Hamilton CBD Office Market Overview

Summary

Following the sizeable stock additions of NZ Blood and Building E at Union Square in the previous 2023 survey, Hamilton CBD office stock was unchanged in the first half of 2024.

Over the six months to June 2024, overall office vacancy decreased from 9.5% to 7.2%. Most grades experienced a vacancy rate decrease.

Several buildings has been temporarily removed from the survey as refurbishment and redevelopment takes place. This influences the decrease in vacancy, but is a positive sign and indicates a strong confidence in the future of the Central City.

The overall net change in occupied office stock was negative 4,900 sqm in the first half of 2024. The volume of occupied stock increase in both Prime grades, and decreased in all the Secondary grades, partly reflecting the ongoing trend of flight to quality.

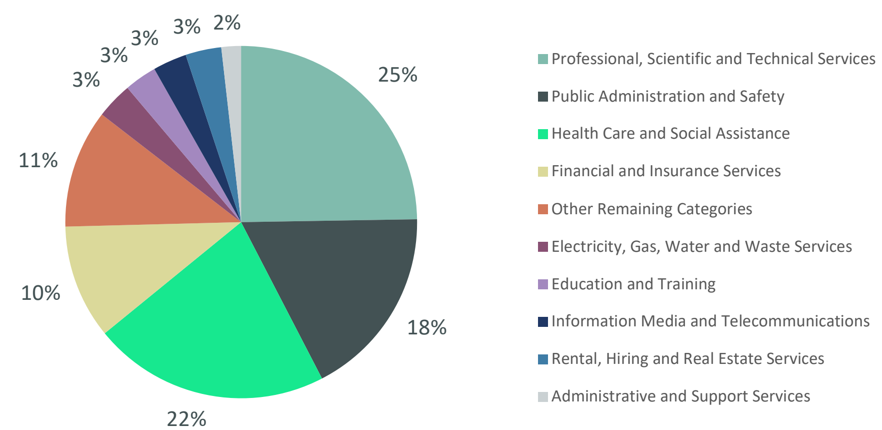
INTRODUCTION

This publication provides a summary of the Hamilton office occupier survey conducted in June 2024.

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 Research and NAI Harcourts.

FIGURE 1: Hamilton CBD office occupancy composition by business type



Office stock and new supply

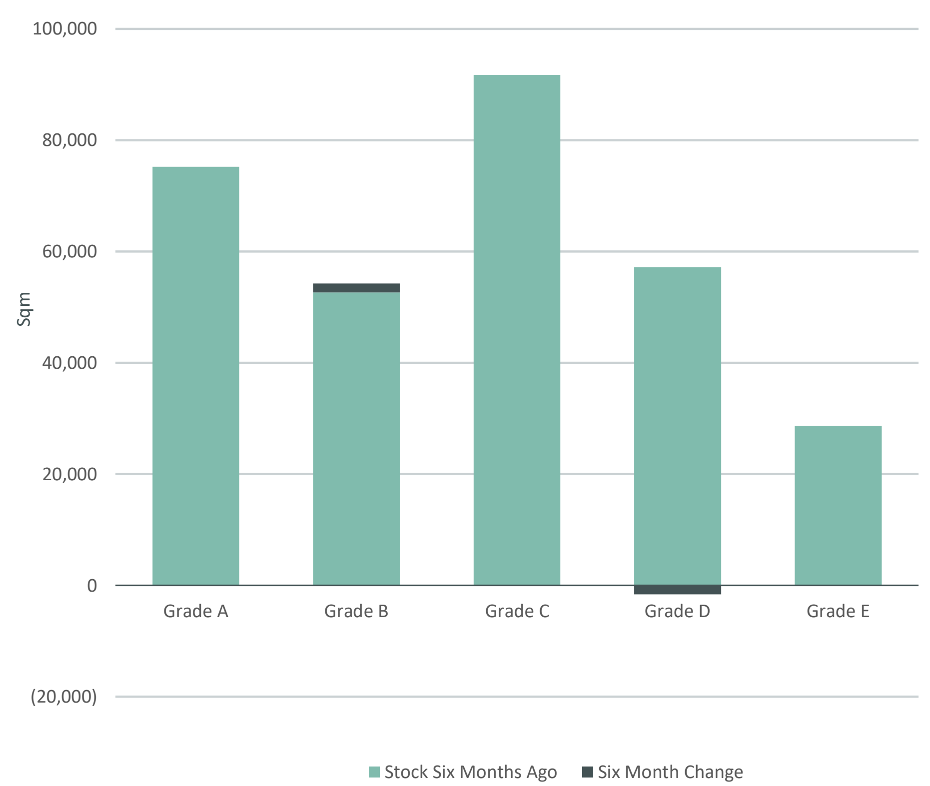
Hamilton CBD office stock was unchanged at 305,530 sqm over the six months to June 2024. One building was regraded from Grade D to Grade B following refurbishment, but this did not change the total volume of office space.

