TWENTY**TWO**

Hamilton Office Market Spotlight

FEBRUARY 2022

The Hamilton CBD Office Market continues to undergo significant transformation and renewal, and more is anticipated as 2022 begins.

This renaissance is well overdue. It comes on the back of a number of drivers for change:

- Population growth (Hamilton is forecast to grow from ~170,000 to ~240,000 people over the next 30 years)
- The Auckland southward drift with substantial development south of Auckland spilling into the Waikato (with more to come)
- Continued economic growth across the Waikato and Bay of Plenty (again partly in response to Auckland's growing pains)
- Aging office stock that is ripe for redevelopment to better match occupier demand for modern workplaces
- Hamilton City Council's zoning and development changes and significant investment in infrastructure to support growth.

The quality of the office stock in the Hamilton CBD has been gradually degrading over the last 20 years with very limited reinvestment, with some exceptions. As a result, much of the core office stock is older buildings with small floor plates, aging building services and poor amenities; well beyond its appeal as modern workplaces. However, over the last 2-3 years there has been considerable new investment and the CBD is expected to continue to transform as Council and local developers breathe new life into the city.

New office development and refurbishment activity is being fuelled by continued tenant demand and a flight to quality (including larger floors, increased seismic resilience, improved occupant comfort and enhanced on site amenities). As a result, there are a number of proposed, planned or in-play developments across the city and several active parties. There are also several larger city blocks prime for redevelopment once the current supply of sites is exhausted; all caveated as ever by the impacts of C-19 on the economy and business confidence.

Council is also playing its part. In 2021 it announced a total remission of development contributions for buildings over six storeys within the CBD. Buildings under six storeys can receive up to a 50% remission of these costs. The Council has also removed height restrictions for buildings in order to stimulate larger and more dense development, no doubt making it more attractive for developers to leave their mark on the CBD. The HCC 2017 Operative District Plan also discourages new office and retail development within Te Rapa and for the area to be returned to industrial uses. This initiative will help the CBD re-claim its presence as the prime office/workplace precinct and ensure the continued growth and rejuvenation of the CBD. Council is also investing heavily in capital projects and other initiatives over the next 10 years including a number of infrastructure, roading, active transport and asset upgrades to ensure they are fit-for-purpose and cater to growth.

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REVITALISATION OF THE CBD

On the back of this increased optimism there are a number of active developers focusing on the core CBD. Several notable developments are under construction/have recently been completed with more in various phases of the planning and pre-construction phase. A summary of the completed developments are set out below and a sample of these under construction or planned are captured overleaf.

Cnr Hood and Anglesea Streets

Completed

JV between Foster Group, Ebbett Group and Imola Lab

First building (Building F) of Union Square development. Tenants include Rabobank and AA

