

property Research

Annual 2014
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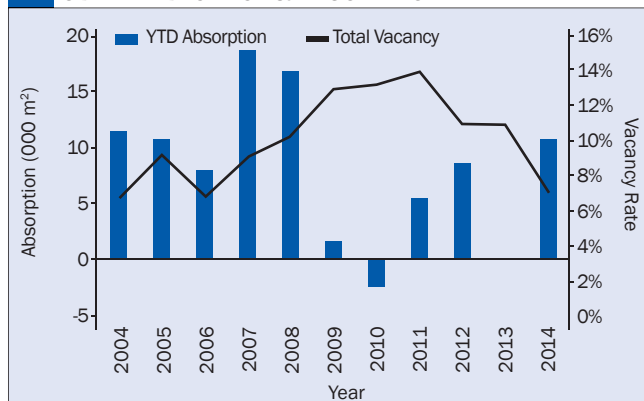
AUCKLAND FRINGE & NORTH SHORE OFFICES

NORTH SHORE

The office sector on the North Shore can tick off another year of improvement. The 2014 Bayleys Research vacancy survey results show the third consecutive year of office vacancy reduction. The rate of vacancy dropped dramatically over the last 12 months and now sits at 7.1%. In 2013 11.0% of office stock on the North Shore was vacant.

The significant reduction in vacancy, which has been declining since 2011, is the result of strongly positive absorption over that time. Absorption measures the absolute uptake of office space over the 12 months period and, in the case of the North Shore, shows that an additional 10,800 m² was leased, over the 12 months since the 2013 survey.

NORTH SHORE OVERALL VACANCY & ABSORPTION



Source: Bayleys Research

Vacancy crept up between 2006 and 2011 as a result of significant new building construction which was completed largely on a speculative basis. While absorption was strongly positive at the start of this period – in excess of 17,000m² per year in 2007 and 2008 – the new office space coming on to the market by far eclipsed this. In 2009, while there was still new office space being completed, absorption had all but vanished. In 2010, as demand for office space fell away, at the depths of the post-GFC fallout, office tenants were shedding space, creating negative absorption. The end of the construction tail has been reached, and with no new building coming onto the market the impact of this has finally taken effect in the North Shore office market. Tenant demand is outweighing the amount of space being brought onto the market, soaking up that spare capacity and reducing vacancy. From the worst point, in 2011 when vacancy was 14.0%, the rate of vacancy has halved.

The major contributors to this reduction in vacancy were in Albany and Mairangi Bay. In Albany, office floors in 51 Corinthian Drive were leased to Westpac, removing approximately 2,400m² of prime office space from the market. In Mairangi Bay, further uptake of Buildings Two and Three in Candida Office Park contributed to a reduction in vacancy by 2.5 percentage points over the year.

NORTH SHORE PRECINCT	2014	2013	Movement
Akoranga / Northcote	2.6%	11.9%	↓
Albany	7.6%	11.4%	↓
Browns Bay	8.4%	6.9%	↑
Mairangi Bay	13.3%	15.8%	↓
Rosedale	16.4%	17.0%	↓
Takapuna	5.2%	9.3%	↓
Wairau Valley	0.0%	0.0%	→
Total Vacancy	7.1%	11.0%	↓

Source: Bayleys Research

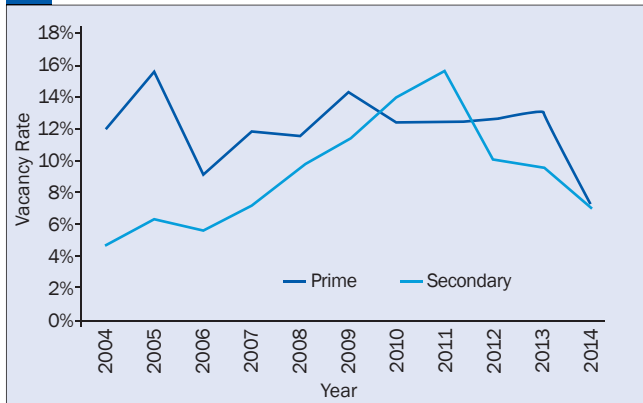
The North Shore office market had a stellar year, with reductions in the amount of space available for lease across all precincts, save for Browns Bay and Wairau Park. A big reduction in Akoranga / Northcote was apparent over the year. In this relatively small precinct, the reduction was mainly as a result of floor space uptake in 5 Warehouse Way to Debit Success and a café.

