

- Conditions remain tight
- Residential conversion gathering pace
- Prime rents on the rise

# Bayleys Research

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## City Fringe and North Shore

Although office vacancies showed little movement across the City Fringe, North Shore and Southern Corridor over the past 12 months, market fundamentals remain solid. Underpinned by a booming Auckland economy and strong population growth, business growth has been equally robust. White collar employment has continued to benefit from these conditions with demand for metropolitan office space, especially better quality space, in high demand. Tight conditions in the CBD have also supported City Fringe and North Shore office demand over the year.

Moves by Vodafone back to Smales Farm on the North Shore and Mercury Energy to Newmarket once their new premises are built highlight the attraction of metropolitan locations close to the CBD benefitting with lower rents, good public transport links and high levels of amenity.

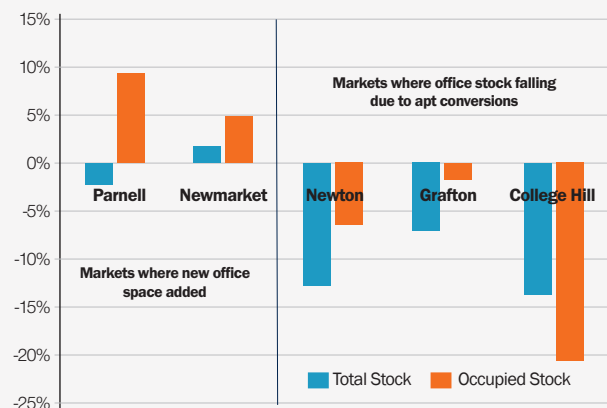
The on-going removal of older C and D grade office space for conversion to apartments and other uses is also helping to reduce secondary vacancies and improve the overall quality of City Fringe office stock. Within the Newton, Grafton/Eden Terrace and College Hill precincts around 20,000m<sup>2</sup> of office space has already been removed from total stock over the past 2 years. During that time these areas have seen around 270 apartments completed with a further 800+ apartments either currently under construction or proposed.

An increasing number of owners and developers are clearly making the call that under Auckland's Unitary Plan the highest and best use for older, secondary office properties is either residential conversion or redevelopment.

With residential demand expected to far exceed supply in Auckland for many years to come we can expect to see select City Fringe markets increasingly transform into more higher density residential precincts. Especially so in elevated areas with attractive view corridors and/or close to good public transport including the new city rail link.

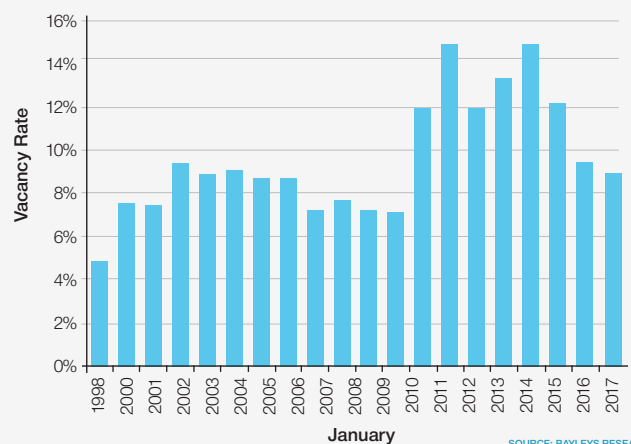
As a result the more established city fringe office markets of Parnell and Newmarket are likely to consolidate their positions. Other new metro office precincts may also emerge such as Sylvia Park.

