

Bayleys Research

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City Fringe and North Shore

A powerfully performing local economy which has spurred business creation and expansion, in turn driving increase demand for office space which with limited new supply have resulted in a further reduction in vacancy across the city's city fringe, North Shore and Southern Corridor precincts over the last year.

Auckland Economic Indicators

GDP ¹	3.60%
Residential Consents (Number) ²	9,250
Non Residential Consents (Value) ²	\$1.276 billion
Consumer Confidence ³	113.9
Business Confidence ⁴	16.2%
Net Migration ⁵	31,000

1 Year to Sept 2015 2 2015 3 Over 100 = more optimists than pessimists

4 Net percentage of firms expecting improvement over 6 months 5 Year to Feb 2016

SOURCE: STATS NZ, INFOMETRICS, WESTPAC MCDERMOTT MILLER, NZIER

Auckland's economy grew at 3.6% over the year to September 2015, outpacing the rest of the country which saw GDP growth of 2.4%. The region's unemployment rate fell in the final quarter of 2015 to 6.2% as job growth of 1.5% outstripped the influence of the expanding workforce.

The construction sector continued its rapid expansion with regional residential consent numbers climbing to 9,250 in 2015 from 7,630 a year earlier. The value of non residential consents rose to \$1.276 billion from \$1.155 billion.

Unsurprisingly, given the above economic fundamentals, both business and consumer confidence lifted in the latter part of 2015 with both comfortably in positive territory.

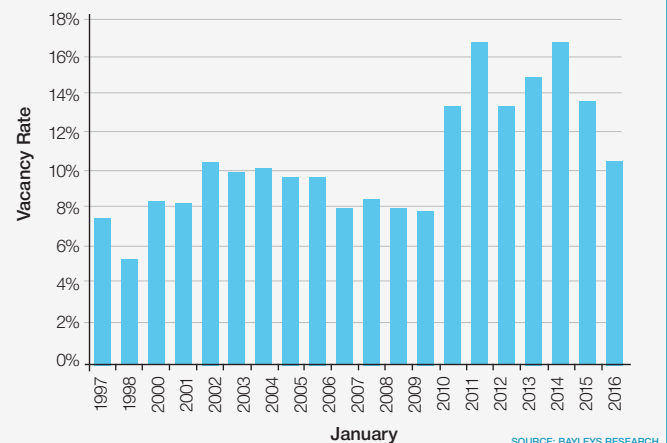
A strong leasing market and increasing activity by owner occupiers resulted in vacancy rates falling across a majority of the precincts surveyed by Bayleys Research. The overall figures are also influenced by the continuing trend of conversion to residential use, particularly within areas where proposed new zoning rules unlock the potential for additional floors to be added to existing structures.

The inventory of office space within some of the region's leading precincts, e.g. Takapuna and Albany has become effectively capped as land values rise, reflecting the increasing demand for residential development within such areas. It is likely that future expansion within these precincts will be limited to forming parts of mixed use schemes.

City Fringe

Vacancy rates across Auckland's primary, non CBD, office precincts continued to decline over the course of 2015.

Auckland City Fringe Office Market - Overall Vacancy Rate



A strong economic backdrop driving new business formation and expansion, limited new development, which has capped inventory and low CBD vacancy rates which has limited leasing opportunities there, have combined to drive vacancies to their lowest levels since 2009 in the City fringe precincts.

Overall vacancy across the city fringe precincts of College Hill, Grafton, Newton, Newmarket and Parnell stood at 10.5% according to the 2016 Bayleys Research office vacancy survey down from the 2015 total of 13.7%.

