

Hamilton CBD Office Market Overview

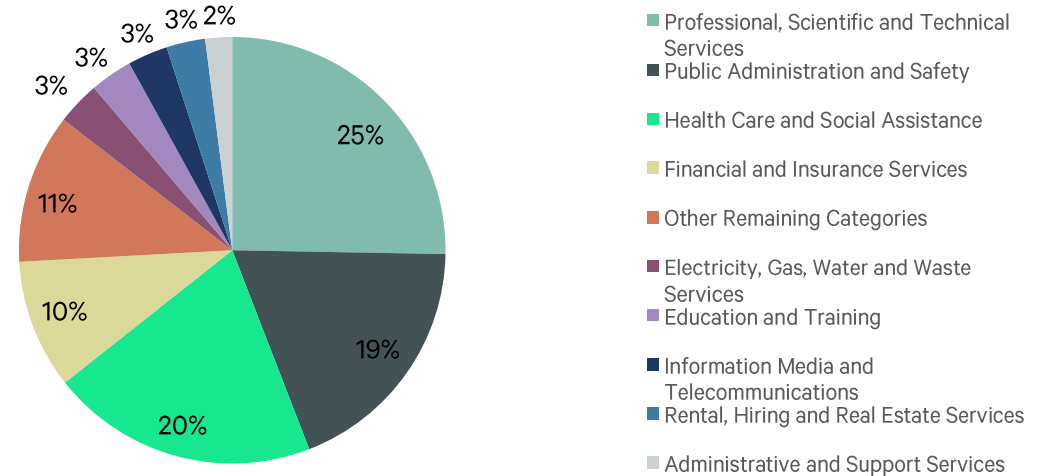
Summary

Hamilton CBD office stock increased in the second half of 2023 with two new buildings. The completion of Building E at Union Square had a major impact and contributes 90% of the total increase in net lettable area.

Over the six months to December 2023, overall office vacancy decreased from 10.1% to 9.5%. Vacancy was stable in some grades, with the decrease mainly attributable to Grades C and D.

The overall net change in occupied office stock was positive 4,100 sqm in the second half of 2023. A minimal occupied stock loss was recorded in Grade B, but all other grades' occupied stock increased, including an increase of 2,320 sqm in Grade A.

FIGURE 1: Hamilton CBD office occupancy composition by business type



INTRODUCTION

This publication provides a summary of the Hamilton office occupier survey conducted in December 2023.

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.