### City Fringe Office Markets (% change in office stock 2015-2017)



SOURCE: BAYLEYS RESEARCH

### Auckland City Fringe Office Market - Overall Vacancy Rate



SOURCE: BAYLEYS RESEARCH

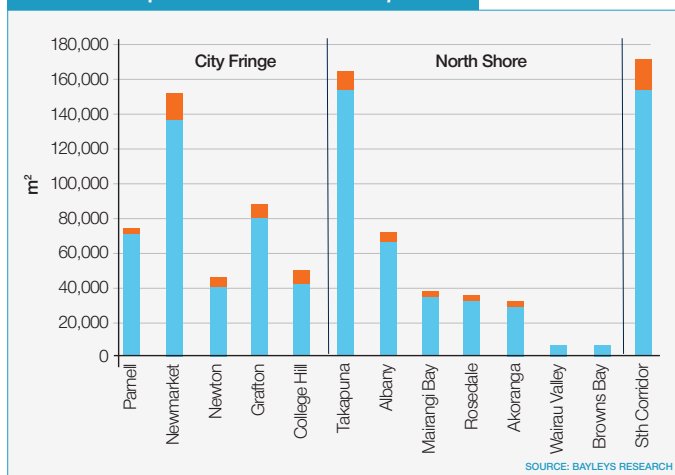
### Economic Indicators

	PERIOD	AKL	REST OF NZ
Real GDP growth	yr to Dec 16	4.4%	3.1% *
Residential consents (growth by no.)	yr to Apr 17	9.3%	7.8%
Non-residential consents (growth by value)	yr to Apr 17	36.4%	7.0%
Consumer confidence	Mar-17	115.1	111.9
Business confidence (net optimists)	Mar 17 qtr	4.5%	23.1%
Annual employment growth (%pa)	yr to Mar 17	7.3%	4.9%
White Collar employment growth (%pa)	yr to Dec 16	3.5%	3.1%
Net immigration (number)	yr to Mar 17	35,800	36,200

\* NZ overall

SOURCE: AUCKLAND COUNCIL, WESTPAC MCDERMOTT MILLER, NZIER, STATS NZ

## Total Metropolitan Office Stock by Area



Competition amongst a growing list of buyers including investors, owner occupiers, syndicators as well as residential developers continues to underpin values for metro office stock.

## City Fringe

The latest *Bayleys Research* vacancy survey shows overall City Fringe vacancies are down marginally from a year earlier (10.1% vs 10.5%). Across the five markets covered the sharpest falls were recorded in Parnell (3.2% vs 6.1%), Grafton and Newton also saw reductions as increasing amounts of space was removed for apartment conversions while vacancies in Newmarket remain relatively flat. The only precinct to record a material increase in vacancies was College Hill (12.7% vs 7.5%) due to increased vacancies at the URS Centre at 13-15 College Hill and a number of smaller vacancies within surrounding buildings.

## Fringe Office Precinct Vacancy Rates 2017 v 2016

	2017	2016	MOVEMENT
Parnell	3.2%	6.1%	↓
Newmarket	11.1%	10.7%	↑
Grafton	10.6%	13.0%	↓
Newton	13.6%	15.1%	↓
College Hill	12.7%	7.5%	↑
Total	10.1%	10.5%	↓

SOURCE: BAYLEYS RESEARCH

## Spotlight – Newmarket's Occupancy Grows

Office occupancy within the Newmarket precinct has reached a new high according to the results of the latest *Bayleys Research* office vacancy survey, reflecting the high levels of demand for office accommodation in the centre. Total occupied floor space surpassed 132,800m² at the date of the latest survey, an increase of approximately 1,650m² on the previous record recorded in 2016. The reintroduction of space which had been removed from the survey in 2016 while refurbishment took place has increased the precinct's inventory and provided opportunities for tenants seeking space in the area.

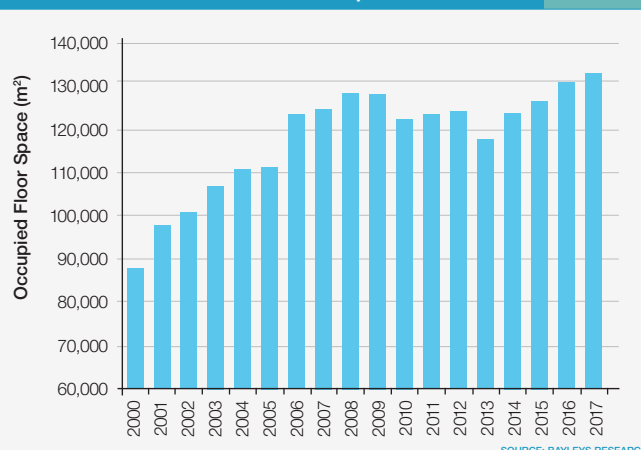
A prime example of the above trend has been 123 Carlton Gore Road where approximately 2,800m² of refurbished space was introduced to market. As at the date of the survey nearly 2,100m² of this space has been leased.

