MARKETVIEW

Hamilton Office Occupancy Survey

Slower leasing market leads to slight vacancy increase

SUMMARY

- Total Hamilton CBD office stock increased by 314 sqm net due to a demolition, a new build, and expansion into previously unused mezzanine space.
- Overall vacancy increased to 9.6% in the six months to December 2015.
- The overall net change in occupied office stock was a negative 1,800 sqm (approximately).

INTRODUCTION

This report provides a summary of the Hamilton office occupier survey conducted in December 2015. The survey is based on a building by building analysis of the Hamilton CBD area. Our results show changes to office stock volumes, vacancy rates, absorption rates and floor space use by business type. This study is updated on a bi-annual basis by CBRE and NAI Harcourts.

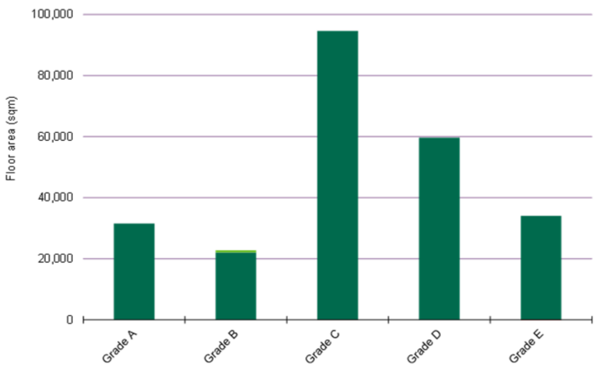
HAMILTON CBD OFFICE STOCK

Total office accommodation in the Hamilton CBD increased by 314 sqm net to a total of 242,200 sqm in the six months to December 2015.

This was mostly attributable to completion of Farmers Mutual Group's (FMG) new headquarters at 690-700 Victoria Street, adding 631.5 sqm to Grade A stock. Grade E space declined with the removal of the Bed Bath & Beyond building at 298 Barton Street (406 sqm). This building has recently been sold and will be rebuilt as modern office space for occupation in early 2018.

A new tenant, Aurecon at 286 Victoria Street has recently taken space which had been vacant in June 2015, as well as part of a mezzanine floor, resulting in a net addition to Grade B stock of 70 sqm.

Office Stock Breakdown by Grade



The Hamilton CBD office market is characterised by average to lower quality grade space which forms the bulk of stock, although its composition is slowly changing to meet demand for higher grade space. Grade C makes up around 39% of the total office capacity in the market, while lower quality Grades D and E together account for 39% as well. Higher quality Grade A and B office space makes up 22% of the total stock, with this proportion boosted in recent years due to the addition of the PwC Centre (second half of 2013), the upgrade of the AMI Insurance building (second half of 2013), ANZ Centre at 21 Grantham Street (first half of 2014), plus various smaller upgrades and refurbishments.

In regards to new developments, an office building is being planned at the corner of Tristram and Bryce Street. The 3,500 sqm building currently on the site was owned and occupied by Countdown supermarket several years ago, and at the end of 2015 the site was sold to a group who intend to develop office space for Genesis Energy. Genesis Energy will move 600 staff from two existing buildings within the Hamilton CBD into a single 6,000sqm building which will commence construction in April and be completed mid 2017. Also on the site will include a smaller office up to 3 levels with 800sqm per level.

VACANCY

The overall vacancy rate increased from 9.3% in June 2015 to 9.6% in December 2015. This is due to a combination of factors including increased vacancy in lower grade spaces, temporary removal of previously occupied space for refurbishment or redevelopment, and slow leasing activity in recently refurbished buildings, due in part to the Christmas shutdown. Overall, the level of vacant stock increased by 639 sqm.

Two of the five grades showed an overall decrease in vacancy. Grade B saw the largest reduction in vacant space, from 1,721 sqm in June 2015 to 1,381 sqm in December 2015. Addition of newly completed and fully occupied stock, leasing activity in recently refurbished space and no new vacancies over the last six months have each contributed to this 1.7% reduction.

Grade E vacancy increased from 25.2% to 28.8% over the six months to December 2015, or a 1,100 sqm increase in vacant stock. Eight new vacancies outweighed seven new occupancies of previously vacant space. Also within E Grade, 298 Barton Street has been removed from stock, the 406 sqm of office space had been vacant since June 2015 but has been sold in order for redevelopment due for completion in early 2018.

