

# Hamilton CBD Office Market Overview

FIGURE 1: Hamilton CBD office summary

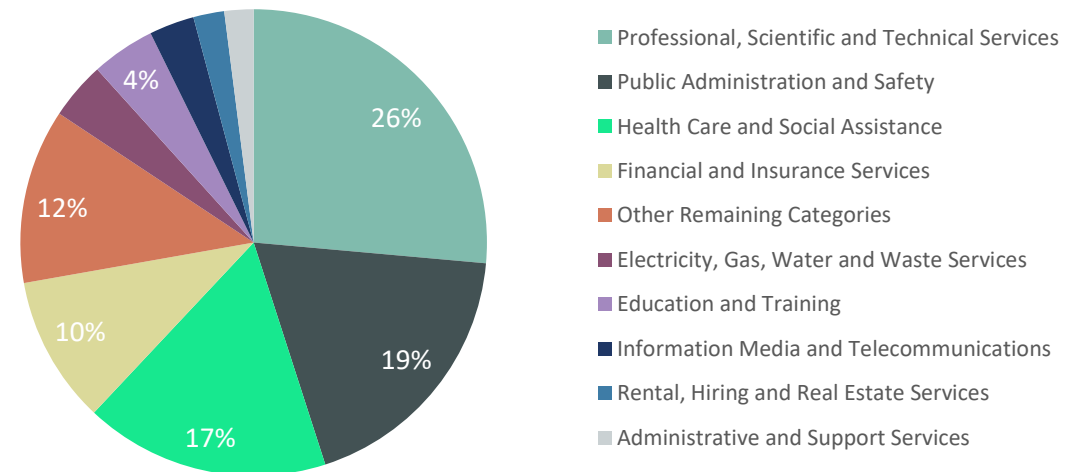
## Summary

The total Hamilton CBD office stock increased by over 4,000sqm in H2 2021, in a large part as a result of the first completed office development at Union Square (Building F) added to our A Grade stock.

Over the six months to December 2021, overall office vacancy decreased from 8.1% to 7.0%. Vacancy decreased in B, D and E Grades, remained stable at 3.1% in A Grade and increased in C Grade.

The overall net change in occupied office stock was reasonably positive at 3,100sqm in H2 2021. While growth was strongly positive in A Grade, most lower quality grades experienced some occupancy loss in the second half of 2021.

FIGURE 2: Hamilton CBD office occupancy composition by business type



## INTRODUCTION

This publication provides a summary of the Hamilton office occupier survey conducted in December 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 Research and NAI Harcourts.