The Takapuna office market experienced a significant reduction in vacancy over the year, from 9.3% in 2013 to 5.2% in the latest survey. Significant uptake in three buildings over the course of the last 12 months has contributed to this. Smales Farm is now completely full with the balance of space in Toll and Telstra Clear being absorbed. Also, Como Tower at 19-21 Como Street is now fully leased.

A reduction in the amount of space available in both the prime and secondary market has brought about the lower vacancy rate overall. After experiencing little in the way of vacancy movements over three years, prime offices suddenly leased up over the 12 months to 2014. 46% of all office space on the North Shore is of prime quality now, up from just a third of the market in 2005. This coincides with the strong growth in construction, which has been particularly apparent in the northern precincts of Albany, Rosedale and Mairangi Bay.

Since 2007, vacancy in prime offices has been in excess of 10%. Due to the aforementioned uptake in buildings in the likes of Smales Farm and Candida Office Park, as well as 51 Corinthian Drive, the prime vacancy rate has plummeted in 2014. It is expected that there will be very little by way of speculative development over coming years, which will help in keeping vacancy levels in North Shore offices low.

NORTH SHORE PRIME & SECONDARY VACANCY



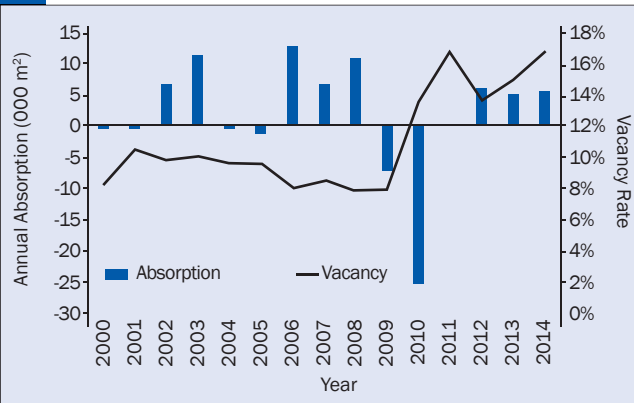
Source: Bayleys Research

CITY FRINGE

The substantial supply of new office accommodation in the City Fringe precincts has been a catalyst for increasing vacancy, mainly on account of insufficient tenant growth to absorb the additional space. Despite the fact that there has been in excess of 5,000 m² of additional space leased each year, for the last three years, the supply of new office space has eclipsed this. As a result, the rate of vacancy has increased for two years running.

In recent years, businesses have been slow to expand as a lack of demand in the economy curtailed the need for strong business growth. In the City Fringe office sector, this manifested in reduced demand for office space and increasing vacancy. Moving forward though, it is expected that strong business confidence and capacity constraints will flow through to the City Fringe office sector in the coming year.

