull Borough Council to leverage the presence in the region of the automotive and aerospace cluster, the National Exhibition Centre, Birmingham International Airport and the planned HS2 station, by improving the quality of local infrastructure and unlocking additional growth. The UGC is now in the process of securing political and financial backing, and aims to invest about £6bn ($7.5bn) in the next decade.

The Brexit challenge

If local councils are gearing up to the make the most of the region's renewed manufacturing prowess, and even joined forces on an institutional level with the establishment of the West Midlands Combined Authority in 2016 which represents the Greater Birmingham area, they also face challenges from the UK's decision to leave the EU. Although Brexit risks disrupting the regional supply chain, particularly for industries such as automotive and aerospace, which are among the most interconnected not only regionally but globally, locals prefer to take a more optimistic view.

"Brexit has boosted the region's export potential," says professor Paul Forrest, a director of the West Midlands Economic Forum. "An overvalued exchange rate has often been one of the problems here. A 15% fall in sterling has boosted the competitiveness of our exports."

However, the final impact of a sterling devaluation has yet to become fully apparent: producers heavily rely on imports, the proportion of which can be as high as 50% depending on the industry. Beyond the effects of the foreign exchange markets, Brexit may yet be the trigger for an increased depth in local supply chains.

"The global economy became pretty much like the Soviet economy, with a few factories supplying the whole supply chain with their products, and events like the tsunami in Japan in 2011 exposed the fragility of this model," says Mr Forrest. "What manufacturers are looking for today is proximity manufacturing. That's starting to take off quite substantially here."

Time will tell whether the development of local, deeper production clusters will prove as efficient as the global supply chain. Experts in the West Midlands are confident, but the market will have the final say. ■

Building for an HS2 bonanza

A NUMBER OF OFFICE DEVELOPMENTS HAVE POPPED UP AROUND BIRMINGHAM AND THE WEST MIDLANDS IN RECENT YEARS AS COMPANIES BECOME INCREASINGLY TEMPTED BY THE AREA'S YOUNG, SKILLED WORKFORCE AND LOWER COSTS. NOW, WITH THE LAUNCH OF HS2 FIXED FIRMLY ON THE HORIZON, THE REGION'S OFFERING LOOKS SET TO BECOME EVEN MORE ENTICING. **JACOPO DETTONI** REPORTS

The launch of the Big City Plan in 2010 set the tone for the urban transformation that Birmingham would experience throughout the next two decades. Local authorities poured public funds into infrastructure upgrades, paving the way for the regeneration of the city centre and former industrial areas scattered across the city.

Colmore Row is today a vibrant central business district with a gradually growing offer of brand new and refurbished office space and as well as leisure amenities and transport infrastructure. But more is to come, as 93,000 square metres of grade-A office space is in the process of being developed in four new office buildings along the Colmore Row axis.

Just across the road, the so-called 'Mailbox', a refurbished former Royal Mail sorting office, forms the core of a major regeneration scheme that has attracted companies such as Deutsche Bank and Advanced, one of the country's largest IT services providers, as well as HSBC, which is to relocate its UK commercial banking base to a new building just around the corner from the Mailbox, which is due to be ready later in 2017.

With growing demand stemming from an increasingly dynamic local economy, but also through companies wishing to relocate out of an increasingly expensive London, backed by the development of the Curzon rail station and its surrounding areas following the approval of the HS2 high-speed rail link, the city's transformation still has some way to go.

Birmingham's got talent

"The journey is just starting," says David Tonks, international partner at the local office of real estate service company Cushman & Wakefield. "Occupational demand [for office space] is entirely driven by the fundamentals of the economy – great demographics, and significant cost advantages. That's long been the case, but perhaps even more so now given the rent and wage inflation in London, where the ability to recruit is also becoming a challenge."

Birmingham is one of the youngest cities in Europe, with under 25s accounting for about 40% of the city's total population. That represents a deep pool of talent for companies to tap into, particularly as the labour market in London becomes increasingly saturated. Local authorities have obtained mixed results over the years in creating employment opportunities for the city's young population and the broader level of participation in the job market remains extremely low – the employment rate in the city was only 60.9% at the end of June 2016, against a UK city region average (excluding the Greater Birmingham area) of 71.6%, according to figures from think tank Resolution Foundation. However, demand is gradually picking up as the city becomes a more attractive base for recruiters in the services sectors.