# Office stock and new supply

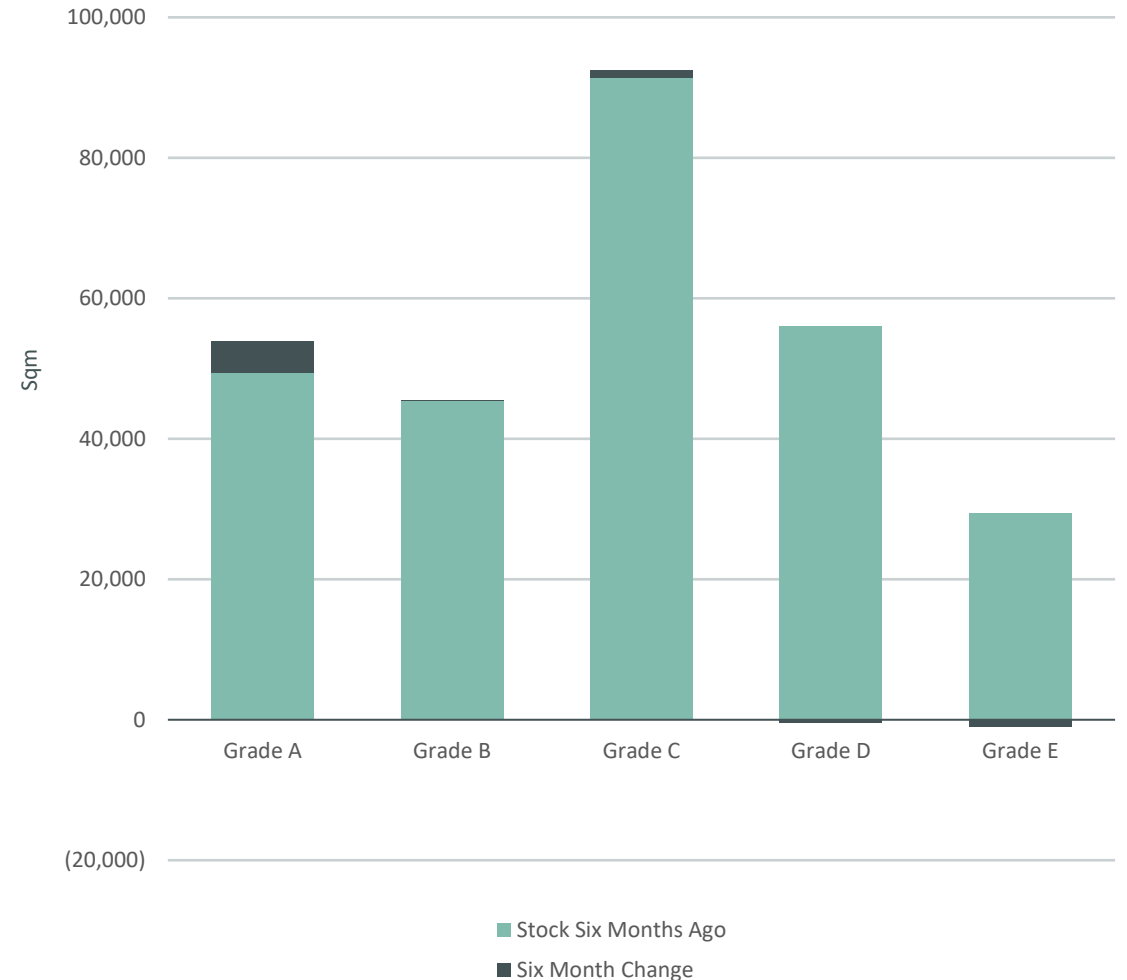
As Figure 3 indicates, the most significant change in the Hamilton CBD office stock in the second half of 2021 was the completion of the first of five buildings at Union Square, on the corner of Anglesea and Hood Streets, adding almost 4,000sqm to the CBD A Grade office stock. Other changes include shifts in quality from E to C Grade, following the completed refurbishment of 25 Ward Street and some minor stock loss in D Grade.

The total amount of space under refurbishment increased from 14,150sqm to 18,065sqm over the six months to December 2021. Works have now started at 183 Collingwood Street and 48 Ward Street in addition to the ongoing redevelopments that include the former-Waikato Regional Council building on Grey Street and the former LINZ building on the corner of Victoria and Rostrevor Streets, which has now been demolished in preparation for construction of a new MSD build.

In terms of new developments in the pipeline, there are many high-quality office projects in the Hamilton CBD that are expected to complete in the next 12 to 24 months. Following the success of the first building, the car park and second building at Union Square are already underway, as is the TGH developed office complex on the corner of Collingwood and Tristram Streets for ACC, expected to be finished by early 2023.

We estimate that these projects will add about 14,000sqm of new and modern office floorspace to the Hamilton CBD over the next couple of years.

FIGURE 3: CBD office stock by grade in December 2021



# Vacancy

Overall vacancy decreased by 1.1% to 7.0% in December 2021.

Given the full office occupancy of the new supply by the end of last year, vacancy in Grade A remained stable at 3.1% in the second half of 2021, representing only four available options, ranging in size from just under 250sqm in the NZI building to 650sqm in Deloitte House.

Grade B experienced a decrease in vacancy, moving from 4.6% to 3.6% in the six months to December 2021, influenced by multiple new leases at the Anglesea Clinic and Imaging Centre, in addition to GMD Consultants’ move to 586 Victoria Street and Mike Greer Homes uptake of the ex-Zambion IT space at 103 Tristram Street.

Grade C vacancy increased markedly, from 5.0% to 7.5%, following a few large relocations in the second half of last year that included Worksafe vacating 1,750sqm in Waitomo House, and both HealthShare NZ and the Earthquake Commission vacating 851sqm each in the ASB Building.

In D Grade, vacancy experienced a noticeable drop in H2 2021 as a result of healthy demand for previously vacant office accommodation options, including Lugtons taking up 610sqm at 18 London Street, while their existing site is to be redeveloped, Red Cross moving into 550sqm at 31 Harwood Street and Accessible Property committing to about 350sqm at 2 Von Tempsky Street.

The significant drop in E Grade vacancy over the second half of 2021 is caused by the withdrawal of 48 Ward Street from our active office stock due to refurbishment (all up about 3,500sqm of previously vacant space) rather than any noticeable uptake in demand for offices in the lowest quality market segment.