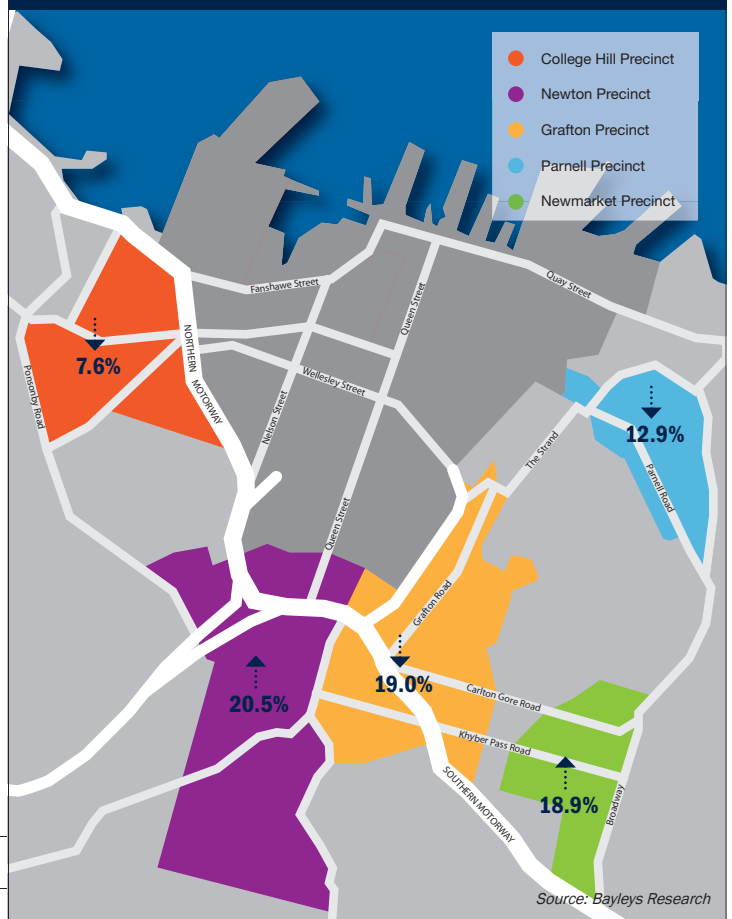
CITY FRINGE TOTAL VACANCY & ANNUAL ABSORPTION



Source: Bayleys Research

The adjacent graph, which displays the difference between prime and secondary office vacancy, shows the beginnings of the divergence between prime and secondary vacancy rates once

AUCKLAND CITY FRINGE MAP

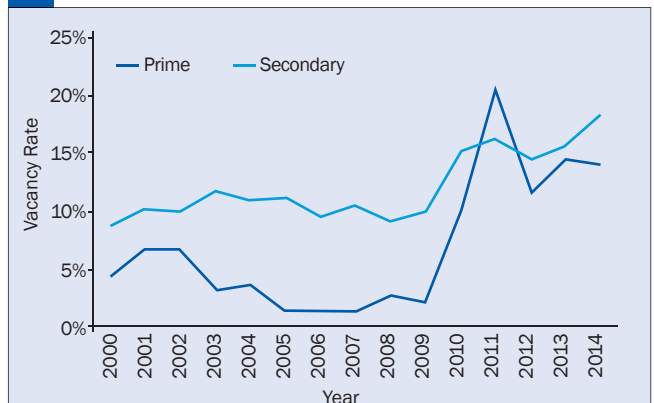


Source: Bayleys Research

again. At the 2013 survey, the difference in vacancy between prime and secondary property was just 1.2 percentage points. In the latest survey, this has widened to 4.4 percentage points. This is reminiscent of the years between 2002 and 2009, when the prime sector clearly led the secondary.

Clearly, from the graph below, we can observe that the impact of the GFC was first apparent in the City Fringe office market in 2010. From then, vacancy rates in both prime and secondary offices increased. The spike in prime office vacancy between 2009 and 2011 was mainly a result of new, speculatively developed buildings coming onto the market. Uptake of that space has prompted the correction of prime vacancy back under 15%.

CITY FRINGE PRIME & SECONDARY VACANCY RATES



Source: Bayleys Research

The College Hill and Parnell precincts experienced the greatest improvement in vacancy over the last year. In College Hill, the absorption of all available A grade space was the main reason for

the reduction in vacancy. Namely, the uptake of approximately 5,000 m² by Lion Breweries in Mansons' GHD Building was the most significant leasing deal. The completion of ASB in Wynyard Quarter has left a gap in the College Hill precinct, with in excess of 2,000 m² available in the former ASB Business Services Building on Hargreaves Street.

In Parnell, the rate of vacancy reduced by 5.9 percentage points. At the time of surveying in 2013, the Geyser Building had just been completed and was almost entirely available for lease. A big uptake in the building over the course of the year has reduced the A grade vacancy rate significantly. An increase in availability in B grade space has meant that overall vacancy hasn't reduced further.

The addition of 12,000 m² of space in Newmarket, in the form of the Nuffield Business Centre, adds an A grade boost to the precinct. At the time of surveying, there was approximately 4,000 m² still unoccupied. At the time of printing however, this had been fully leased. The incoming tenants are BP and Lotteries Commission. The spaces left behind by the relocation of Lion to College Hill and Dimension Data into the CBD have been two significant additions to the total vacant floor area in Newmarket.

A number of vacancies have appeared along Carlton Gore Road over recent years. The vacancy here is now 20%. It is expected that, as the development of Auckland University's Newmarket Campus progresses, premises along Carlton Gore Road will be absorbed by users associated with the university, similar to the CBD's Symonds Street Ridge precinct.