The success of schemes such as 123 Carlton Gore Road illustrate the appeal of higher grade office space within the area. While the total increase in inventory has resulted in a small lift in vacancy over the last 12 months the longer term trend is sharply down. In 2014 A grade vacancy within the precinct stood at 22.4% as at March 2017 this figure had fallen to 9.5%.

Newmarket's appeal is bolstered by the fact that it provides office occupiers with high levels of local amenity. The area is one of the city's premier shopping locations and offers a wide range of cafes, restaurants

and bars. Scentre Group, the owners of Westfield 277 Newmarket, announced plans last year for a \$150 to \$200 million redevelopment of the centre further enhancing the retail offer. Another significant development is the construction of the University of Auckland's Newmarket campus on the former Lion Brewery site. The redevelopment of the 5.2ha site by the university over the next decade will be transformational for the area.

## Newmarket Office Precinct Occupied Floor Area

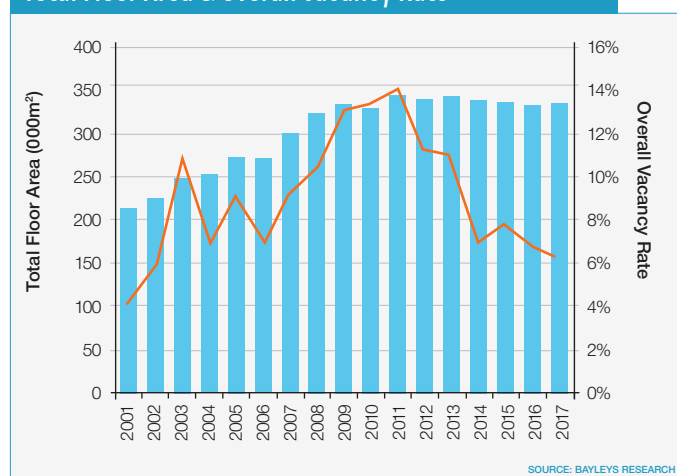


## North Shore

Office market conditions across the North Shore remain tight adding to further upward pressure on prime rents. The latest *Bayleys Research* vacancy survey confirming a further marginal fall in overall vacancies to 6.1% from an already low 6.9% a year earlier. Vacancies in the two largest markets, Takapuna and Albany, have remained relatively flat over the year, albeit at already low levels.

Takapuna vacancies remained static at 6% over the past 12 months. With around half of the North Shores total office stock, Takapuna recorded full occupancy within its A grade stock. However B grade vacancies rose marginally to 7% from 6.2% previously due predominantly, to new vacancies totalling 4,000m<sup>2</sup> at 4 Fred Thomas Drive. Like areas within the City Fringe, competition for higher and better uses of commercial land within the Takapuna town centre are likely to result in increased recycling

### North Shore Office Market Total Floor Area & Overall Vacancy Rate



of older office space into higher density mixed use developments including residential and retail components. Residential recycling is already occurring in areas such as Birkenhead where a number of apartment projects in and around Rawene Road are occurring.

Going forward increased attention will be focused on Smales Farm Business Park where Vodafone will progressively occupy refurbished space in the park as it becomes available over 2017. Since their move out of Fanshawe Street in the CBD last year, Vodafone has been temporarily based at 360 Dominion Road Mt Eden, in ASB's former premises. Further expansion of the commercial offering at Smales Farm includes the five level 11,000m<sup>2</sup> B:Hive building currently under construction and due for completion this year. This premium office space will incorporate flexible workspace options as well as high levels of urban design – providing tenants with the ability to alter their leases as their space needs change.

