

# Bayleys Research

## Auckland CBD Office Report

**Solid market fundamentals and a positive outlook continue to underpin the Auckland CBD office market.**

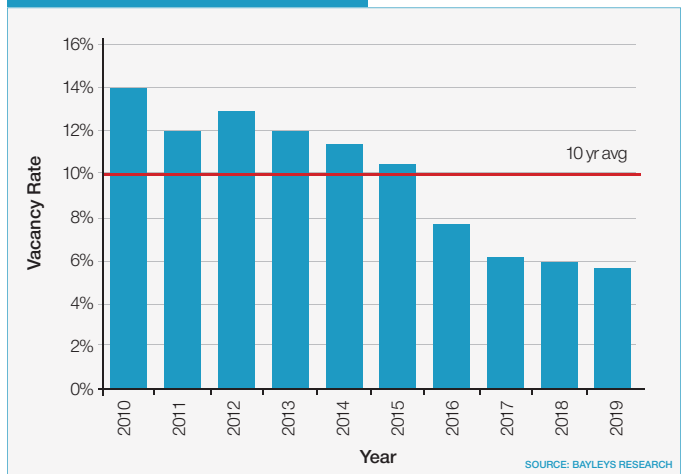
### Vacancies Hit Historic Lows

The latest *Bayleys Research* vacancy survey confirms just how tight market conditions have become with the overall vacancy hitting a new low of 5.7% (down from 6.1% a year earlier). Vacancies have now declined for seven successive years and sit well below their 10 year average of 10%.

Eight of the eleven CBD precincts monitored for vacancies showed further reductions. Only three precincts showed increases over the course of the year.

The Downtown precinct saw vacancies rise from 4.6% to 6.7% which is more a reflection of the significant amount of development activity in the area. This activity is providing tenants with increased space options and has resulted in a lift in occupier movements. However, despite increased pockets of visible vacancy in a number of prime grade buildings agency feedback has confirmed much of the space remains under lease and income generating. Some challenges around backfilling could become an issue once the Commercial Bay tower is completed next year.

**Auckland CBD Office Vacancy**



AUCKLAND CBD VACANCIES BY PRECINCT	JAN 2018	JAN 2019	CHANGE
Anzac Ave	8.4%	3.4%	▼
Britomart	1.2%	0.5%	▼
Downtown	4.6%	6.7%	▲
Midtown	8.0%	10.9%	▲
Peripheral & Upper Queen	7.0%	6.7%	▼
Quay Park	2.4%	8.8%	▲
Symond St Ridge	6.2%	4.2%	▼
Viaduct Precinct	10.6%	1.6%	▼
Victoria Quarter	9.3%	5.1%	▼
Western Peripheral	7.0%	5.4%	▼
Wynyard Quarter	3.2%	0.0%	▼
TOTAL	6.1%	5.7%	▼

SOURCE: BAYLEYS RESEARCH

The rise in Midtown vacancies from 8% to 10.9% was heavily concentrated in one building (tower 2, 205 Queen Street) across multiple, smaller floorplates.

The Quay Park vacancy increase from 2.4% to 8.8% reflects the relatively small inventory in the precinct which can be significantly impacted by a few tenant movements.



## Major CBD and City Fringe Office Leases 2018\*

TENANT	M <sup>2</sup>	FROM	TO
ANZ Bank	6,740	666 Great South Road	No.1 Sylvia Park
NZ Police	6,280	67-101 Vincent St	13-15 College Hill
Xero	6,200	Textile Centre Parnell	96 St Georges Bay Road
AA	5,000	99 Albert St	46 Sale St
Southern Cross Health	4,650	2 Takutai Square Britomart	One55 Fanshawe
MediaWorks	4,300	239 Ponsonby Rd & Fountain Court Ponsonby	17 Hargreaves St St Marys Bay
Bell Gully	3,800	48 Shortland St - Vero	1 Queen St
MBIE	3,500	246 Queen St (& others)	167B Victoria St West
DDB Group	3,000	80 Greys Ave	Giltrap Building, 119 Gt South Rd
Bunnings	2,650	Great South Rd	Building 1, Central Business Park
Spaces (IWG)	2,650	expansion	Commercial Bay - PWC Tower
KiwiBank	2,400	151 Victoria St	One55Fanshawe
Auckland Tourism Events & Economic Development (ATEED)	2,000	139 Quay St	167B Victoria St West

\* EXCLUDING EDUCATION & ACCOMMODATION OCCUPIERS

SOURCE: BAYLEYS CBD LEASING

Both prime and secondary vacancies look to have found a base at current low levels. The latest survey results show prime vacancies at a very low 3.7% and secondary vacancies at 7.5%, similar to where they were 12 months prior. Current low vacancies also reflect a growing trend of recycling select office properties to extract higher and better uses. Recent examples include the current conversion of 4 Viaduct Harbour and 54 Cook Street into visitor accommodation.

