MARKETVIEW

Hamilton Retail Occupancy Survey

Secondary vacancy reaches an all-time high

SUMMARY

- The CBD retail vacancy rate decreased from 8.4% to 8.2%.
- The amount of vacant space has decreased from 6,720 sqm in June 2019 to 6,470 sqm in December 2019.
- The amount of stock under refurbishment has decreased significantly as the ex-Farmers space has been converted to offices and associated clinical space for the Waikato District Health Board.

INTRODUCTION

This report provides a summary of the Hamilton retail occupier survey conducted in December 2019.

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.

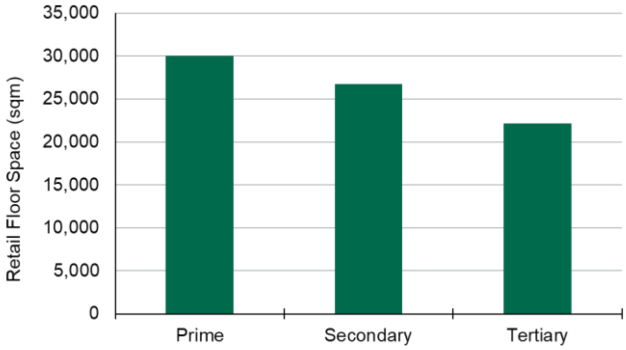
In accordance with our definition, retail accommodation within the CBD is defined by street location. In general terms, a store located on a street with good pedestrian traffic and within the central core is categorised as prime, while shops within the core and in close walking distance to high streets are secondary. Those stores located outside the core, or on the fringe are tertiary.

This retail vacancy survey is undertaken on a bi-annual basis in a partnership between CBRE Research and NAI Harcourts.

RETAIL STOCK & NEW DEVELOPMENT ACTIVITY

Hamilton CBD retail stock as at December 2019 totals circa 78,870 sqm, representing a 650 sqm decrease in overall stock in the last six months. This change is reflective of the volume of stock withdrawn for refurbishment, seismic strengthening, or repurposing to other uses.

CBD Retail Stock by Grade



While there have still been no new builds completed in the CBD since June 2019, there have been a number of new refurbishments. The most recent CBD refurbishment activity is at the Pascoe's Building, northern corner of Garden Place and Victoria Street, which is undergoing seismic strengthening works.

Three tenancies have been recently closed for redevelopment. 99, 530, and 540 Victoria Street; a total of around 1,100 sqm of retail space, have been temporarily excluded from retail stock for this purpose.

The redevelopment at 302 Barton Street is completed and is now occupied by TRUE and Studio Logistics. This has increased the retail stock by around 320 sqm, as has the redevelopment occupied by Kobe Sushi at Garden Place (204 sqm).

Prime retail space accounts for 38.0% or 30,020 sqm of the total CBD retail stock. Secondary stock is 26,700 sqm (33.9%), followed by Tertiary at 22,140 sqm (28.1%).

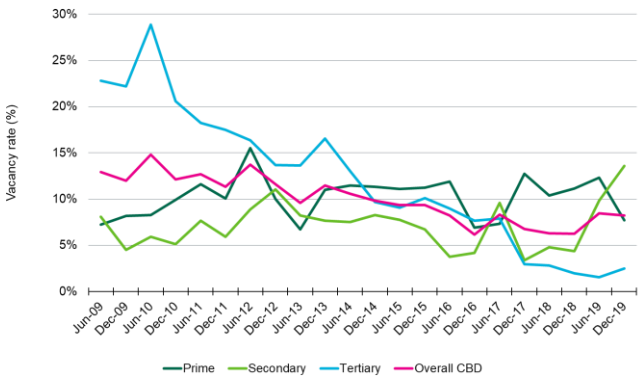
VACANCY

The Hamilton CBD retail vacancy rate decreased by 0.2%, moving from 8.4% in June 2019 to 8.2% in December 2019. Over the six months to June 2019, vacant space decreased by 248 sqm.

24 occupancies are currently under refurbishment or fitout and have temporarily been removed from the survey. The ex-Farmers space on the corner of Alexandra, Anglesea and Collingwood Streets has been moved from retail to office stock and is the new home of the Waikato District Health Board in the CBD. This is a total of circa 8,940 sqm.

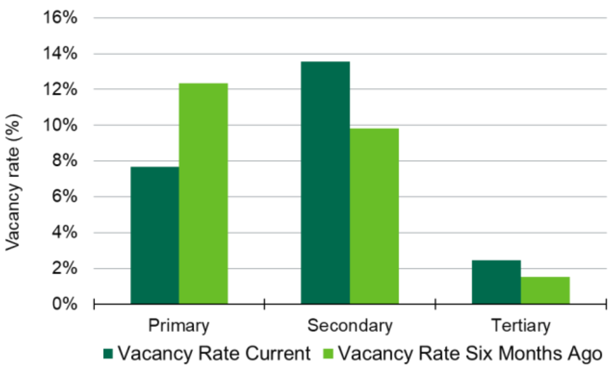
This reduces the total volume of space under refurbishment is around 5,500 sqm.