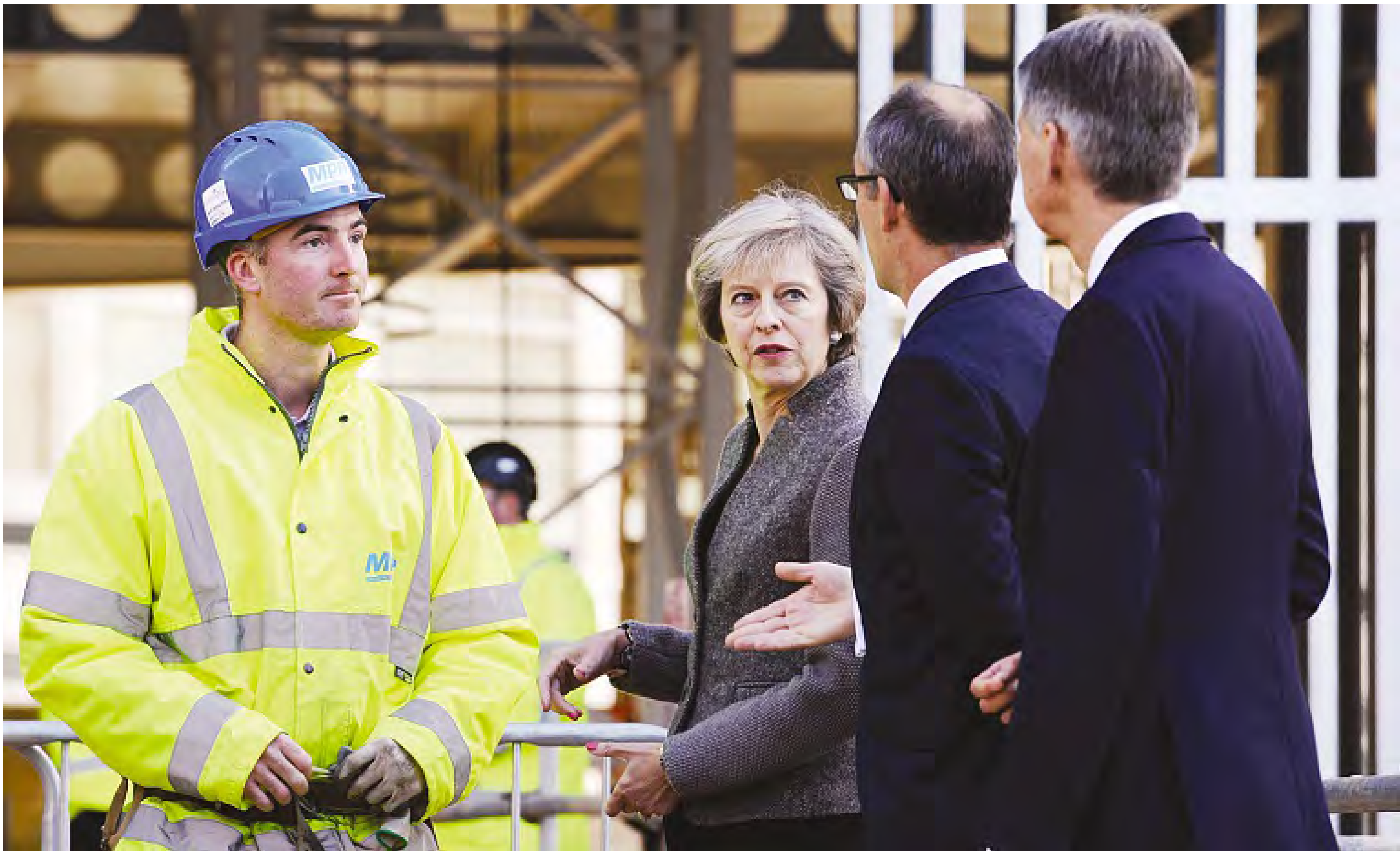
"Birmingham has got a very large demographic pool and cost savings are substantial," says Andrew Hicks, chief financial officer of Advanced. "For companies that are looking at their cost base in south-east England, they can replicate locally their ability to recruit and retain staff, offering people a good lifestyle and that's becoming apparent in their decision making."

BIRMINGHAM HAS GOT A VERY LARGE DEMOGRAPHIC POOL AND COST SAVINGS ARE SUBSTANTIAL

London falling

Birmingham's business proposition has received a boost in recent years by the increasingly saturated job and real estate market in London, pushing authorities and developers to lure companies into relocating out of London. The prospect of cost savings, but also of a better quality of life and improved productivity, have already prompted the likes of Deutsche Bank and HSBC to commit to shifting thousands of jobs to Birmingham from London. Property developers are now trying to further capitalise on these early successes.

"We are unashamedly trying to attract occupiers that are looking at moving services centres, administra-



Work in progress: UK prime minister Theresa May visits the Birmingham construction site where HSBC's offices are being built

tion, back-office and even front-office functions out of London because of the pressure on salaries, talent availability and the cost of office space," says Ian Stringer, senior director for the Midlands for real estate advisory firm GVA, which is now in the process of marketing Three Snow Hill, a new grade-A office building in Birmingham's centre.

