

Hamilton Retail Occupancy Survey

Volume of retail stock falls for the sixth consecutive year

SUMMARY

- The CBD retail vacancy rate decreased from 9.4% to 9.3%, to a total of 7,773 sqm of vacant retail floor space in the six months to December 2015. The net reduction in vacancy was 65 sqm.
- Total occupied space decreased by 388 sqm as occupied stock was removed from the market for refurbishment, and total take up of vacant space fell short of the volume of newly available space.
- Food retailing (cafes, restaurants, fast food) has the largest presence in the CBD's tenant mix, having grown by 5.8% over the second half of 2015.

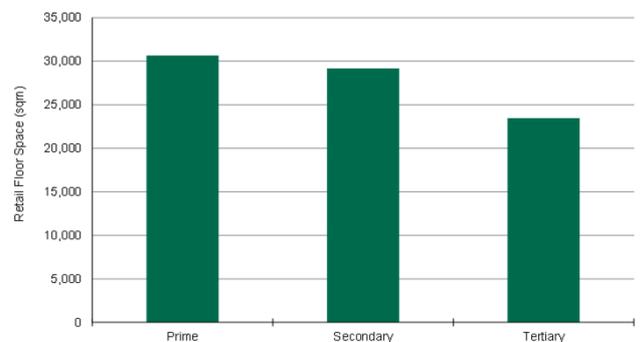
INTRODUCTION

This report provides a summary of the Hamilton retail occupier survey conducted in December 2015. The survey is based on a store by store analysis of the Hamilton Central Business District and reports on stock levels, vacancy rates, net uptake and tenancy mix. In accordance with our definition, retail accommodation within the CBD is defined by street location. In general terms, a store located on a street with good pedestrian traffic and within the central core is categorised as prime, while shops within the core and in close walking distance to high streets are secondary. Those stores located outside the core, or on the fringe are tertiary. This study is a continuation of the retail vacancy survey conducted by Curnow Tizard Limited since 2002 and is undertaken on a bi-annual basis in a partnership between CBRE Research and NAI Harcourts.

RETAIL STOCK & NEW DEVELOPMENT ACTIVITY

Total CBD retail stock presently measures around 83,400 sqm, a decrease of 453 sqm net over the past six months mainly due to removals of retail stock for refurbishment, redevelopment, and earthquake strengthening. There were no permanent reductions of stock over the second half of 2015, with the most recent one being the closure of the former Cheesecake Shop at 690 Victoria Street, rebuilt as office space for New Zealand's leading rural insurer Farmers Mutual Group (FMG).

CBD Retail Stock by Grade



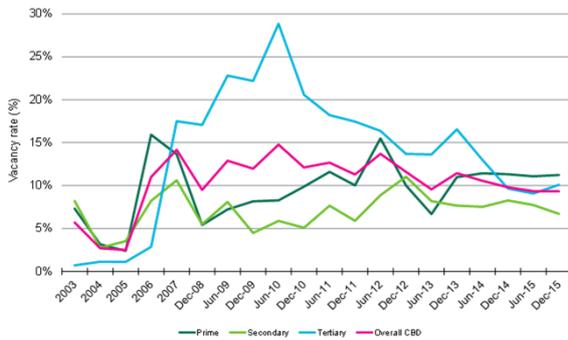
There have been no new builds completed in the CBD this year. The most recent CBD new development activity was the \$40m Centre Place mall upgrade, which was completed in 2013. However, the recently completed refurbishment of two small shops at 286 Victoria Street has added 137 sqm of occupied space to the retail market.

Prime retail space accounts for 36.8% or 30,700 sqm of the total CBD retail stock, making this grade the largest supplier of retail stock. Secondary comes a close second with 29,200 sqm (35.0%), followed by Tertiary with around 23,500 sqm (28.2%).

VACANCY

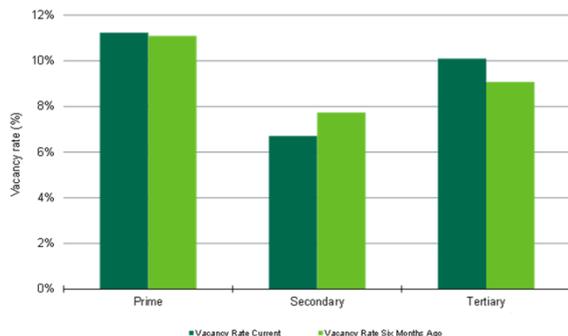
The Hamilton CBD retail vacancy rate decreased by 0.1%, moving from 9.4% in June 2015 to 9.3% in December 2015. Vacant space reduced by 65 sqm net, with the same number of vacancies in both June 2015 and December 2015. 33 occupancies are currently under refurbishment and have temporarily been removed from the survey, nearly double the total of 17 recorded six months ago in June 2015. Total volume of space under refurbishment has remained at around 8,500 sqm during that time, due to the larger spaces currently under refurbishment being split into multiple smaller tenancies.