Auckland Precincts

Precinct	2015	2016
Parnell	13.1%	6.1%
Newmarket	14.0%	10.7%
Newton	19.2%	15.1%
Grafton	15.6%	13.0%
College Hill	5.1%	7.5%
Overall	13.7%	10.5%

SOURCE: BAYLEYS RESEARCH

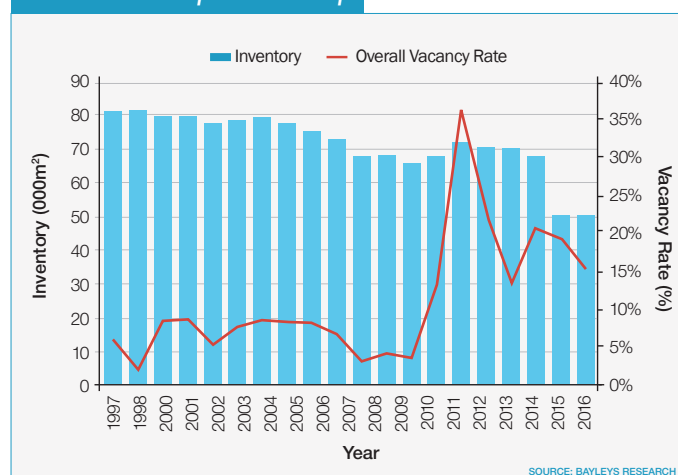
Vacancy fell in four of the five precincts surveyed with only College Hill registering an increase in space to let.

The greatest reduction in vacancy was recorded in a resurgent Parnell where the vacancy rate has fallen to below 7% for the first time since 2005.

The latest survey saw total vacant space falling from in excess of 9,300m² to just over 4,300m². Lettings to Webb's Gallery and B Braun Medical at the previously vacant 23 Falcon Street, along with the uptake of significant space at 125 and 130 St Georges Bay Road were largely responsible for the positive result.

In Newmarket vacancy fell by 3.3 percentage points over the year to sit at 10.7%. The successful leasing of over 1,000m² of space at 19 Morgan Street to Mode Design, Next Step Partners and Reveal had a major influence on the vacancy rate as did the uptake of space at 105 Carlton Gore Road, by Tomkin and Taylor. There has also been notable uptake of space at 5 Kingdon Street by Ecovis KGA and at 414 Khyber Pass by Metric. Newton also saw a further improvement in its vacancy position with the rate falling to 15.1%. While this is still the highest rate recorded within the fringe precincts it marks a huge reduction from the 36.4% vacancy rate recorded at the time of the 2011 survey. The downward trend in vacancy within the precinct has in previous years been largely due to vacant office premises being converted to residential.

Newton Vacancy vs Inventory



There continues to be substantial demand for such opportunities from developers particularly within the Eden Terrace area. The attractiveness of premises within the area has been supported by new height overlays which allow for development of up to 20.5 metres. These zoning changes combined with the area's proximity to the CBD, public transport routes and motorways has supported an active sales market over the last year as illustrated in the table below. Over the last 12 months however, the decline in vacancy has also been driven by tenant uptake. Notable reductions in vacancy include PSA expanding their tenancy at 155 New North Road, the absorption of over a 1,000m² at 96 New North Road by NZSFA, Endeavour Solutions and Longbeach Apparel and the uptake of approximately 650m² by Touch and Cat at 445 Karangahape Road.

Eden Terrace Sales

Address	Sale Price	Yield	Note
10-12 Exmouth Street	\$7,500,000	N/A	Sold to Developer
9-13 Exmouth Street	\$4,300,000	6.60%	
60 New North Road	\$3,950,000	N/A	Sold to Value add Investor
215 Symonds Street	\$2,490,000	5.80%	Sold to an Investor
26-32 Virginia Avenue East	\$7,000,000	8.90%	Sold to Owner Occupier
91 Newton Road	\$4,210,000	N/A	
60-64 Upper Queen Street	\$3,900,000	6.95%	Sold to Value add Investor
75 France Street	\$1,848,000	7.00%	Sold to an Investor

SOURCE: BAYLEYS RESEARCH

Grafton has seen a 2.5 percentage point fall in vacancy again a marked improvement from the rate of 21% recorded in 2013. For the second year in a row there was no vacancy within the precinct's highest grade stock. The reduction in the overall rate therefore was as a result of uptake within B and C grade space notably at 160 Grafton Road where Engineering and surveying firm Terra Consultants and software company WEX New Zealand have, between them, taken leases over 2,700m².