In the previous survey covering the six months to December 2023, stock had increased by 7,000 sqm, attributable to three new Grade A buildings. One was 467 Anglesea Street, occupied by Basecorp Finance. Another was Building E of Union Square, occupied by Bloxam Burnett & Olliver, NAI Harcourts, Kiwibank Business Banking, James & Wells, Company X, and Baker Tilly Staples Rodway. The third was NZ Blood on the corner of Anglesea and London Streets.

The total amount of space under refurbishment increased significantly from 13,080 sqm to 27,530 sqm over the six months to June 2024. Several large redevelopment projects have commenced, including the former MSD space at Anglesea Tower and 4,200 sqm of former ACC and Electoral Commission space at 18 London Street.

In terms of developments in the pipeline, there are several high-quality office projects in the Hamilton CBD that could potentially commence this year, including Building B at Union Square. Redevelopment of cost-effective quality refurbished space remains an attractive option, particularly where completion is either imminent, or has certainty within a relatively short time period.

FIGURE 2: CBD office stock by grade in June 2024



Vacancy

Overall office vacancy in the Hamilton CBD decreased by 2.4% to 7.2% in June 2024. In terms of total space, vacant stock has decreased, but occupied stock has decreased as well, with a significant volume of previously occupied space commencing refurbishment.

Vacancy in Grade A is essentially stable, with a minor movement down to 1.1% in the first half of 2024. Vacant space at Symmans House at Anglesea Medical Precinct was taken up by a medical tenant, joining several other medical tenants in this building.

In B Grade, vacancy has decreased from 7.8% to 6.5% in the six months to June 2024. The first half of 2024 saw 9 take ups of previously vacant space, the largest being a radiology occupier moving into 1,140 sqm at One on London. Although three new vacancies were observed, they didn't outweigh the new occupancies.

Grade C vacancy decreased from 14.0% to 10.1% between December 2023 and June this year.

Grade D was the only grade to record an increase in vacancy rate, moving from 9.5% to 10.1% in the six months to June 2024. The largest new vacancy in this grade was caused by the departure of NAI Harcourts Property Management from 109 Rostrevor Street, in their move to Building E of Union Square.

Finally, Grade E experienced a large decrease in vacancy from 19.5% to 9.3% between December 2023 and June 2024. A major driver of this is over 3,000 sqm of vacant space at 48 Ward Street commencing redevelopment.

FIGURE 3: CBD office vacancy by grade December 2023 – June 2024

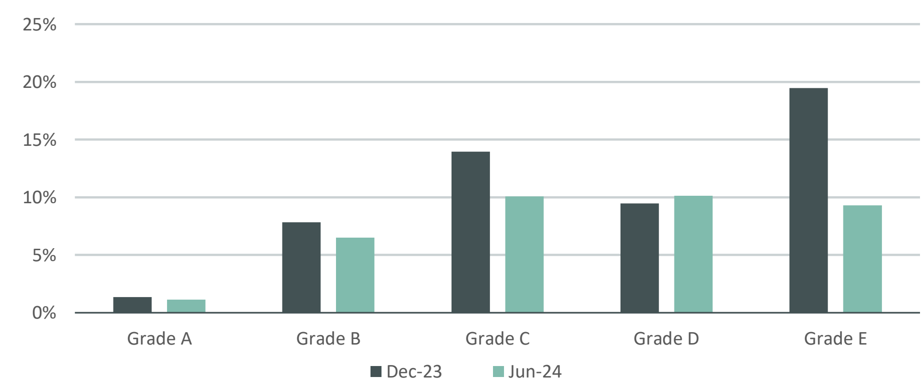
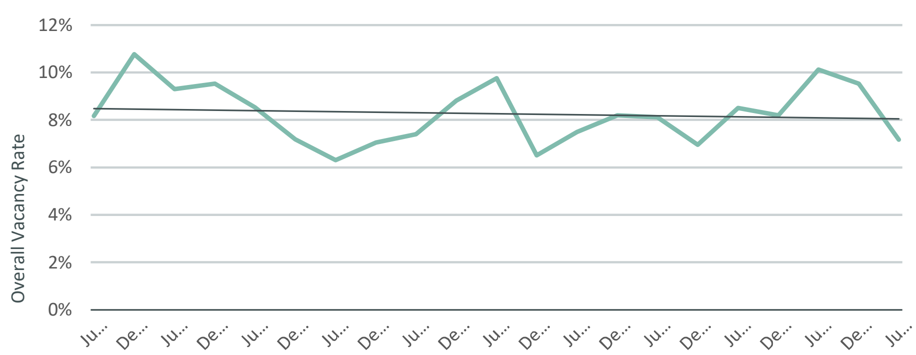


FIGURE 4: CBD total office vacancy 2014-2024



Demand

The Hamilton office market experienced a contraction during the last 6 months. The overall net change in the amount of occupied office stock from December 2023 to June 2024 was -4,900 sqm, effectively erasing the 4,100 sqm of gain that occurred in the second half of 2023.