Historical CBD Vacancy by Grade



Prime grade experienced an increase in vacancy, moving from 11.1% in June 2015 to 11.2% in December 2015. The largest contributor to this increase was the movement from Casabella Lane to Victoria Street, with three new Casabella vacancies averaging 77 sqm each. Stock removed for refurbishment has also negatively impacted the vacancy rate, as almost 200 sqm of space which had been fully occupied in June 2015 was removed from Prime stock in order to address seismic issues.

CBD Vacancy by Grade



Of the four new Prime vacancies, all but one are located on Casabella Lane. Recently vacated tenancies from here include Azarni Hair (now at 787 Victoria Street), Bella Boutique (now at 359 Victoria Street) and Crooked Seven and Co. The other new vacancy was 105 sqm vacated by TS14+ at 39 Ward Street.

New tenants in the Prime grade are a kebab shop at 26 Ward Street and Bella Boutique which now occupies a previously vacant 90 sqm shop.

Secondary grade experienced a decrease in vacancy, from 7.7% to 6.7%. The largest take up of vacant space was 175 sqm at 161 Victoria Street now occupied by Port of Manila. The five other take ups of previously vacant space total 356 sqm and include Story at 591 Victoria Street, Engine Room Hair Design at 564 Victoria Street, Purple Patch at 350 Barton Street, Breethas Barbers at 127 Alexandra Street, and Nancys Dumpling & Buns at 151 Victoria Street. Although there were only two new vacancies, neither are small. One is 124 sqm at 578 Victoria Street, formerly Frank Casey, and the other is 107 sqm at 226 Victoria Street, formerly Snapshot. Snapshot have expanded and purchased their own retail unit at 391 Victoria consisting of approximately 294sqm plus storage space.

Tertiary grade experienced an increase in vacancy, moving from 9.1% to 10.1%. There are three new vacancies in this grade. The largest is 100 sqm at 851 Victoria Street, followed by 78 sqm on the corner of Alexandra and Collingwood Street and 59 sqm at 24 Collingwood Street. There have been no take ups of previously vacant Tertiary grade space during the six months to December 2015, however two small retail units have recently completed refurbishment and have been added to the market as fully leased.

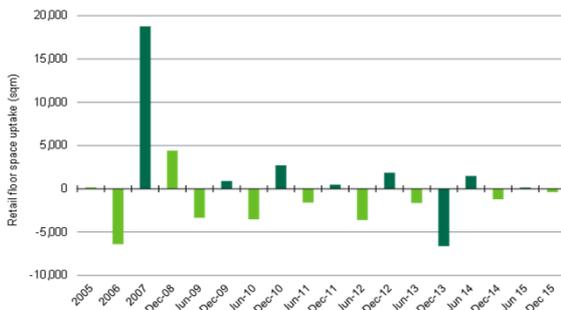
Retail churn activity, or the changeover from one retail business to another, was present in the second half of 2015, with more than half of the changes occurring on Victoria Street. The majority of the new tenancies have been Food retailers, followed by Personal retailers.

Examples of large occupier changes include the Hospice Christmas Shop temporarily at 299 Barton Street, Coffee Studio at 285 Barton Street, The Tap House at 346 Victoria Street and Aurant Night Club at 145 Victoria Street.

The largest occupier change occurred at 348 Victoria Street, where The Coffee Pot took over the Prime grade space previously occupied by Rebo.

There has been only one take up in the Services sector over the six months to December 2015, with Into New Zealand immigration firm taking 78 sqm at 426 Victoria Street.

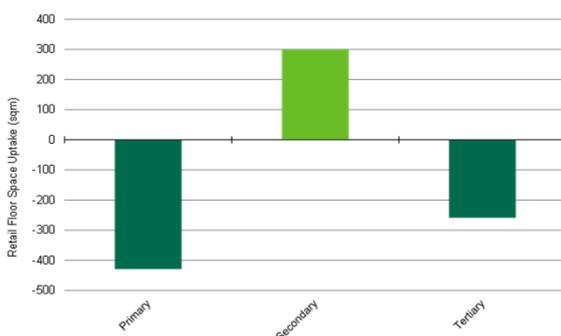
Net Uptake of Retail Space



TAKE UP

The overall net change in occupied stock over the six months to December 2015 was a decrease of 388 sqm to 75,560 sqm. This was due to the volume of recently vacated space across Prime and Tertiary grades outweighing the level of leasing activity, further impacted by the removal of occupied space for refurbishment and earthquake strengthening occurring at a time when very little was being returned to the market as having completed redevelopment.