Vacancy in Grafton improved two percentage points between the 2013 and 2014 surveys. It is currently 19.0%, down from 21.0%. While there hasn't been a significant shift in the total vacancy rate, there has been a noticeable change in the quality space demanded. In 2013, vacancy by grade was in excess of 20% across the board. In the 2014 survey, A grade vacancy dropped to 9.2%, B grade offices are showing 13.6% vacancy and 26.4% of C grade offices are now sitting empty.

Newton is faring the worst of the City Fringe precincts with a vacancy rate of 20.5%. This increased significantly over the course of the year with a number of tenant movements contributing to the 7.4 percentage point increase. One of the more noticeable moves was of 2 Degrees, which moved from 42 Upper Queen Street to George Street in Newmarket. Furthermore, Fairfax relinquished space at 131 New North Road, leaving a significant vacancy behind.

Due to a low level of tenant interest in space in Newton, some buildings have or will be converted to residential apartments. This comes at an optimal time, when the Auckland residential market is particularly constrained and demand for residential dwellings in the city is very high. 9 Hopetoun Street is one former commercial office building that has been converted to apartments. 15 Hopetoun Street is mooted for conversion once current tenants' leases come to an end.

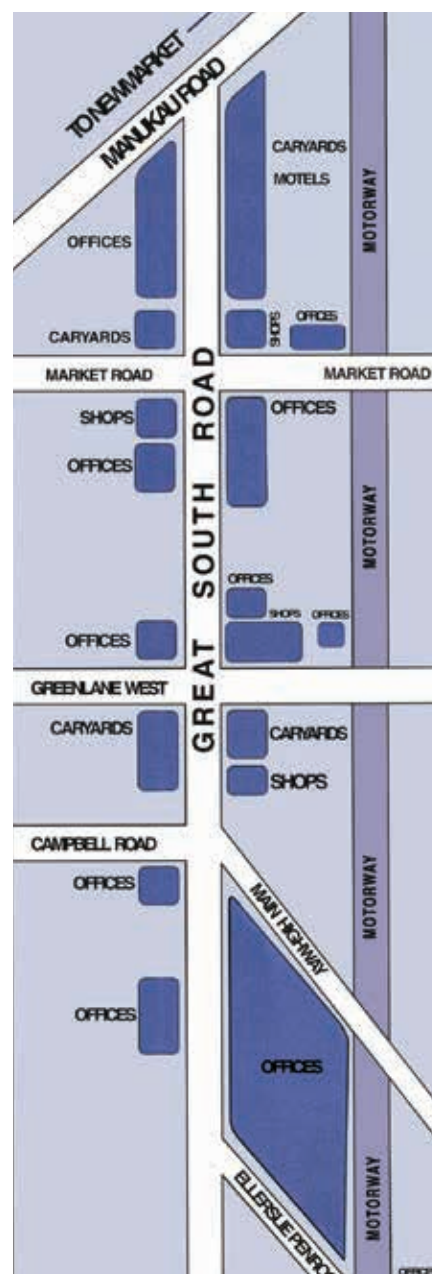
CITY FRINGE PRECINCT	2014	2013	Movement
College Hill	7.6%	10.4%	↓
Grafton	19.0%	21.0%	↓
Newmarket	18.9%	11.6%	↑
Newton	20.5%	13.1%	↑
Parnell	12.9%	18.8%	↓
Total	16.8%	15.0%	↑

Source: Bayleys Research

SOUTHERN CORRIDOR

The Southern Corridor remains one of the more tightly held office precincts in Greater Auckland, despite a slight pick up in vacancy over the last 12 months. The total vacancy rate in the Southern Corridor was 8.5% at the time of the 2014 survey, which is an increase of 1.7 percentage points since 2013.

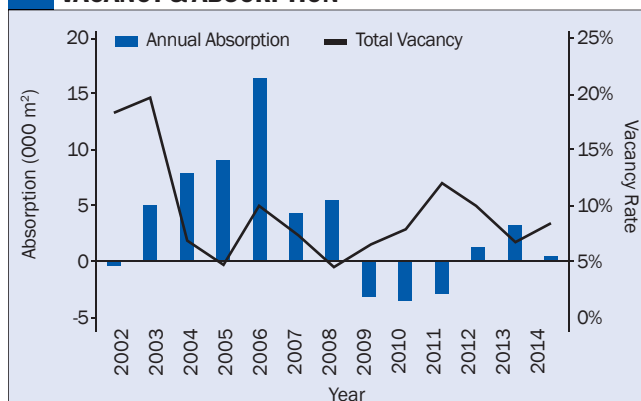
The Southern Corridor remains a popular precinct for a myriad of reasons. It has a significant stock of A grade office stock, relative to the overall size. A number of these newer premises offer large floor plates, which is becoming more and more popular, from an office-occupier perspective. Furthermore, the Southern Corridor's proximity to the motorway network, better carparking



than similar space in the CBD and lower rental rates make it a very appealing precinct.