The rent for grade-A office space in central Birmingham averages at about £32 ($40) per foot per year, about half the cost of that in the City of London. But cost savings for companies are not limited to rent.

From the ground up

The 93,000 square metres of grade-A space under development in Birmingham's central district will shore up an otherwise weak provision of high-quality office space in the city. The developments are largely based around four major buildings: Three Snow Hill, a 16-storey, 40,000-square-metre, £200m development financed by property developer M&G Investment; Paradise Birmingham, a £500m regeneration scheme built on the grounds of an old public library, which will see 10 new buildings constructed, of which two will offer grade-A office buildings covering 33,000 square metres developed by UK property developer Argent; and 103 Colmore Row, a 26-storey, 20,000-square-metre grade-A office tower developed by Sterling Property Ventures.

However, Birmingham is not the only city in the West Midlands that is looking to upgrade its offering to would-be investors. A number of cities around the region are striving to capitalise on the growing momentum within the region and push through regeneration schemes, develop their services sectors and improve low employment rates.

"We are benefiting from the success of Birmingham," says Tim Johnson, strategic director for place at City of Wolverhampton Council. "We see ourselves as complementary to Birmingham. For many years we undersold ourselves. That is not the place where we are today as we are directly taking an investment position in the city's redevelopment schemes."

City of Wolverhampton Council directly funded the development of i10, a 3300-square-metre grade-A office space development in the city that was completed in 2015 and now houses tenants such as Ovivo, Countryside and Tarmac, who pay rents of about £15 per square foot per year. That experience "has provided the model, it's been a success that has underpinned a series of sites that will go forward on the back of that", adds Mr Johnson.

City of Wolverhampton Council now estimates that the city could accommodate 90,000-square-metres of new office space, and i9, a new development just across the road from i10, is ready to go on the market.

With HS2 receiving final approval, Birmingham will find itself less than 50 minutes away from central London, increasing its appeal for services providers looking for alternatives to the busy market of the UK capital. The railway line will not be ready until 2026, but local councils are already gearing up to make the most of this long-awaited project by upgrading their offer of office space and building up momentum for more developments to come. ■

Q&A: WAHEED NAZIR

Looking beyond London

BIRMINGHAM CITY COUNCIL'S STRATEGIC DIRECTOR FOR THE ECONOMY, WAHEED NAZIR, TELLS **JACOPO DETTONI** HOW THE CITY IS MEETING HOUSING CHALLENGES, WHY IT IS LOOKING TO COMPLEMENT – RATHER THAN COMPETE WITH – LONDON, AND THE IMPACT OF BREXIT AND HS2

Q What are the urban challenges Birmingham is facing today?

A The main challenge, which can also be read as an opportunity, is the scale of housing growth. Birmingham's population is [predicted to increase] by 150,000 by 2031. That means 80,000 new homes, but we have the capacity to accommodate only 45,000 new homes. Even if we push up density, we get to 51,000 new homes. However, if we keep investing in infrastructure and key transport corridors across the city, then we get additional opportunities to push up density along these corridors and gain additional housing capacity.

Q What is your long-term vision for the city?

A We approved the Big City Plan in 2010. That plan was very clear about driving growth in five key locations across the city. That was an ambitious strategy, and we negotiated with the central government [to establish] an enterprise zone that largely covers these areas because we needed financial tools to start investing in infrastructure and unlock growth. The enterprise made it viable for private developers to come and invest in the city.

At the same time, we are also targeting major occupiers. HSBC moving its UK commercial banking operations to Birmingham was a major result for us, and the whole procurement and construction activities for the development of the HS2 rail project will be handled from Birmingham. It's not only about infrastructure, but also supporting the development of companies based in the city and finding new occupiers by selling the story of growth and increasing connectivity to the city.

> HSBC MOVING ITS UK COMMERCIAL BANKING OPERATIONS TO BIRMINGHAM WAS A MAJOR RESULT FOR US

Q Do you see the city's offer in the services sector becoming more and more complementary to London's through HS2?

A Yes, absolutely, because of its proximity, but also because London is becoming too expensive a place in which to live. We are already experiencing quite a significant migration of people in their 30s moving out of London [the number was about 5000 in 2016]. Major companies are struggling with staff retention because people cannot really afford to live in London any more. This is why Birmingham attracted companies such as HSBC, and also Deutsche Bank among others, because they can have better staff retention. Clearly we will never compete with London, but we will complement its offer.

Q What has been the impact of Brexit on Birmingham's regeneration schemes so far?

A Brexit definitely had an impact as people held off their development plans until they got more clarity on what Brexit actually means. As more clarity transpires, they are getting their confidence back. Three Snow Hill is the largest speculative development ever done outside London. It was announced before the Brexit referendum, and the developers reiterated their commitment to it after the referendum. Regeneration is a long-term strategy. Along the way, you always have challenges such as Brexit, but you have to look at the longer term. ■