The only precinct to have experienced an increase in its vacancy rate was College Hill, however, once again A grade vacancy held at 0% with the overall rise was entirely due to a lift within the B grade sector, where, for example, lettings to the Transmission Gully project, FMS and Spark have not fully compensated for the departure of URS from 13-15 College Hill.

Further evidence of the impact of apartment projects on the city fringe office sector is apparent within the precinct with the demolition of former offices at 61 Wellington street to make way for a new scheme.

North Shore

The North Shore's office sector performed strongly in 2015 with vacancy rates falling to their lowest level since 2006.

North Shore Office Precinct Vacancy Rates 2016 v 2015

Precinct	2016	2015	Movement
Takapuna	6.0%	7.7%	▼
Akoranga / Northcote	12.2%	2.5%	▲
Albany	5.7%	9.2%	▼
Rosedale	4.0%	7.9%	▼
Mairangi Bay	4.3%	9.0%	▼
Browns Bay	0.7%	0.7%	▶
Total	6.9%	7.8%	▼

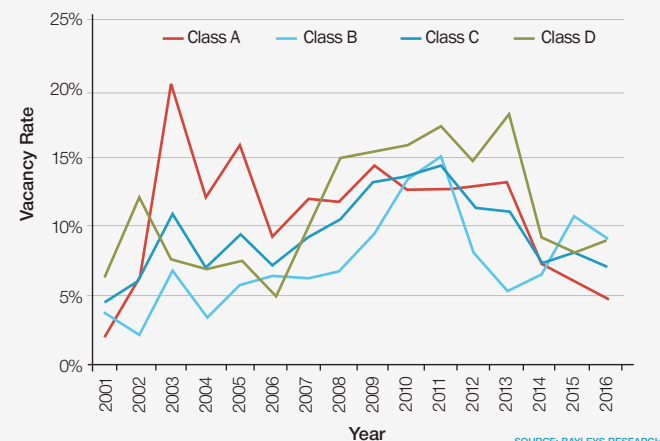
SOURCE: BAYLEYS RESEARCH

Positive news for the North Shore office sector has continued in early 2016 with confirmation that Vodafone is to consolidate all of its Auckland based staff within refurbished space at Takapuna's Smales farm, exiting their CBD offices when their lease there ends in 2017.

Total vacancy across the North Shore office precincts declined by almost one percentage point to 6.9% at the date of the 2016 *Bayleys Research* survey, the lowest level recorded since 2006. The reduction was driven by strong tenant uptake across the area's two biggest office precincts Takapuna and Albany.

Vacancy at the prime end of the market continued to tighten with A grade vacancy now sitting at sub 5% the only time that a rate as low as this has been recorded since 2001. At that time A grade inventory totalled just 35,200m², only 22.5% of the current total.

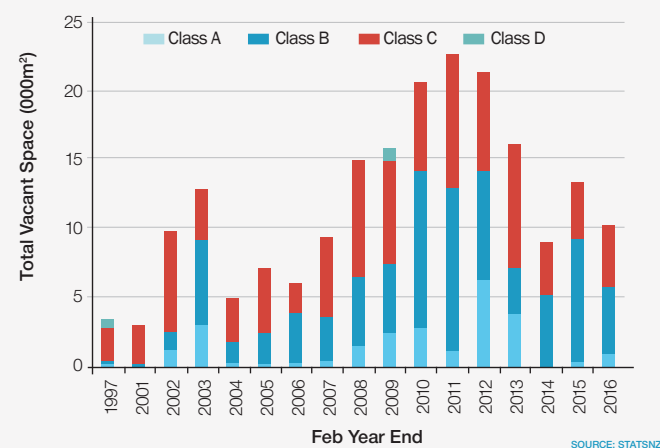
North Shore - Overall Vacancy Rate



In Takapuna the vacancy rate fell from a 2015 total of 7.7% to 6.0% this year. Vacancy has been trending down since reaching a post GFC peak of 12.8% in 2011. The latest figures showing that the town retains its appeal as an office location. Proximity to retail and hospitality outlets as well as the beach make it an attractive area in which to work.