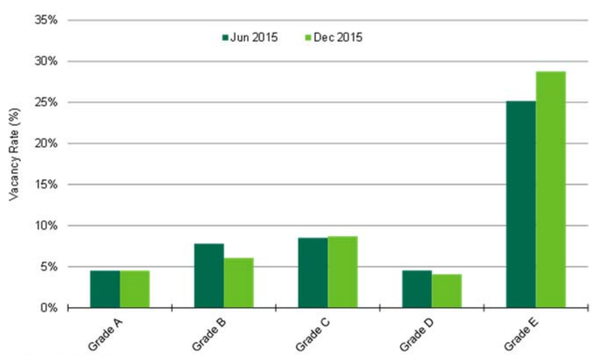
Grade D was the other grade to experience a reduction in vacant space, from 2,713 sqm in June 2015 to 2,424 sqm in December 2015, a reduction of 289 sqm. This 0.5% decline has been the result of take up of vacant space, several small new vacancies, an occupied building being removed for refurbishment and plenty of tenant to tenant changes.

Grade C vacancy moved from 8.5% to 8.7%, an increase of 159 sqm of vacant space. In this grade, 248 sqm of occupied stock at 24 Liverpool Street has been removed for redevelopment, Aurecon have vacated 392 sqm in their move to a Grade B building, and other smaller tenants have vacated space.

Grade A vacancy has remained at 4.5% over the six months to December 2015.

Another main contributor to the increase in vacancy is the reinclusion of 153-159 Victoria Street to stock following refurbishment of 1,050 sqm which is yet to be leased. Since the survey the building has been sold to an owner-occupier.

CBD Office Vacancy by Grade



TAKE UP

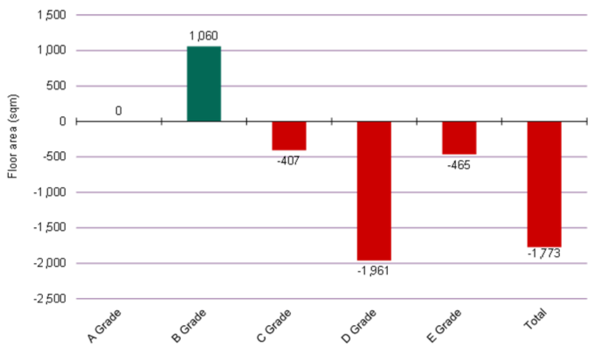
The overall net change in occupied stock over the six months to December 2015 was negative 1,773 sqm, with less occupied office space than compared to June 2015. These changes resulted from the addition and removal of occupied /unoccupied stock, and tenants vacating space in order to move to a variety of occupancy qualities and sizes.

Grade A experienced a positive uptake of space totalling 613.5sqm, with the inclusion of the FMG building at 690-700 Victoria Street.

Grade B saw the only positive uptake of office space, totalling 1,060 sqm. One occupier, Aurecon has moved from a Grade C building into this grade, while other new entrants to this grade have experienced significant growth in business over the past year, prompting a requirement for office space of good quality.

Grade C net absorption was negative 407 sqm, due in part to Red Cherry's building at 24 Liverpool Street being removed for redevelopment, and new vacancies in spaces formerly occupied by Aurecon, Omega Capital and Coombe Smith respectively.

CBD Net Uptake of Office Space



Grade D net absorption was negative at 1,961 sqm. The only take ups of vacant space were by tenants such as Accounting & Tax Advisors, IDEA, and Nga Kau Tapatahi Trust expanding from adjoining space. Coupled with several new vacancies, the removal of 2,250 sqm of EQC space at 150 London Street has resulted in a reduction of the volume of occupied stock in this grade.

Grade E net absorption was negative at 465 sqm. Low demand for this grade has been evident since the survey commenced in 2008 and is likely to continue.

CONCLUSION

The results of the survey show that while the continued improvement of the overall quality of Hamilton CBD office stock is what occupiers desire, leasing activity has been slow of late, with the recently refurbished building at 153-159 Victoria Street coming back to stock as fully vacant. The remaining vacant office space at 286 Victoria Street which completed refurbishment in the first half of 2015 has been leased to leave this Grade B building fully occupied at December 2015.

It is anticipated that there will be a future decrease in Grade D and E office stock as developers, owner occupiers and investors look to reposition buildings to take advantage of the demand for Grade A and B office space. In addition, the emerging Hamilton apartment market may remove occupancies from office stock entirely as they get converted to meet growing demand for residential space in the CBD.

Other trends include office occupiers moving from multiple buildings into one, as previously mentioned Genesis Energy are consolidating into a single building as well as IT Partners; who are relocating into a single tenancy of 1,200sqm on the Corner of Knox & Anglesea Streets. There is also a continued move to upgraded space, providing efficiency and better quality for both staff and clients.

Refitted office space is also providing to be cost effective for tenants, with new build still showing some rental sensitivity. Tonkin & Taylor who occupy a full floor (651sqm) in the NWM Building, moved into the building and created an environmentally sustainable fitout.

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