The Auckland

COMMERCIAL OFFICE MARKET

January 2016

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TWENTYTWO
Independent Property Advisers


ASB

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Everyone seems to be talking about the Auckland property market. It's not just housing prices getting all the attention – office space is under enormous pressure also. What should office tenants in the CBD, or those looking for office space be thinking about?

Over the past 18 months, there has been regular commentary in property circles about the demand for commercial office space in Auckland. The key areas of interest to tenants in the CBD or Auckland fringe will be:

- What are the current trends?
- How will demand be met?
- What will it cost?
- When do I need to do something about this?

What are the current trends?

Quality commercial office space in Auckland is under pressure to meet demand. Vacancy rates have fallen steadily over the past three years prompting higher rents and other landlord-friendly terms such as fixed annual rent increases, no incentives and relatively long leases (between 10-15 years).

Key drivers behind this trend include:

- Limited prime stock available
- Ageing existing CBD stock
- Drift to the west and the waterfront
- Population growth
- Relatively buoyant economic conditions

The traditionally premium CBD commercial office buildings (Vero, PwC, Lumley, ANZ Centre) continue to offer good-quality commercial space and maintain high occupancy rates. In some cases, these buildings have enjoyed considerable refurbishment – however tenants are mindful of how these buildings are ageing.

Demand for good space is coupled with a flight towards more modern and efficient premises to enhance the workplace proposition.

As organisations compete for high-quality staff, there is an appetite for tenants to seek a workplace with efficient floor plates, be structurally sound, with good air-conditioning (and other building services) and be near good amenity. Second tier/older office buildings in the market will generally fail to meet these requirements and require reinvestment to remain competitive.


Wynyard Quarter
The Viaduct
Waterfront
Britomart
Quay Park
Core CBD
Victoria Quarter
Education Precinct

How will demand be met?

As a consequence of low vacancy levels in the premium buildings, we are seeing new building activity with proposed new development principally towards the CBD waterfront and western fringe locations.

The market has responded as follows:

- High-rise tower proposed by Precinct Properties on **Auckland waterfront** (**Downtown Development**, 35 levels, 37,000m^2)
- **Britomart** remains a very popular corporate and retail destination, but is essentially full. There is talk of another low-rise commercial building in the centre of the square, but this may compromise the successful courtyard retail and hospitality offering
- Various new low-rise opportunities (**Wynyard Quarter/ Tank Farm**)
- Various mid-rise developments in the **Victoria Street Quarter** (West of Nelson St and touching into Freemans Bay). For example, 17,000m^2 at 151 **Victoria Street** due for completion in late 2015 and now fully let
- Refurbishment and improvements to existing A and B-grade ageing stock (especially around the **Shortland Street** and **Queen Street** area)

Our view on Downtown / Commercial Bay

Precinct Properties has recently announced its commitment to the **Commercial Bay** project which will see 39,000m^2 of office space and 18,000m^2 of retail space developed on the **Lower Queen Street Downtown** site commencing in 2016. This exciting development will be centred with a 39-level tower anchored by professional services firm PwC. Further tenants have not yet been named, but momentum towards this building is unlikely to ease. This will position **Commercial Bay** / PwC Tower as Auckland's premium waterfront building in 2019/20 and potentially create a gradual shift away from the **Core CBD.** This development speaks volumes of the current Auckland market - demand for high-quality office space and a recalibration of Auckland's premium office stock.

Our view on Wynyard Quarter

The success of the **Wynyard Quarter** is, in our view, imminent, given the tenants committed to the area to date (e.g. ASB Bank), new tenant interest in the proposed new developments (demand driven), the focus of **Waterfront Auckland** and the quality of the developers staking a claim in the area.

Following ASB into the area are Fonterra, Datacom, Hilton Hotel and a significant residential development by Willis Bond which has generated a great deal of interest in a short space of time.

Our view on Victoria Street

Victoria Street and surrounding areas are rapidly changing as mentioned above. Mansons TCLM have found success developing new buildings around its anchor Telecom/Spark project on Victoria Street which opened in 2010. Further west, smaller-scale office developments are underway around the **Victoria Market** areas and creating a relatively niche office and retail environment between the **CBD** and **Wynyard Quarter**.