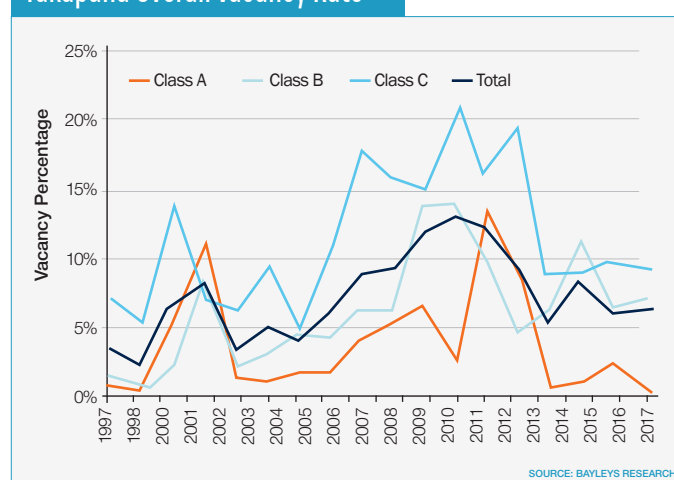
### North Shore Office Precinct Vacancy Rates 2017 v 2016

	2017	2016	MOVEMENT
Takapuna	6.1%	6.0%	➔
Akoranga / Northcote	11.2%	12.2%	➔
Albany	5.5%	5.7%	➔
Rosedale	5.0%	3.1%	⬆
Mairangi Bay	5.5%	4.3%	⬆
Browns Bay	0.0%	0.7%	➔
Total	6.1%	6.9%	⬇

SOURCE: BAYLEYS RESEARCH

In Albany vacancies recorded a marginal decrease from 5.7% to 5.5% over the survey period to another record low. Like Takapuna future development activity is likely to come under increased competition from apartment developers, putting a natural cap on further office inventory growth. One of the larger commercial developments recently completed is the three level Mitre 10 National Support Centre at 67 Corinthian Drive, Orchard Park. The Support Centre services close to 5,000 people who work across the Mitre 10 and Mitre 10 MEGA store network. 250 Mitre 10 staff occupy 5,800m<sup>2</sup> of the 7,000m<sup>2</sup> premises. A further 1,200m<sup>2</sup> was available for lease to complementary tenancies and to date 400m<sup>2</sup> has been taken up by Fitness HQ for Women. Around 800m<sup>2</sup> remains available for lease. Also, directly opposite the Mitre 10 Support Centre is a recently completed four level complex at 28 Corinthian Drive housing the NZ head office for

### Takapuna Overall Vacancy Rate



Olympus NZ. Olympus has leased 466m<sup>2</sup> plus the penthouse floor and 26 basement car parks with a further 375m<sup>2</sup> still available for lease on the ground floor.

Within the 12ha Orchard Park, resource consent has also been granted for a high profile, four-level building on a 7,800m<sup>2</sup> site at 55 Corinthian Drive which will encompass 5,400m<sup>2</sup> of A-grade office space, 820m<sup>2</sup> ground floor retail and 283 car parks.

Activity in other North Shore office markets includes a further 8,600m<sup>2</sup> of space added in Rosedale over the year with the construction of Triton Office Park at 34 Triton Drive (2,500m<sup>2</sup>) and another office complex at 14-22 Triton Drive (6,100m<sup>2</sup>). Rosedale's office market is now a similar size to that of Mairangi Bay and Akoranga/Northcote. Vacancies across the smaller office markets remain tight.