An analysis of major office leases (>2,000m<sup>2</sup>) in the Auckland CBD and city fringe over 2018 totalled circa 53,000m<sup>2</sup>.

## Development pipeline playing catch-up with demand...

White collar employment growth within the CBD and surrounds remains very strong. Since 2010 the area has added a further 30,500 jobs and an additional 2,900 new business locations, increasing pressure on the existing office stock. Agency feedback points to continued growth in space requirements for many existing CBD businesses as well as a growing number of new players entering the market. These have recently included

large global tech groups such as Apple (Datacom building), Google (PWC tower) and Amazon (Grid AKL).

A key trend in the leasing market has been a definite flight to quality by a growing number of occupiers. Changes in workspace strategy and increased competition to attract/retain talent is resulting in more businesses upgrading their space requirements.

As part of this process the green credentials for new builds in the CBD are becoming increasingly important with most projects seeking at least a 5 star green star rating for both build and interiors.

The combination of tight vacancies and continued strong occupier demand is feeding an increasing pipeline of new CBD office projects. Currently around 69,000m<sup>2</sup> of space is under construction (72% pre-committed) and 28,000m<sup>2</sup> planned. Potential for a further 140,000m<sup>2</sup> of space has been identified within mooted projects, these though will only be brought to market should demand be maintained.

Most of these projects are concentrated around the new "centre of gravity" for the CBD – namely, the northern CBD close to the harbour and the evolving tech precinct of Wynyard Quarter to the north west.

## Auckland CBD Office Development Pipeline

Location	sqm	status	Completion	Developer
Commercial Bay-new PWC Tower	39,000	u/c	2020	Precinct Properties
One55 Fanshawe St	15,500	u/c	2020	Mansons TCLM
10 Madden Street Wynyard Quarter	8,290	u/c	late 2020	Precinct Properties
246 Queen Street redevelopment	6,100	u/c	2020	Wilshire Group
136-142 Fanshawe St	20,000	planned	2021	Mansons TCLM
1 Queen Street	8,000	planned	2022	Precinct Properties
Innovation Precinct - Wynard Quarter	up to 20,000*	mooted	na	Precinct Properties
Mills Lane	up to 30,000*	mooted	na	Mansons TCLM
Britomart future projects	up to 30,000*	mooted	na	Cooper&co
28 Shortland Street	up to 30,000*	mooted	na	Heng Chuang Investment Group
VXV Wynyard - future projects	up to 30,000*	mooted	na	Goodman

\* BAYLEYS RESEARCH ESTIMATE ONLY

SOURCE: BAYLEYS RESEARCH, PRESS CLIPPINGS, REPORTS, OTHER SOURCES

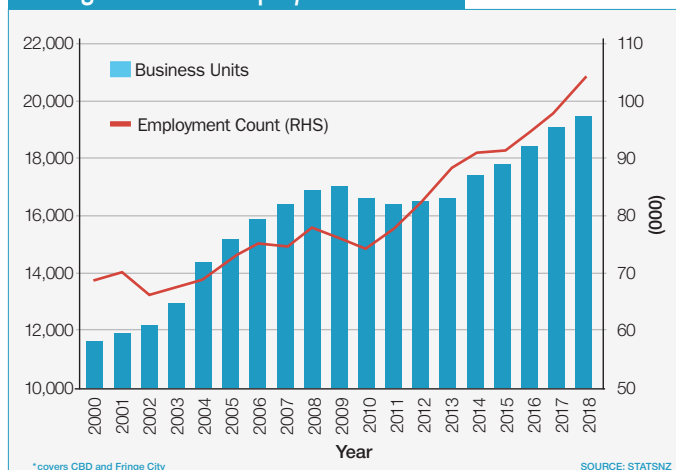
## Auckland CBD Commercial Office Leasing Trends 2019