Secondary movement around the **CBD** is also expected by tenants backfilling buildings when vacancies become available after 2019. We expect these buildings will enjoy minor refurbishment and seismic upgrade to attract new tenants.

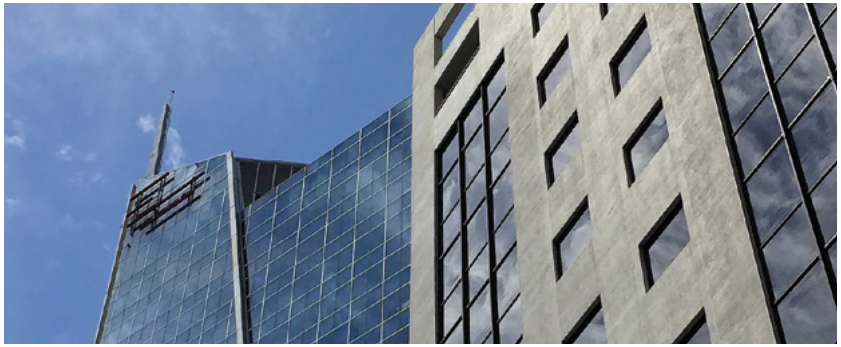
...we are seeing new building activity with proposed new development principally towards the CBD waterfront and western fringe locations

What about Shortland Street?

Historically, **Shortland Street** has been a hub for professional services and commercial activity in Auckland. High-quality buildings, high-quality tenants, good surrounding amenity and proximity to the courts all make this a place to do business. However, a trend towards the waterfront and fringe locations is underway and with it comes the risk that Shortland Street will be less exclusive. Already, this flight towards new buildings is underway with Meredith Connell, Fonterra, Forsyth Barr and others leaving the **Shortland Street** area.

While the mix of tenants will change over time, we do not believe that **Shortland Street** will be severely damaged in context of occupancy levels thanks to Auckland's strong economy and relatively good-quality building stock. Rather, the **Shortland Street** area of post-2020 could become more diverse than the past 20 years.

We expect rents to plateau in the key **Shortland Street** buildings post-2020 in line with greater supply, but it is worth remembering that some of these buildings will be well over 20-years-old at that time.



Likely commercial terms and locations

Below is a high-level summary of the likely commercial terms to be found with old and new office stock:

WATERFRONT
New high-rise

Some incentives – rule of thumb, one-month rent-free per year of lease commitment. Annual rent increases (circa 3% pa). Target completion early 2020.

RENT	$680 - $740m²
OPEX	$155m²+
TERM YEARS	12-15

WYNYARD
New low-rise

Some incentives. Annual rent increases (circa 2.75% pa). Delivery from 2016-2017.

RENT	$475 - $495m²
OPEX	$100m²+
TERM YEARS	12+

VERO
Shortland Street A-grade

Minor incentives. Annual rent increases (circa 3% pa). Minor common area refurbishment expected in these buildings.

RENT	$480 - $525m²
OPEX	$150m²+
TERM YEARS	9-12

AIG
Shortland Street/Queen Street secondary buildings

Annual rent increases (circa 3% – softening post-2020?). Trend towards smaller tenancies/part floors being offered.