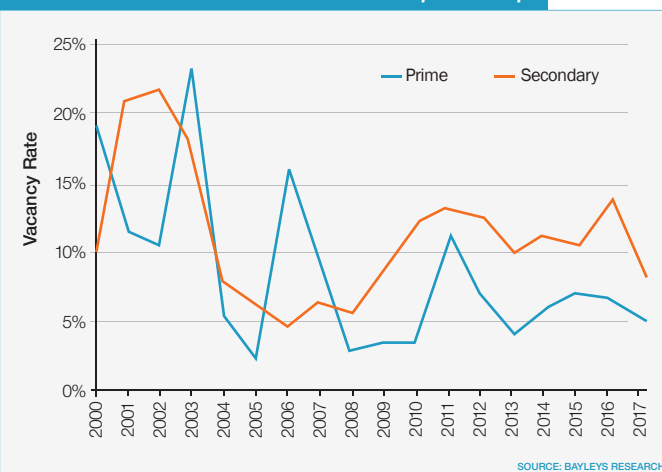
## Southern Corridor

Further south, demand for space in the Southern corridor, from Greenlane to Penrose, continues to be well supported. Although the overall vacancy rate is little changed at 10.3% from a year earlier (10.2%) there have been movements amongst the various office grades. B grade vacancies have seen the most significant reduction falling from 11.3% last year to just 4.8% this year due to a combination of space being removed for renovation and higher levels of take-up, the largest being 1,890m<sup>2</sup> leased in 56 Cawley Street to multiple tenants. By comparison C grade vacancies rose to 18.4% from 11.6% previously with increased vacancies amongst a number of properties, the largest being 1,395m<sup>2</sup> at 27 Great South Road.

Due to the high relative vacancies along the Southern Corridor development activity has been largely limited to refurbishment/ redevelopment activity. Meanwhile at nearby Sylvia Park construction is currently underway on a new \$80 million 11,370m<sup>2</sup>, 9 level office complex above the retail centre with IAG committing to a 12 year lease on 3,324m<sup>2</sup> of space. Coworking provider, BizDojo, has also taken a full floor tenancy bringing total commitments to date to 50% (by income). Construction is due to be completed by May 2018.

The largest investment transaction along the corridor over the last 12 months was the sale of Goodman's three office properties at 600-604 Great South Road Greenlane for \$210 million to Oyster Management with settlement occurring in March 2017. To facilitate the transaction Goodman subscribed for \$12 million of units in the Oyster property syndicate that now owns the asset.

## Southern Corridor Prime vs Secondary Vacancy



## Greater Auckland Commercial Offices Leasing Trends 2017

Leasing Market			Net Rental (\$/m²)	Rental	Outgoings (\$/m)	Carparks
Precinct	Demand	Supply	Low - High	Trend	Low - High	\$/pcpw
Newmarket						
Prime Quality	Strong	Shortage	450 - 500	▲	80 - 100	65 - 80
Secondary Quality	Steady	Sufficient	220 - 300	▲	70 - 85	65
Grafton						
Prime Quality	Steady	Shortage	280 - 350	▲	40 - 60	45 - 65
Secondary Quality	Weak	Surplus	200 - 280	▶	40 - 60	45 - 65
College Hill						
Prime Quality	Strong	Shortage	270 - 330	▶	40 - 50	60 - 80
Secondary Quality	Steady	Sufficient	200 - 250	▲	40 - 50	60 - 80
Newton						
Prime Quality	Sufficient	Sufficient	250 - 325	▲	70 - 90	40 - 60
Secondary Quality	Sufficient	Surplus	200 - 240	▲	60 - 80	40 - 60
Parnell						
Prime Quality	Strong	Shortage	300 - 550	▲	50 - 65	50 - 65
Secondary Quality	Strong	Shortage	220 - 300	▲	50 - 65	50 - 65
SOUTHERN CORRIDOR						
Prime Quality	Strong	Shortage	280 - 350	▲	70 - 85	35 - 45
Secondary Quality	Weak	Surplus	180 - 200	▶	60 - 85	
NORTH SHORE						
Takapuna						
Prime Quality	Steady	Shortage	270 - 350	▲	60 - 80	35 - 50
Secondary Quality	Steady	Shortage	240 - 275	▲	60 - 80	
Albany / North Harbour						
Prime Quality	Steady	Shortage	250 - 300	▲	50 - 60	15 - 35
Secondary Quality	Steady	Sufficient	210 - 240	▲	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

pcpw = per car per week  
 All rates as at July 2017

SOURCE: BAYLEYS RESEARCH

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