Historical CBD Vacancy by Grade



Prime grade experienced a decrease in vacancy, moving down to 7.7% in December 2019 from 12.3% in June 2019. There have been two sizeable take-ups of vacant space in this grade. One of these is Go NZ Variety, who took up a lease for a 1,450 sqm space at 64 Bryce Street, which had been vacant for an extended period of time, having last occupied been by the Clearance Shed in December 2017. The second largest take-up is located at 427 Victoria Street where Goldsmith Gallery have leased 218 sqm of retail space.

CBD Vacancy by Grade



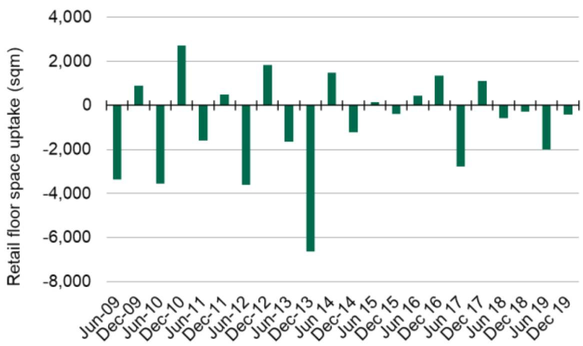
The increased demand for Prime grade retail space has led to a low vacancy rate for this grade. There were only three new departures, all under 200 sqm.

Secondary grade experienced a large increase in vacancy over the last six months, moving from 9.8% to 13.6%. Historically, this is the highest level of vacancy this grade has ever seen. There were multiple sizeable new vacancies where the largest contributor to this was Yakedas Party & Gifts who vacated 290 sqm of space at 10 Garden Place. Another sizeable new vacancy in this grade is i-Site Information Centre's departure of 149 Alexandra Street (209 sqm), who has located elsewhere in the Hamilton CBD.

Tertiary grade experienced an increase in vacancy since June 2019. There were two new vacant spaces in this grade. Primo Vino vacated 223 sqm of space at 955 Victoria Street and Adecco Personnel vacated 190 sqm at 236 Anglesea Street.

Retail churn activity, or the changeover from one retail business to another, was active during the second half of 2019, especially in the Primary grade where nine tenancies changed hands. There was an even spread of new tenancies across the CBD where 'Food retailers' accounted for 33% of activity, a historically low proportion. Examples of large occupier changes include Oh! Seven taking over 760 sqm from Altitude and Gravity Bar at 30 Alexandra Street and Elite Fitness taking nearly 700 sqm of a former personal retailing space on Barton Street.

Net Uptake of Retail Space

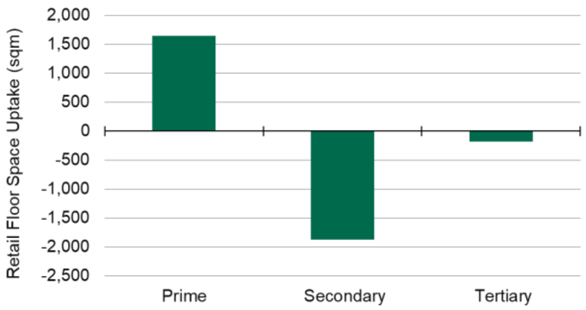


TAKE UP

The overall net change in occupied stock over the six months to December 2019 was a decrease of 410 sqm to 72,400 sqm. This was due to the volume of leasing activity (on a square meter basis) outweighing the level of recently vacated space. Fourteen spaces totalling 1,980 sqm became vacant, and thirteen previously vacant spaces with a total of 2,170 sqm became newly occupied.

There was a negative net absorption in the Secondary and Tertiary grades, with less occupied space in both grades compared to June 2019. The Prime grade experienced a 1,653 sqm increase in occupancy level within the six months to December 2019.

Net Uptake of Retail Space by Grade



CONCLUSION & OUTLOOK

On the face of things, vacancy for the Hamilton CBD retail market has decreased slightly over the second half of 2019. Prime grade vacancy experienced a 4.6% decrease from 12.3% to 7.7% in six months, which can be credited to Go NZ Variety's 1,450 sqm take-up. This space had been previously vacant for an extended period of time, heavily influencing the Grade A vacancy rate. Overall net absorption was also down.

Secondary grade vacancy reached an all-time high (13.6%) with multiple small to medium tenants opting not to renew their leases. Similarly, Tertiary vacancy is up a percent with two sizeable departures.

Since June 2019, we have witnessed the decline in demand for Secondary grade retail space, while there is growth in demand for Prime retail, particularly for smaller tenancy areas.

We know that with increasing demand and higher competition in the CBD retail market, tenants are now moving towards quality spaces with higher amenities that are located in areas with high foot-traffic. Larger retail spaces have on the whole remained more difficult to fill and landlords are becoming proactive in refurbishing and splitting these spaces to become more attractive to a greater tenant pool. The former 1,450 sqm Clearance Shed space took almost two years to find a suitable tenant. Nine spaces over 200 sqm remain vacant.

The outlook for 2020 is positive. With an increasing variety of retail offering, food and beverages along with services and personal retailing. Demand for Prime retail space is generally high and options are limited due to the decline in vacancy. Occupiers are jumping onto Prime grade space when it becomes available, where some may be forced to chose Secondary grade stock if unavailable. Now is the time to reposition your asset to meet the needs of todays changing retail market.

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