RENT	$375 - $425m²
OPEX	$120m²+
TERM YEARS	9-12

VICTORIA PRECINCT
New buildings e.g. Masons

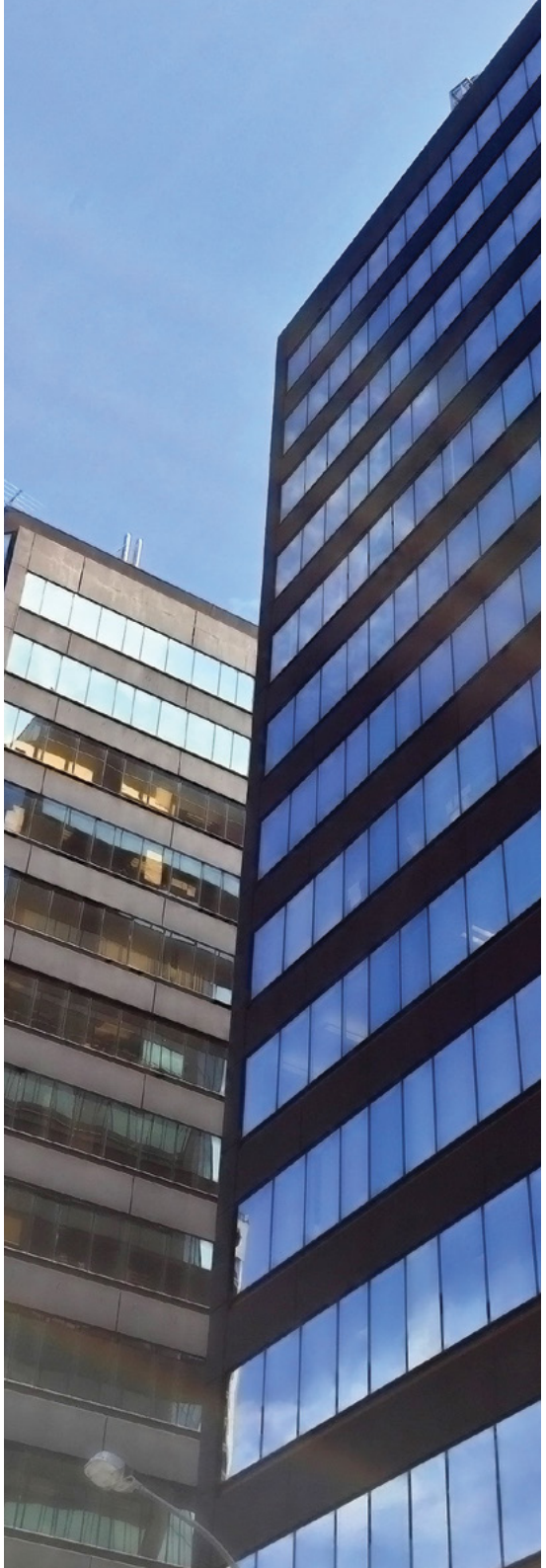
A range of rents and incentivised packages. Annual rent increases (circa 3%) with no review until renewal (depending on the incentive package).

* Potentially impacted by incentive arrangements

RENT	$450 - $525m²*
OPEX	$105m²+
TERM YEARS	10-12

RENT OPEX TERM YEARS


NZME.