FIGURE 4: CBD office vacancy by grade June – December 2021

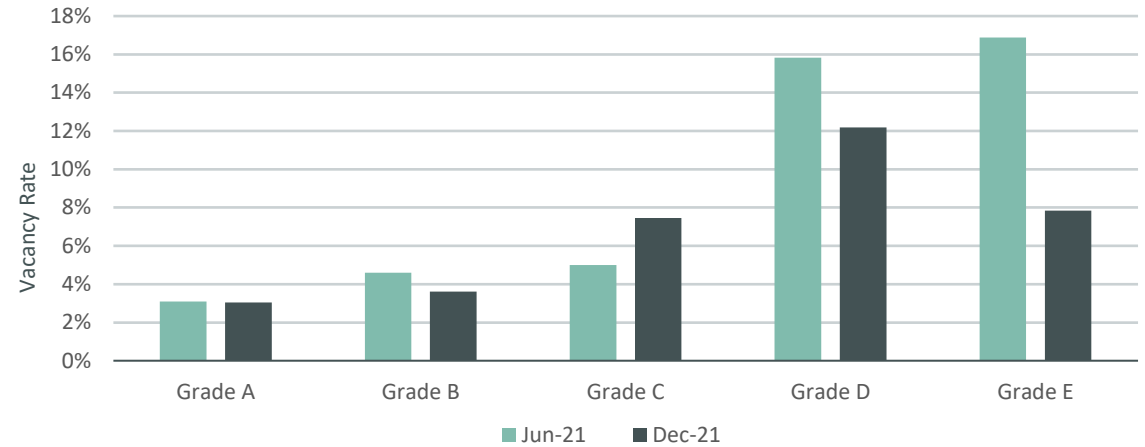
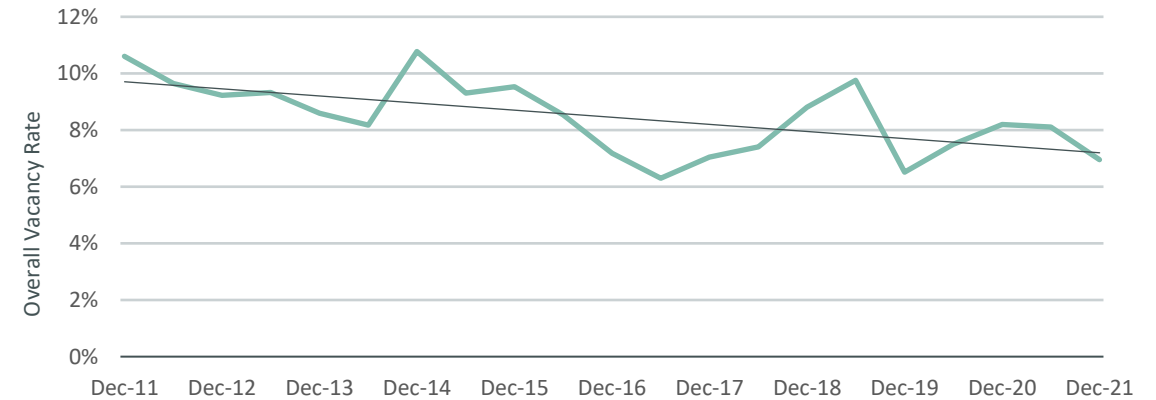