Precinct	Leasing Market		Net Rent (\$/m <sup>2</sup> ) Low-High	Rental Forecast (12)	Outgoings (\$/m <sup>2</sup> ) Low-High	Carparks \$cpw
	Demand	Supply				
<b>Viaduct Harbour*</b>						
Prime Quality	Steady	Shortage	300 - 500	▶	110 - 300	100 - 125
Secondary Quality	Steady	Shortage	200 - 250	▶	95 - 250	
<b>Upper Queen St &amp; Peripheral</b>						
Prime Quality	Steady	Sufficient	225 - 350	▶	80 - 100	65 - 85
Secondary Quality	Weak	Sufficient	180 - 225	▶	60 - 80	
<b>Midtown</b>						
Prime Quality	Steady	Sufficient	300 - 400	▶	80 - 120	100 - 145
Secondary Quality	Weak	Sufficient	180 - 250	▶	75 - 100	
<b>Symonds St Ridge</b>						
Prime Quality	Strong	Shortage	220 - 300	▲	85 - 105	65 - 85
Secondary Quality	Steady	Sufficient	180 - 220	▶	75 - 85	
<b>Downtown</b>						
Premium Quality	Strong	Shortage	485 - 850	▶	140 - 180	120 - 170
A-Grade Quality	Strong	Shortage	350 - 600	▶	110 - 125	
Secondary Quality	Strong	Shortage	250 - 350	▶	70 - 100	
<b>Anzac Ave</b>						
Secondary Quality	Weak	Sufficient	170 - 350	▶	55 - 100	65 - 100
<b>Britomart</b>						
Prime Quality	Strong	Shortage	450 - 650	▶	100 - 140	120 - 150
Secondary Quality	Strong	Shortage	300 - 450	▶	100 - 140	
<b>Western Peripheral</b>						
Prime Quality	Steady	Sufficient	350 - 550	▶	100 - 150	80 - 130
Secondary Quality	Steady	Sufficient	250 - 350	▶	80 - 110	
<b>Quay Park</b>						
Prime Quality	Soft	Sufficient	300 - 500	▶	95 - 140	70 - 100
Secondary Quality	Soft	Sufficient	250 - 320	▶	80 - 120	
<b>Wynyard Quarter*</b>						
Prime Quality	Strong	Shortage	450 - 795	▲	100 - 150	100 - 130
Secondary Quality	Steady	Shortage	275 - 400	▲	80 - 150	
<b>Victoria Quarter</b>						
Prime Quality	Strong	Sufficient	450 - 650	▶	95 - 120	90 - 120
Secondary Quality	Steady	Shortage	250 - 400	▶	80 - 100	

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 & C GRADE ACCOMMODATION  
 PCPW = PER CAR PER WEEK \* NET RENTAL GENERALLY INCLUDES GROUND RENT IN THIS PRECINCT, OUTGOINGS VARY IF GROUND RENTAL NOT ABSORBED  
 ALL RATES AS AT JANUARY 2019

SOURCE: BAYLEYS RESEARCH

## Waitemata Local Board Area\* Strong Business & Employment Growth



Precinct Properties and Manson TCLM dominate the current CBD supply pipeline. High levels of market confidence have seen both groups successfully commence projects without significant tenant pre-commitments. Subsequent to projects being given the green light though, leasing activity has been positive.

### Rentals rising

Despite a growing supply pipeline, the typical 2-2.5 year build cycle will slow the amount of new office space physically available for occupation over 2019/20. As a result we expect rents at the upper end of the quality spectrum to continue to trend higher.

Leasing Incentives vary widely in the current market and depend increasingly on the key outcomes developers/landlords are seeking. Those developers seeking to off-load projects quickly upon (or even before) completion tend to offer greater inducements to would-be tenants while longer term landlords have been reducing their level of incentives.

## Double digit investment returns

The Auckland CBD office market has been very good for investors over recent years. Since early 2013 annual returns have consistently remained above 10% driven by a combination of upward pressure on rents and a firming of yields.

The growing presence of large global groups such as Blackstone, Investec and various superannuation/sovereign wealth funds is likely to remain a continuing feature of the market. Gone are the days when Auckland's CBD was seen more as an 'opportunistic' play by large off-shore groups. Most are now looking to get set on a more permanent basis.

Agency feedback points to a growing list of global groups with active mandates for Auckland CBD core assets. These now include investors from Japan and Malaysia, as well as continuing interest from North American, Australian and Singaporean groups. More recently the lack of appropriate CBD opportunities for some of these groups has seen them widen their mandates to include higher end fringe city properties in areas such as Parnell and Newmarket.