The low vacancy rates within the town centre are likely to persist for some time given that the total inventory is all but capped, due to the fact that the highest and best use for land in the town is residential as opposed to commercial office. Land values in excess of \$1,000/m² make development for office use unviable unless building owners are able to achieve rents of approximately \$350/m² a significant lift on the town's average rates. New supply will therefore most likely be limited, over the next few years,

Takapuna - Total Vacant Space



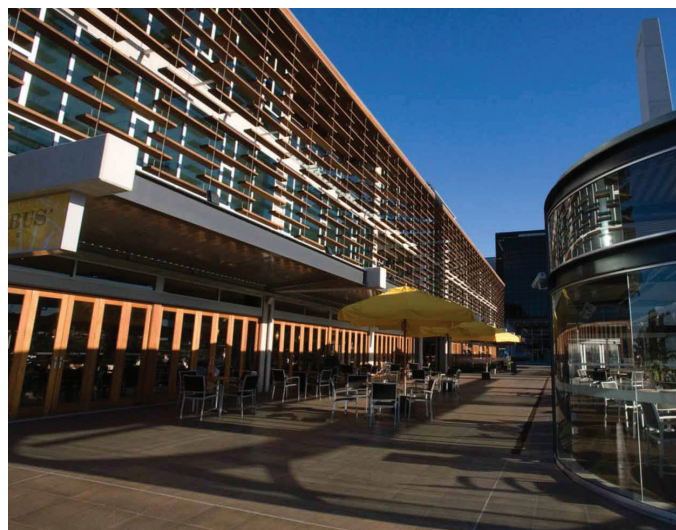
to be an element within mixed use developments or redevelopments. A current example being the redevelopment of 1 Byron Avenue where the existing building has had two additional office floors added above a totally refurbished ground floor retail space.

In Albany vacancy fell by nearly 3.5 percentage points to 5.72% the lowest figure recorded since the inception of the *Bayleys Research* survey. Here again though, additional office development is likely to be restricted with the emphasis for development in the area being primarily aimed at apartment projects.

Once again therefore office development is likely to be limited to design build schemes with little being introduced to the general leasing market unless there is an element of "speculative" space built into the design. An example of this is the inclusion of approximately 1,400m² of space within

Mitre 10's new 7,000m² headquarters currently being constructed within the Orchard Business Park.

While Takapuna and Albany have been the primary drivers of falling vacancy over the last 12 months the performance of the North Shore office market overall post GFC is perhaps best illustrated by trends within the Mairangi Bay precinct. This was an area which experienced rapid expansion within its office market between 2007 and 2010 as developments which had begun immediately prior to the GFC were completed. This spike in new supply combined with a softening economy resulted in vacancy reaching 23.5% in 2009. Over subsequent years however, strengthening leasing conditions have seen the rate falling to just 4.3% at the date of the latest survey.



CASE STUDY: Smales Farm

The Smales Farm Business Park occupies a 10.8 hectare site currently housing 41,000m² of commercial office and retail space. Further expansion is ongoing supported by confirmation that Vodafone will be moving its entire Auckland office based staff to the Park in 2017, when it moves out of its Fanshawe Street premises upon the termination of its lease there.

As part of the restructuring the Vodafone building is to be fully refurbished with the aim of making it New Zealand's most digitally enabled and will be wireless-enabled, voice and video aware and incorporate virtual reality.

Further expansion of the commercial offering at Smales Farm is currently underway through the development of the 12,250 m² B:Hive Building which is scheduled for completion in mid 2017. The building has been designed as a "Future Focussed Building". Flexible floor designs are aimed at attracting a mix of corporate, SME's and start up company tenants. In line with international trends the building will incorporate Flexispace which can be occupied under flexible licence agreements by between two and 100 people, allowing companies to expand or contract, depending upon work flow, without having to relocate.

At the present time Smales Farm has consent for up to 160,000m² of commercial space, which, it is anticipated, will include a hotel along with additional office space. Future development of residential property on site is also planned.