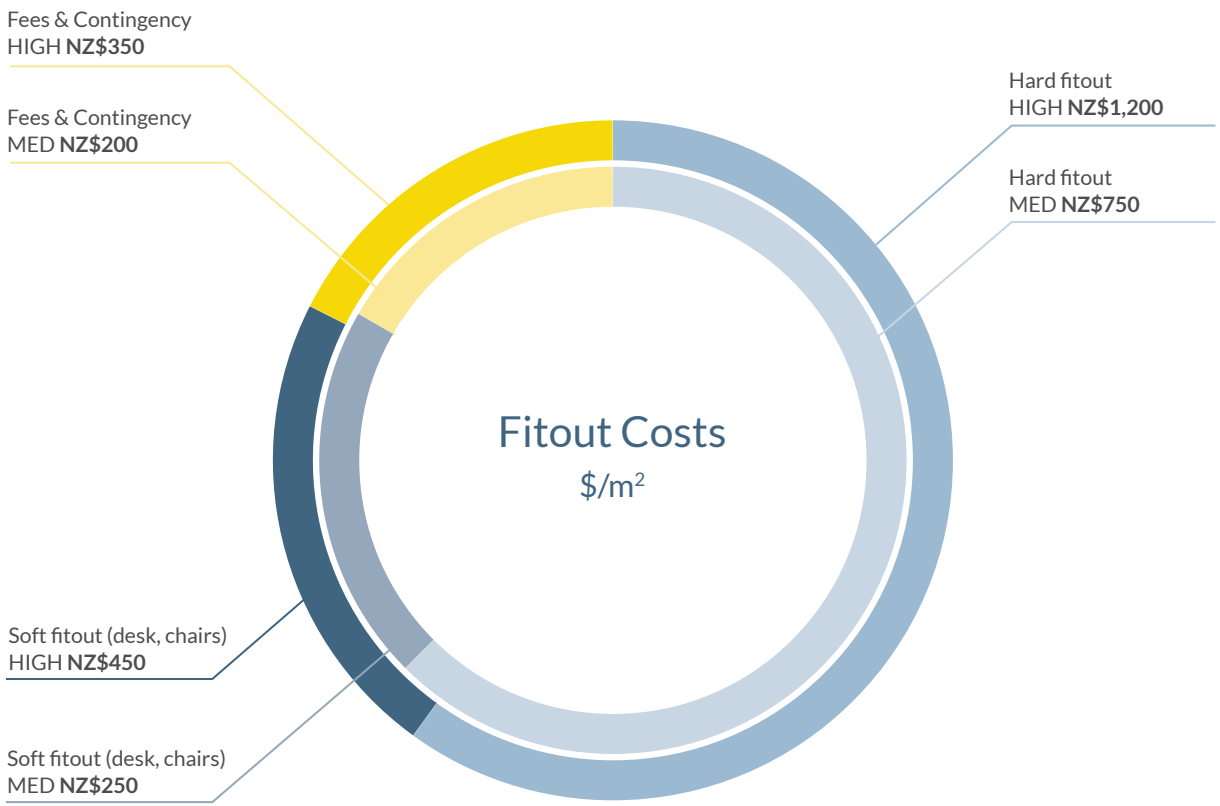



Microsoft
hp


BAYLEYS

Considering any new office solution involves thinking about fitout costs. Construction costs have enjoyed gradual increases over the past four years, both as a consequence of activity in Auckland, but also the effect of the Christchurch earthquake rebuild (particularly with a labour migration south).

A brief summary of approximate fitout costs is shown below:



Movers tend to consolidate!

Across multiple sectors, the workplace is becoming a collaborative and flexible place. Coupling improved workplace desking systems with large, efficient floor plates means a reduction in premises footprint is achievable. Many organisations, particularly professional services, are embracing open-plan working style and moving away from heavily partitioned spaces.

The cost benefit of less-leased area and less hard fitout cost (walls etc) can justify the cost of a new premises fitout and higher rent in a new building. The non-cost benefit is creating an attractive, modern and efficient place to work that brings the best out of people and performance.

When is the best time to think about your leases and office requirements?

That's easy – it's never too early to be thinking about property!

Understanding your lease is the key to understanding when you need to be active. Regular review of your lease rights and obligations is essential for good corporate real estate management.

Our most common observation is that property decisions are often left too late. In some cases, it can take two to three years to identify, agree, build, fitout and relocate to a new building.

Even a simple lease renewal can take several months and left too late can erode any commercial leverage a tenant may have with its landlord.

In a buoyant property market, it is even more important for tenants to appreciate their options – especially if stay put is the only option!

Market knowledge is one part of the process.

- It may be the level below you is becoming available
- It may be that current rents are higher than you forecast
- It may be that the old building down the road is actually being refurbished

Of equal importance is being aware of your current and future property requirements. Determining what is really required can be the key to good property decision making.

- It may be you need less area than you think
- It may be better to lease additional space now given your anticipated growth
- It may be that a move to the fringe is what your staff want

At TwentyTwo, we address all such issues on behalf of tenants. We can explore your physical requirements with our workplace design specialists, while determining the best commercial solution via our property consulting experts. We do so with knowledge, precision, passion and expertise

About the authors

David Lambie has a stellar track record as one of NZ's leading tenant advisers, having been involved with many of NZ's largest leasing transactions over the last 10 years. With a 20-year background in development, property management and consultancy, he is particularly regarded for his corporate real estate strategy, tenant advocacy, lease negotiation and project directorship skills.

Gail Calder heads up our Auckland business following a successful career working for large occupiers/tenants like BNZ, ANZ, NZ Post and, most recently, Z Energy as Asset Manager. Gail brings an inside perspective on how we can add real value to property planning, workplace planning and transaction/leasing decisions. In 2012, Gail was recognised by CoreNet Global as the Corporate Real Estate Executive of the Year.

Got a premises decision to make?
We'd love to help you get a better outcome

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