Hamilton Office Occupancy Survey

Office occupancy grows with new high quality space options

SUMMARY

- Total Hamilton CBD office stock increased by circa 10,600 sqm
- Over a six-month period from December 2020 to June 2021, overall vacancy decreased from 8.2% to 8.1%
- The overall net change in occupied office stock was positive 7,700 sqm

INTRODUCTION

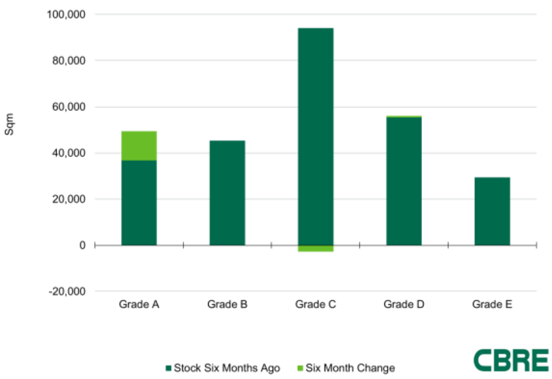
This publication provides a summary of the Hamilton office occupier survey conducted in June 2021. The survey is based on comprehensive building by building analysis of the Hamilton CBD area, reporting on stock volumes, vacancy rates, absorption rates and floor space use by business type. This study is undertaken on a bi-annual basis by CBRE and NAI Harcourts.

HAMILTON CBD OFFICE STOCK

Total office accommodation in the Hamilton CBD increased significantly in the six months to June 2021, up by 10,600 sqm to 271,660 sqm.

Grade C makes up 34% of the total office stock in the market, while lower quality Grades D and E together account for a total of 32%. Higher Grade A and B office space now makes up 18% and 17% respectively. Total Grade A and B space has increased 48% since the end of 2018.

Office Stock Breakdown by Grade



In terms of new developments in the pipeline, there are several notable projects. The first is a three-staged plan by Stark Property to turn an inner-city car park at the corner of Ward and Tristram Streets into a revamped business precinct named Tūāpapa. 'Mahi', the first stage of this complex, will see a six-storey office building, potentially starting construction in 2022. The complex's second building will include office and retail space while the third building will feature hospitality and public spaces on the ground level and six floors of accommodation above. A garden terrace will interconnect 'Mahi' to the other two buildings.

Upon completion, Tūāpapa will sit opposite another Stark Property development, the nearly-complete Tristram Precinct.

An artist's impression of the planned Tūāpapa precinct

The second major development is a significant office and retail complex on the corner of Ward and Victoria Streets. Tainui Group Holdings (TGH) and Kiwi Property announced that they will form a joint venture to develop this site with the overall objective being to accelerate the transformation of Hamilton CBD. Other active projects currently under construction include Union Square, with the first of five buildings on the corner of Angelsea and Hood Streets and a three-pavilion office complex developed by TGH on the corner of Collingwood and Tristram Streets.

Progress of the first building at Union Square, Anglesea and Hood Streets.

The total amount of space under refurbishment in the Hamilton CBD is 14,150 sqm, with 9,370sqm being current C Grade space. This has increased over the first half of 2021 due to several stock removals for refurbishment in the Hamilton office market. One of these is the redevelopment of the Environment Waikato Regional Council building on Grey Street (2,200 sqm). Other refurbishments include 8 Liverpool Street (300 sqm) and 25 Ward Street (230 sqm) which were both previously occupied.

The six months to June 2021 saw the refurbishment completion of both Level 3, 527-529 Victoria Street and Level 1, 586 Victoria Street. These spaces have been taken up by Jones Group/DDL Architecture and GHD Group respectively, which has seen circa 1,000 sqm of stock previously under refurbishment now completed and fully occupied.

There are two notable spaces that remain under refurbishment/redevelopment – the former LINZ building on the corner of Victoria and Rostrevor Streets, and the former IRD Building on Bryce Street, together accounting for over 10,000 sqm of stock under refurbishment/redevelopment.

VACANCY

Overall vacancy decreased by 0.1% to 8.1% in June 2021.

Grade A vacancy declined to 3.1% in June 2021, down from 4.2% in December 2020. The addition of 12,680 sqm of fully occupied A grade quality space in the Tristram Precinct is the underlying reason for the proportional decrease in vacancy. There were no new vacancies or take-ups of previously vacant space over this six-month period.