Southern Corridor

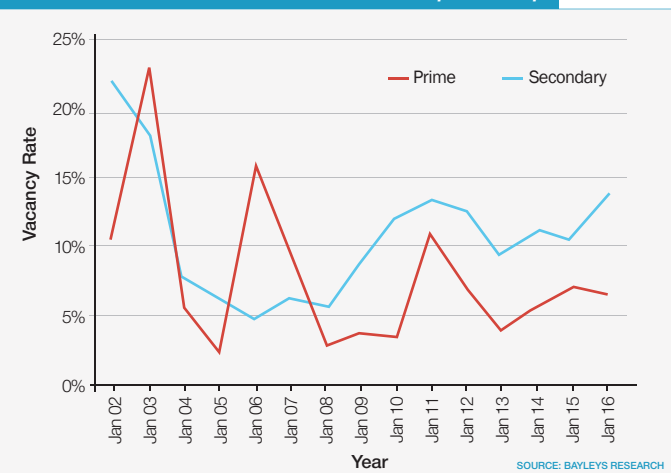
An increase in the precinct's inventory, a result of development and the completion of refurbishment schemes, has led to a rise in vacancy over the course of the year. Overall vacancy reached 10.3% the first time that double digit vacancy has been recorded since 2011.

A grade space, in line with other precincts remains under pressure with vacancy of just 6.5%. The sustained demand for higher quality space has resulted in a spate of refurbishment and redevelopment schemes in the area.

The most prominent of the schemes have been the redevelopment of Building 1 at the Central Business Park. At Central Park, the new four storey "Building 1" has been completed replacing the original single story structure. Owners Goodman has had good initial leasing success with all but 1,200m² already occupied by Youi Insurance. The new four storey structure replaced the original single level building and features an internal car park which will compliment a new multi level car park building on site.

The precinct has attracted a wide range of tenancy types from large

Southern Corridor - Prime vs Secondary vacancy



corporates such as Restaurant Brands, George Weston Foods, Genesis Energy, Avis and Mars to small and medium sized entities.

Greater Auckland Commercial Offices Leasing Trends 2016

Precinct	Leasing Market		Market Rental (\$/m ²)	Rental	Outgoings (\$/m)	Carparks
	Demand	Supply	Low - High	Trend	Low - High	\$/pcpw
Newmarket						
Prime Quality	Strong	Shortage	450 - 500	▲	80 - 100	60 - 80
Secondary Quality	Steady	Sufficient	220 - 300	▲	70 - 85	
Grafton						
Prime Quality	Steady	Shortage	280 - 350	▲	70 - 90	40 - 60
Secondary Quality	Weak	Surplus	200 - 280	▲	60 - 80	
College Hill						
Prime Quality	Strong	Shortage	270 - 330	▲	75 - 90	40 - 50
Secondary Quality	Steady	Sufficient	200 - 250	▶	65 - 85	
Newton						
Prime Quality	Sufficient	Surplus	250 - 325	▲	70 - 90	40 - 60
Secondary Quality	Weak	Surplus	200 - 240	▲	60 - 80	
Parnell						
Prime Quality	Strong	Shortage	300 - 550	▲	70 - 90	50 - 65
Secondary Quality	Strong	Shortage	220 - 300	▲	60 - 80	
SOUTHERN CORRIDOR						
Prime Quality	Strong	Shortage	280 - 350	▲	70 - 85	35 - 45
Secondary Quality	Weak	Surplus	180 - 200	▶	60 - 85	
NORTH SHORE						
Takapuna						
Prime Quality	Strong	Shortage	270 - 350	▲	60 - 80	30 - 50
Secondary Quality	Strong	Shortage	210 - 275	▲	60 - 80	
Albany / North Harbour						
Prime Quality	Steady	Sufficient	250 - 300	▲	50 - 60	15 - 35
Secondary Quality	Steady	Sufficient	210 - 240	▶	40 - 50	

NB: Net rent rates exclude GST and carparking costs. Outgoings inclusive of rates and ground rent where applicable
 Prime Quality = Premium and A-Grade accommodation
 Secondary Quality = B and C Grade accommodation

pcpw = per car per week
 All rates as at January 2015

SOURCE: BAYLEYS RESEARCH

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