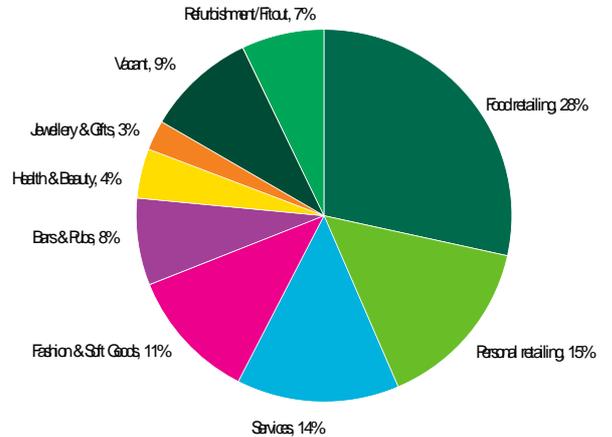
Net Uptake of Retail Space by Grade



RETAIL MIX

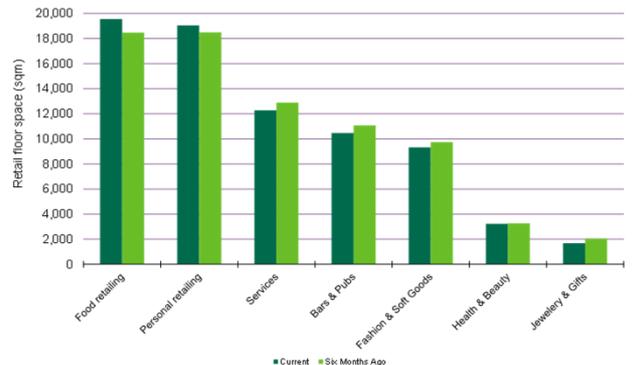
Hamilton's CBD retail tenancy mix is diverse with a wide range of retail merchandise and service-related offerings.

CBD Retail Tenancy Mix



'Food Retailing' continues to have the largest presence in the CBD, accounting for more than a quarter (28%) of the total number of stores surveyed. This is followed by 'Personal Retailing' and 'Services' at 15% and 14% respectively.

Floor Space Use by Store Type



'Food Retailing' has overtaken 'Personal Retailing' as the largest occupier of retail space in the CBD, comprising around 26% (19,550 sqm). This is followed by 'Personal Retailing' and 'Services' as the other major occupiers of space in the CBD at 25% and 16% respectively. The 'Food Retailing' sector in particular has experienced growth over the second half of 2015, increasing by more than 1,000 sqm (5.8%) in the last six months.

CONCLUSION & OUTLOOK

Total volume of stock, occupied space, vacant space and the vacancy rate have all declined slightly over the second half of 2015, while the volume of space currently under refurbishment has increased slightly, moving from 8,374 sqm in June 2015 to 8,610 sqm in December 2015. The vacancy rate dropped to a ten year low of 9.3% despite a relatively low level of activity in the leasing market during the second half of last year, partly due to the removal of vacant stock for refurbishment, redevelopment and earthquake strengthening. This trend is continually improving the overall quality and increasing the number of options for occupiers, while also decreasing the volume of available retail space and vacant space.

This latest survey has shown that while retailers are feeling the squeeze as stock options are driven lower still for the sixth consecutive year, there is hope on the horizon as 2016 will see the completion of several small, well located occupancies for which it is expected there will be high demand. Currently there are 33 occupancies under refurbishment, equating to 7% of the overall retail mix. Large spaces that have been removed from stock as one unit are likely to be reconfigured throughout the refurbishment process into several smaller spaces, which will allow for flexibility in meeting occupiers space requirements. At present, there continues to be strong demand for small, well located retail tenancies, as larger spaces are tending to be difficult to back fill.

Owner-occupiers are also taking advantage of retail opportunities and in addition to Snap Shot purchasing their premises in Victoria Street, Yoobee who supply Apple products, have purchased a retail unit in Ward Street and will commence trading in early 2016.

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