FIGURE 5: CBD total office vacancy 2011-2021



# Demand

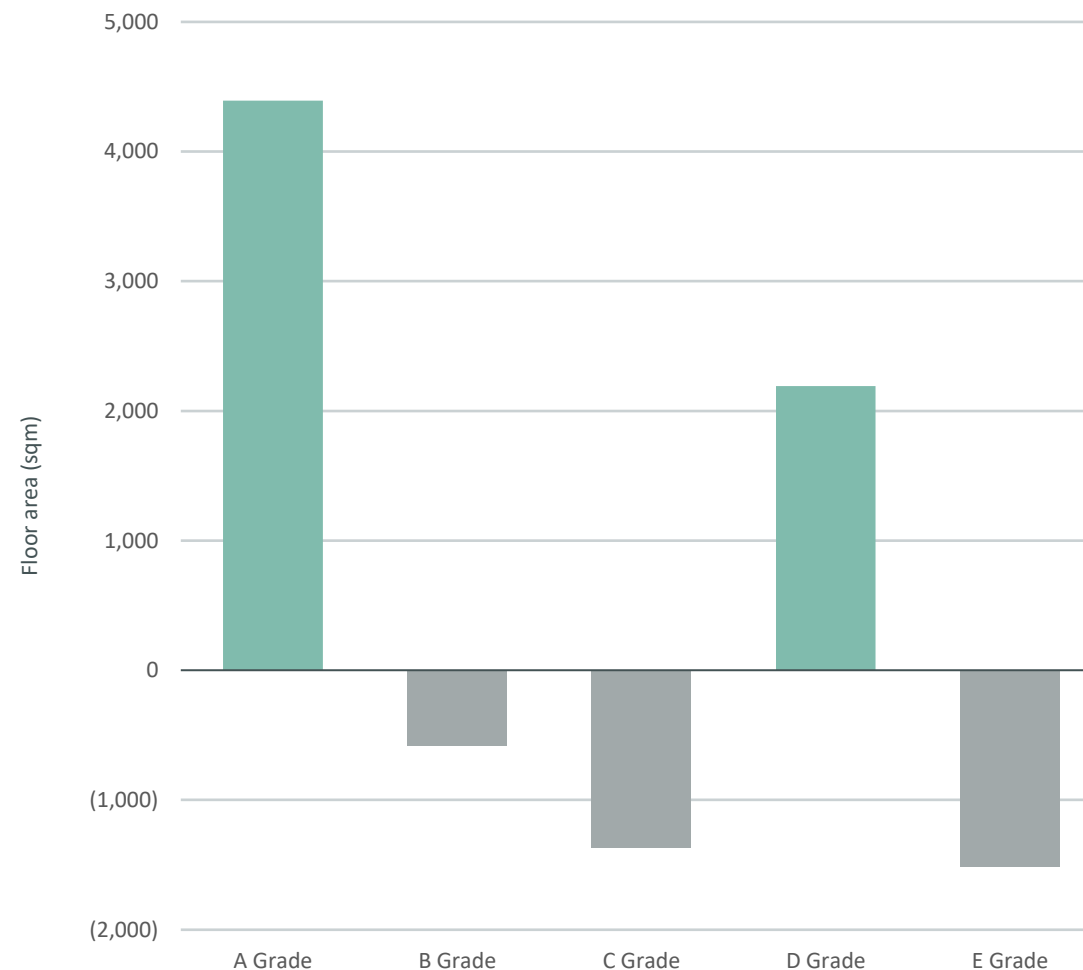
The overall net change in the amount of occupied office stock from June to December 2021 was positive 3,100sqm. As Figure 6 indicates, the overall positive result was driven by strong growth in A Grade (supported by the addition of occupied new supply), and healthy demand by a handful of occupiers in D Grade, with the remaining quality segments experiencing relatively modest absorption losses in our December survey.

Grade A experienced an increase of almost 4,400sqm in occupied stock in H2 2021, mostly due to the addition of (and full uptake in) the first new office development at Union Square. AA insurance took up over 1,200sqm across part of the ground floor and level 1, while anchor tenant Rabobank moved into levels 3 and 4 in December 2021.

Despite the decreasing vacancy, Grade B net absorption turned negative in the second half of 2021, largely as a result of 183 Collingwood Street and the adjoining property at 189 Collingwood Street going under redevelopment and therefore taken out of our active office stock, in addition to a couple of smaller new vacancies at 554 and 586 Victoria Street.

Occupancy changes detailed in the previous section were the main reasons for changes in absorption in C and D Grades (sizeable new vacancies in C Grade and a handful of decent sized uptakes in D Grade), while the absorption loss in the lowest quality segment (E Grade) was also driven by occupancy losses.

FIGURE 6: Net uptake of CBD office space by grade



## Conclusions and outlook

Flight to quality has been a strong theme among office occupiers in the past few years, accentuated by the pandemic, as businesses aim to provide workplace environments that help not only to attract and retain talent, but to maintain and improve employee communities and company culture.

The results of the last two occupancy surveys in the Hamilton CBD office market shows that the above is not only a global phenomenon, but a trend that is very much experienced within the Hamilton office occupier community.

Undoubtedly, Hamilton is going through a major transformation period with a plethora of developments under construction and in the pipeline a wide range of sectors from infrastructure to arts and recreation, including various office and mixed-use developments in the CBD. And while this extensive development activity may result in some vacancy increase in the short-term, we believe that occupier demand for high-quality office accommodation will remain strong, increasingly including national and multinational businesses evaluating their growth opportunities outside of Auckland and government from Wellington.

While hybrid working and more employee flexibility is here to stay, it doesn't seem to be a major issue in smaller population centres where commuting to and from the office is perhaps less stressful, which, together with the city quickly becoming the focal point of the golden triangle economic area, bodes well for the future of the Hamilton office market.

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