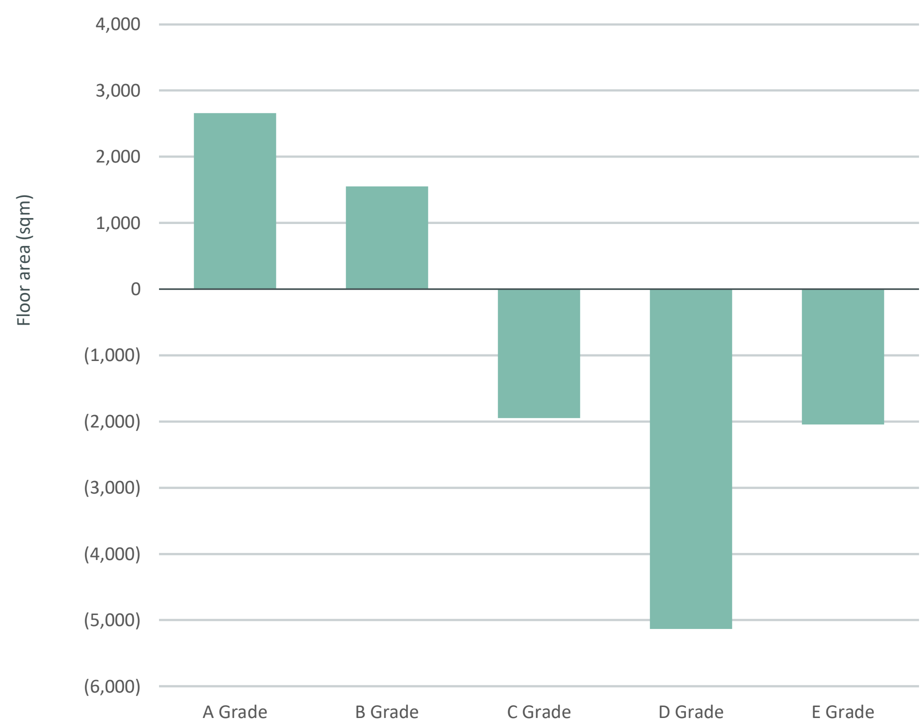
Our absorption data continues to show positive momentum for Grade A quality stock. The combined effects of new build space becoming occupied at Union Square Building E, take up of vacant space, and no new vacancies, demonstrates continued demand for quality buildings.

As outlined in the previous section, Grade B had a limited number of new vacancies. The largest new vacancy has been due to Baker Tilly Staples Rodway moving from 1,000 sqm at 354 Victoria into a similarly sized space at Union Square Building E. There are also examples of secondary grade tenants moving into prime grade space, such as NAI Harcourts Property Management.

As Figure 5 indicates, all secondary grades experienced negative net absorption. The Grade D result was largely due to space previously occupied by the Electoral Commission and Bloxam Burnett & Olliver being removed for refurbishment. The total volume of secondary grade occupied stock loss outweighed the positive net absorption in the prime A and B grades.

Churn activity, or the process of one tenant being replaced by another, has been present over the first half of this year, but mostly limited to small scale spaces. There has been 1,720 sqm of space across all grades experiencing churn, in tenancies ranging from 20 sqm to 295 sqm.

FIGURE 5: Net uptake of CBD office space by grade



Conclusions and outlook

The Hamilton CBD office market's most recent survey results were mixed, with declining vacancy and vacant stock levels, but also a decrease in occupied space, and negative net absorption. While the second half of 2023 was buoyed by the addition of occupied new build stock and full take-up of a recently completed refurbishment, stock levels in the first half of 2024 have been unchanged.

The latest survey results shows that while no Grade A space became vacant in the last 6 months, there was a take up by a medical tenant. Grade B saw three new vacancies come to market, 1/3 of the total number of vacancies that were taken up. Positive net absorption among the prime grades demonstrate continued demand for quality space. Net absorption was negative among all secondary grades, reflective of a challenging business environment, plus circa 3,500 sqm of downsizing undertaken by Public Administration and Safety occupiers. Despite this, a number of businesses are upgrading and sometimes expanding into higher quality spaces, reflecting the continued flight to quality trend that has strengthened post pandemic.

Hamilton is going through a transformation period with a plethora of redevelopment and developments recently completed and in the pipeline, in a wide range of sectors from infrastructure to arts and recreation, including various office and mixed-use developments in the CBD. Despite major developments in the Hamilton CBD adding significant volumes of stock, we expect vacancy rates to remain reasonably steady as lower-quality office stock continues to be refurbished to an appropriate quality level or repurposed into alternative non office uses. We believe that occupier demand for high-quality office accommodation will remain strong, with businesses evaluating their growth opportunities outside of Auckland and population growth driving the long-term expansion of government entities locating within the Golden Triangle.

While hybrid working and more employee flexibility is here to stay, focus is shifting back to the office as a primary place of work. For businesses to attract high performing individuals, they need a high performing workplace. Landlords are giving consideration to occupier needs to drive occupancy and ultimately revenue.

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