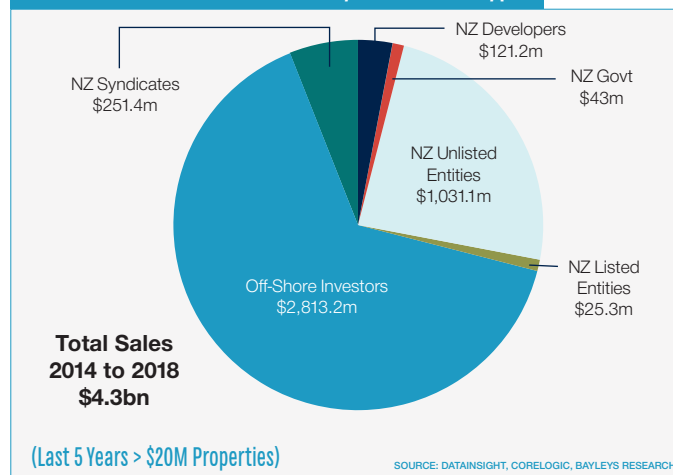
An analysis of off-shore buying over the past 5 years shows that \$2.8bn of Auckland CBD office properties (>\$20m) were transacted. This represented 66% of total CBD sales of \$4.3bn over the same period.

Under such conditions investment grade CBD yields have continued to show further firming, in part, reflecting a similar pattern experienced on the eastern seaboard of Australia over the past couple of years. This trend has seen prime Auckland CBD office yields firm by around 25bpts over the past 6-9 months to range between 5.15% to 6%. Yet despite this firming global

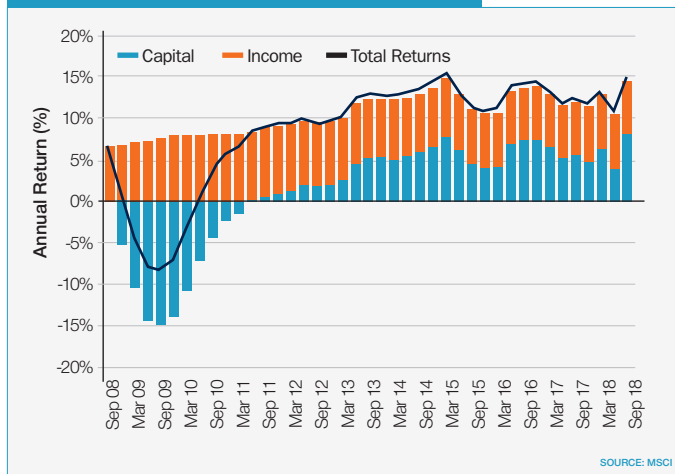
groups continue to see relative value in the Auckland CBD market. This has been confirmed by increased capital flows drawn by the attractive double digit total returns still on offer. The on-going low interest rate environment, with what appears to be an increasingly downward bias, will help further underpin current low yields.

Secondary CBD office yields have also firmed by circa 10-15bpts over the past 9 months to range between 6.15% to 6.75%. However a stand-off has recently emerged between vendors and buyers for secondary office buildings due to the narrowing yield discount currently on offer between prime and secondary properties.

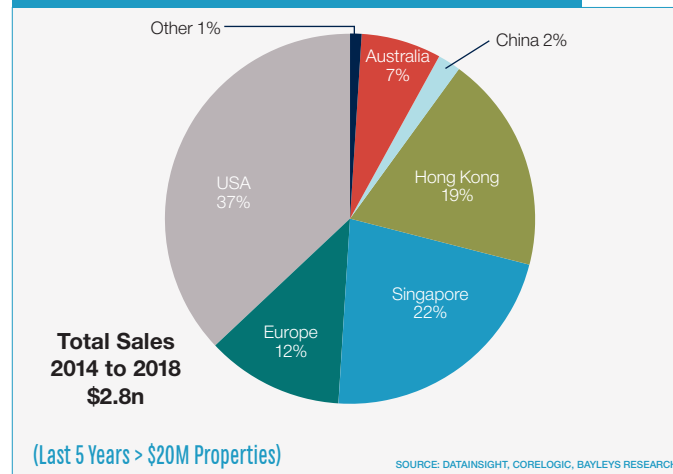
### Auckland CBD Offices Sales by Purchaser Type



### Investment Returns Auckland CBD Office



### Offshore Buying of Auckland CBD Office Property



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