The increase in vacancy over the 12 months was across both prime and secondary grades of property in the Southern Corridor. Prime vacancy sits at 5.7%, which is up 1.7 percentage points over the year. This is a relatively minor increase and is due to a small

SOUTHERN CORRIDOR VACANCY & ABSORPTION

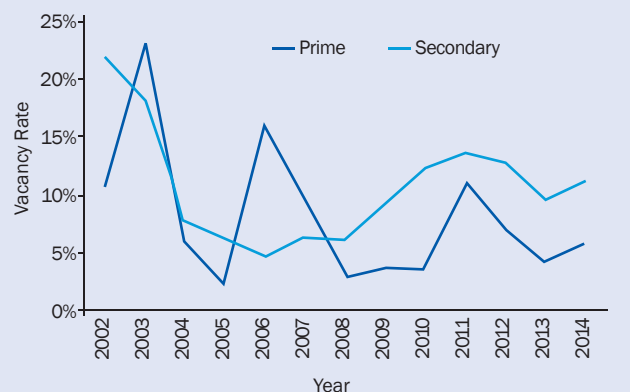


Source: Bayleys Research

amount of vacancy appearing in Goodmans' Central Park as well as a tenant moving out of the Meridian Centre on Main Highway. The prime office market makes up 50% of the total floor area in Southern Corridor, so what happens at this end of the market has a big impact on the overall vacancy rate, compared to most other outer precincts in Auckland.

In the secondary office market in Southern Corridor a 1.8 percentage point increase in vacancy was observed between the 2013 and 2014 Bayleys Research surveys. In 2014, 11.3% of secondary office space was unoccupied. Again, the increase is a result of small tenant movements, as opposed to a single major tenant exodus.

SOUTHERN CORRIDOR PRIME & SECONDARY VACANCY RATES



Source: Bayleys Research

GREATER AUCKLAND COMMERCIAL OFFICES - LEASING TRENDS 2014

Precinct	Leasing Market		Net Rent \$/m ² Low - High	Rental Trend	Outgoings \$/m ² Low - High	Carparks \$pc/pw
	Demand	Supply				
AUCKLAND CITY FRINGE						
Newmarket						
Prime Quality	Strong	Sufficient	280 - 430	➡	80 - 100	60 - 80
Secondary Quality	Steady	Sufficient	180 - 230	➡	70 - 85	
Grafton						
Prime Quality	Steady	Sufficient	280 - 320	➡	70 - 90	40 - 60
Secondary Quality	Weak	Surplus	170 - 220	➡	60 - 80	
College Hill						
Prime Quality	Strong	Shortage	220 - 310	➡	75 - 90	40 - 50
Secondary Quality	Steady	Sufficient	170 - 200	➡	65 - 85	
Newton						
Prime Quality	Sufficient	Surplus	220 - 300	➡	70 - 90	40 - 60
Secondary Quality	Weak	Surplus	140 - 170	➡	60 - 80	
Parnell						
Prime Quality	Strong	Shortage	280 - 350	➡	70 - 90	50 - 60
Secondary Quality	Strong	Shortage	180 - 230	➡	60 - 80	
SOUTHERN CORRIDOR						
Prime Quality	Strong	Shortage	220 - 330	⬆	70 - 85	35 - 40
Secondary Quality	Weak	Surplus	160 - 200	➡	60 - 85	
NORTH SHORE						
Takapuna						
Prime Quality	Strong	Shortage	270- 330	⬆	70 - 80	30 - 50
Secondary Quality	Strong	Shortage	230 - 250	⬆	50 - 70	
Albany / North Harbour						
Prime Quality	Steady	Sufficient	250 - 280	⬆	50 - 60	15 - 35
Secondary Quality	Steady	Sufficient	220 - 250	⬆	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

All rates as at April 2014

Source: Bayleys Research

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