Cnr Tristram and Bryce Streets

Completed

Stark Property

Tenants include Waikato Regional Council and WSP

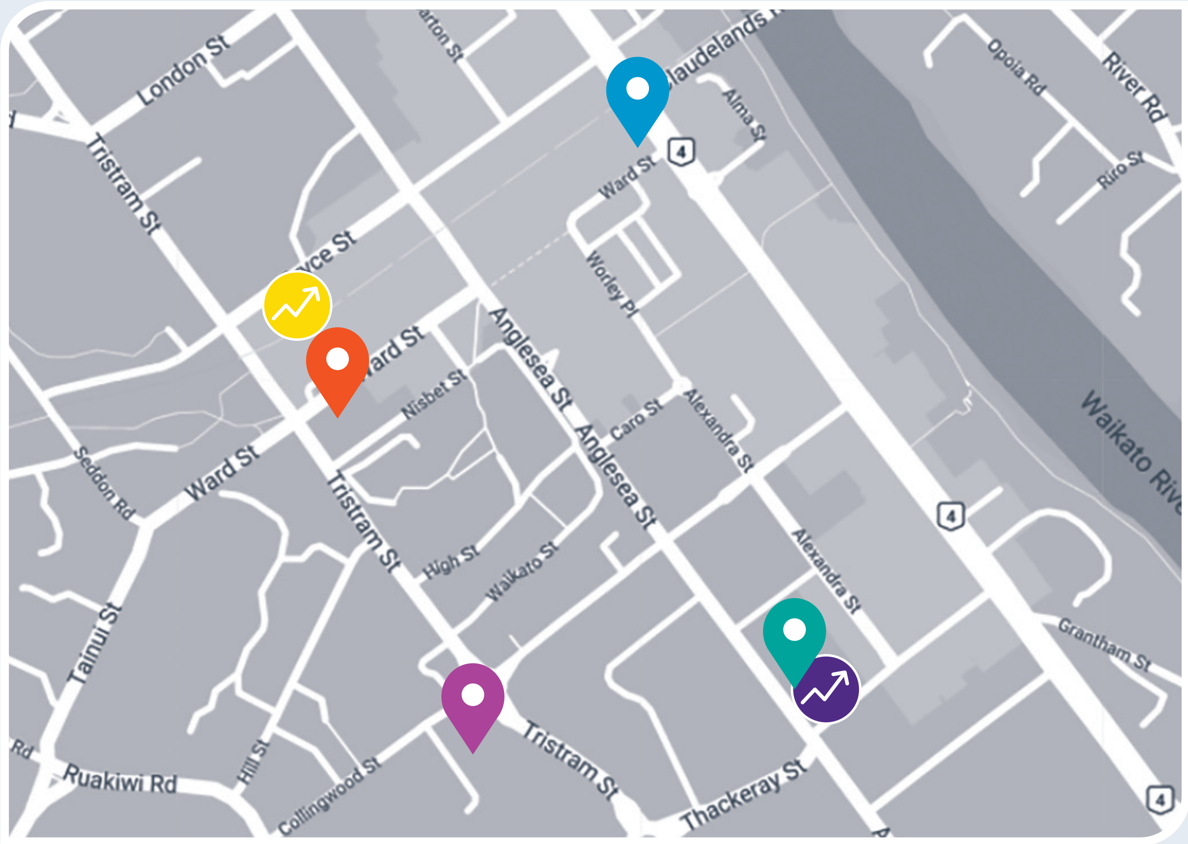
RABOBANK NZ

One example of increased tenant-led demand is Rabobank relocating their New Zealand Head Office from Wellington to Hamilton in late 2021, and leasing ~1,200m^2 in Building F, Union Square.

This is an interesting journey for Rabobank and TwentyTwo, who has acted for Rabobank in New Zealand over the last ~20 years. A separate synopsis of this project will follow however, in 2018, Rabobank, under the leadership of new CE Todd Charteris, engaged TwentyTwo to undertake a Location Analysis to determine the optimal location for Rabobank's Head Office, not convinced Wellington remained the location of choice. The analysis we undertook across a range of criteria concluded that either Hamilton or Christchurch were likely to be more aligned to Rabobank's strategic goals, as an agri/rural bank. TwentyTwo subsequently led the market search, procurement and commercial and lease negotiations for their new workplace in Hamilton.

OCCUPIER / TENANT PERSPECTIVE

The increased activity provides tenants thinking about their future workplace/ premises requirements with more options that potentially better match their needs. Set out below are some examples as noted. While there are some key pre-commitment by tenants to initiate these developments, options in most buildings remain. These are a sample only and a more formal and structured market search and procurement process is likely to source further options.



Cnr Tristram and Collingwood Street

- Under Construction
- Tainui Group Holdings
- ~Oct 2022
- ACC are the anchor tenant

Union Square, Anglesea Street

- Planned
- Foster Group
- ~2023 (and beyond)

The second office building (Building E) is scheduled for completion in 2023. Once all building are constructed, the development could provide up to 23,000m² of office spread over five buildings in addition to retail and community spaces.

Tūāpapa, Ward Street

- Planned
- Stark Property
- ~2023 (for the first building – 'Mahi')

Once completed, the development will comprise three buildings including two building providing 7,000m² of office and one marked for accommodation.

Cnr Victoria and Ward Streets

- Planned
- Tainui Group Holdings & Kiwi Property Group
- ~2024

MARKET RENTALS

With the increase in new office stock there is unsurprisingly new rental benchmarks being set within the CBD. The table below provides an indicative understanding of market rentals, using "effective" net rental as a guide. The "effective" rental guide uses data drawn from market evidence, based on notional six year lease and adjusted to "net effective rental" allowing for any incentives, using accepted industry practice. Note: "Face" rentals that may be quoted or contracted in a lease are generally higher than those shown, as these do not consider incentives.

As ever, each transaction is unique and the final commercial terms will depend on a number of factors, particularly the strength of the tenant covenant, initial lease term, rent review structure, landlord works, incentives, lead timeframes and the circumstances of the landlord/ developer. We recommend advice is sought before considering any transaction.

	NET EFFECTIVE RENTAL ($/M² PER ANNUM)		OPEX ($/M² PER ANNUM)		CAR PARKS ($PCPW)	
	LOWER	UPPER	LOWER	UPPER	LOWER	UPPER
New Build	$350	$400	$60	$75	$35	$45
A-grade	$265	$330	$50	$65	$30	$35
B-grade	$200	$235	$40	$60	$25	$35
C-grade	$125	$190	$40	$50	$20	$30