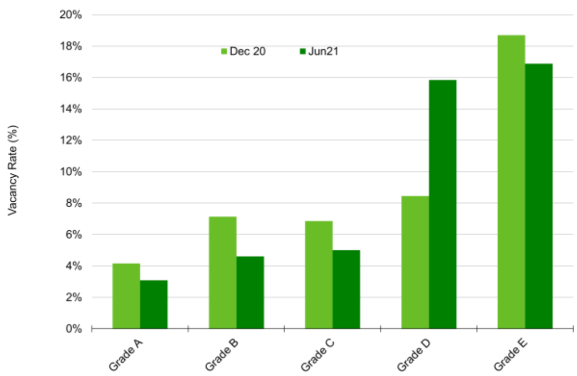
Grade B vacancy also experienced a vacancy decline of 2.5% to sit at 4.6%, which represents around 2,090 sqm of vacant stock. There were only two new vacancies, one at 586 Victoria Street and the other at the corner of Collingwood and Tristram Streets.

Grade C saw a 1.9% decrease in vacancy, moving from 6.9% in December 2020 to 5.0% in June 2021. This is primarily due to three individual sizeable take-ups over 500 sqm, including Sweet Pea taking up 600 sqm at the corner of Rostrevor and Harwood Streets, Wise Group committing to 560 sqm at 290 Tristram Street, and a new tenant leasing 542 sqm on Level 3 at 214 Collingwood Street. There were no new vacancies in the six months to June 2021.

Grade D however experienced a significant increase in vacancy over the last six months reaching a 12-year high of 15.8%. There were sixteen new vacancies in this grade which brings vacancy to around 8,870 sqm. Notable vacancies include ACC vacating 2,082 sqm at 18 London Street and five different smaller vacancies in the Waikato Farmers Trust building, 169 London Street.

Grade E vacancy sits at 16.9%, a 1.8% decrease from December 2020. Despite being a cost-effective option for occupiers, this grade is difficult to lease, evident in much of 48 Ward Street having been vacant for two years or more.

CBD Office Vacancy by Grade



TAKE UP

The overall net change in occupied stock from December 2020 to June 2021 was net positive 7,719 sqm. The addition of A grade occupied stock is predominately responsible for this.

Grade A experienced a sizeable 12,680 sqm increase in current occupied stock, which is due to the addition of the new build Tristram Precinct in June 2021. Waikato Regional Council took up circa 8,000 sqm of the total addition with WSP Opus and Spark taking up the remaining 4,680 sqm. Available options in this grade are limited with four remaining vacancies totalling 1,530 sqm.

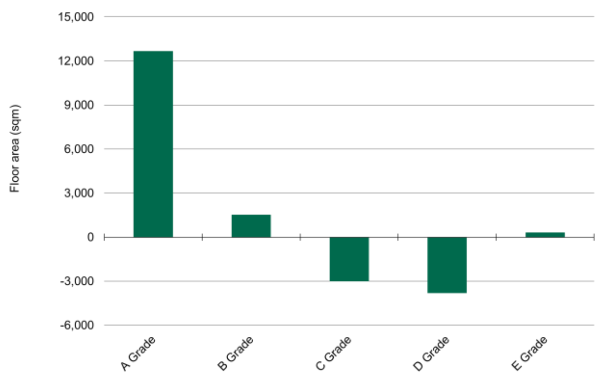
Grade B contributed a positive net absorption of 1,530 sqm. A significant contributor to this increase is the completed refurbishment at 586 Victoria Street with GHD taking up 380 sqm of space on Level 1.

Grade C experienced 3,000 sqm of negative net absorption, continuing the negative trend experienced throughout 2020. The removal of previously occupied stock for redevelopment or refurbishment is a contributor to the grade's negative net absorption.

Grade D also saw a negative net absorption of 3,820 sqm in the six months to June 2021. This decrease in occupied space can be credited to the sixteen new vacancies in this grade.

Grade E experienced a positive net absorption of 330 sqm. This grade has the highest vacancy rate as tenant demand shifts toward higher quality space. Despite almost 5,000 sqm in total space in this grade being vacant, there has been a decent level of churn with thirteen occupiers taking over space previously vacant or occupied by a different tenant.

CBD Net Uptake of Office Space



CONCLUSION

The Covid environment impacts on future work patterns are still emerging in the Hamilton office market. Vacancy rates for low quality stock continues to rise while recently completed Grade A space is added back to stock fully occupied. Quality cost effective Grade B space remains in demand. The availability of quality sub-lease space that has been evident in Auckland, Wellington, and Christchurch has not been as apparent in Hamilton to date.

It is evident that demand for quality office space amongst professional, scientific and technical services occupiers is trending upward toward pre-Covid levels. Health Care and Social Assistance and Public Administration and Safety occupiers are the second and third largest industry occupiers. As witnessed in H2 2020, these two categories nationwide have seen growing space requirements as New Zealand continues to battle with the pandemic. A large majority of these occupiers are deemed to be 'essential' services.

The pandemic is also likely to shift occupier demand toward greener, healthier, and more sustainable alternatives. The four developments profiled in this report are well positioned to take advantage of this.

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