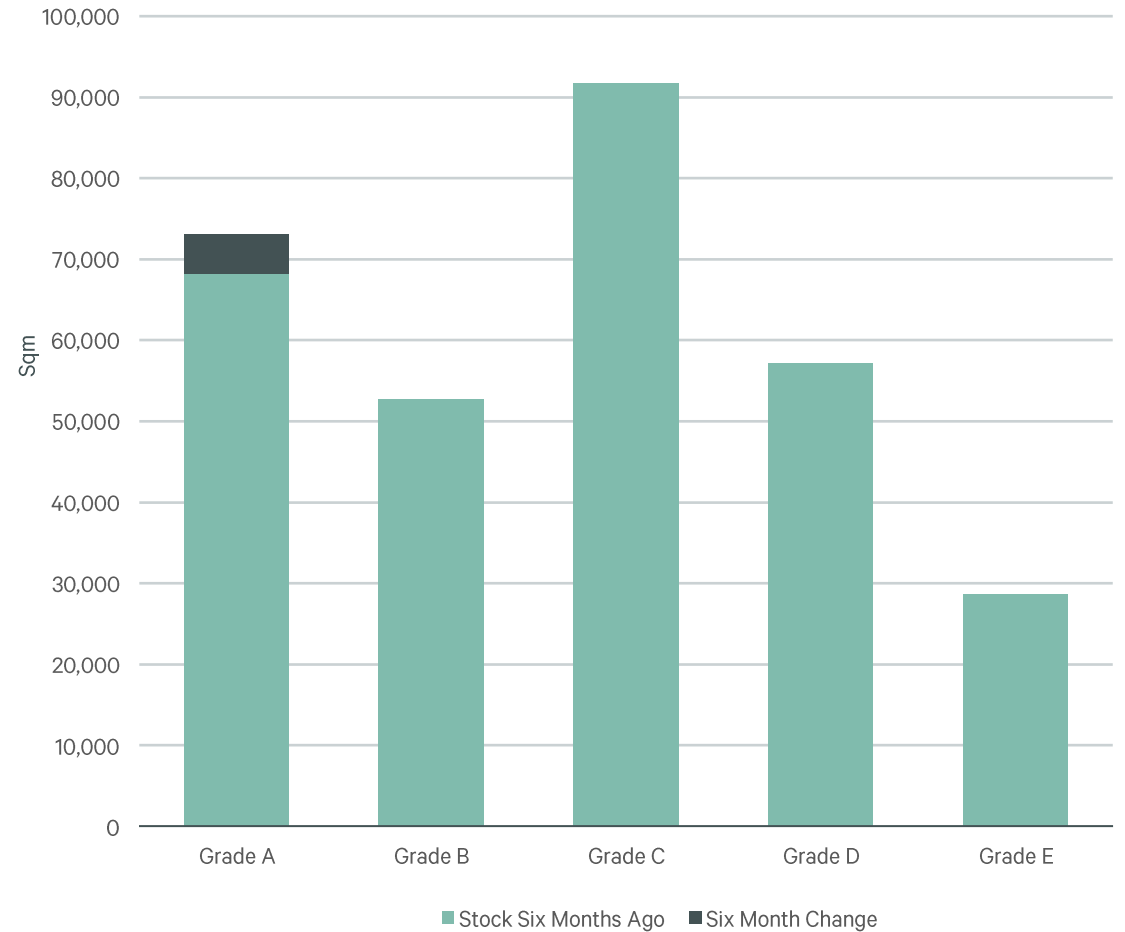
Office stock and new supply

Hamilton CBD office stock has increased by 4,840sqm, or 1.6%. The increase is attributable to two new Grade A buildings which led to a total stock increase in this grade of 7.1%. One of the new additions is a 500sqm building at 467 Anglesea Street, occupied by Basecorp Finance. The other new addition is much larger, being Building E of Union Square. Bloxam Burnett & Olliver occupy 1,740sqm on Levels 4 & 5, and Reform Fitness occupying 75sqm on the ground floor. The remainder of this 4,342sqm building is entirely committed to by NAI Harcourts, Kiwibank Business Banking, James & Wells, Company X, and Baker Tilly Staples Rodway.

The total amount of space under refurbishment decreased from 13,580 sqm to 13,080 sqm over the six months to December 2023. Works are ongoing at 527 Victoria Street, 25 Ward Street and 48 Ward Street. A 444sqm refurbishment at 330 Tristram Street has completed and is now occupied by Copier World.

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 December 2023



Vacancy

Overall office vacancy in the Hamilton CBD decreased by 0.6% to 9.5% in December 2023. This is reflected in vacant stock decreasing by 1,280sqm and occupied stock increasing by 4,100sqm.

Vacancy in Grade A is essentially stable, with a minor movement from 1.5% to 1.4% in the second half of 2023 due to occupied new build stock additions. During this period, no new vacant space became available.

In B Grade, vacancy is also relatively stable, with a slightly shift from 7.7% to 7.8% in the six months to December 2023. The second part of 2023 saw 8 spaces become available, the largest being Shift 72 vacating 512 sqm in T&G Building. Although some take ups have been observed, they didn't outweigh new vacancies.

Grade C vacancy decreased from, 14.7% to 14.0% between June and December last year. Four occupiers took up a total of 670sqm of previously vacant space, the largest being Shift 72 who took 224 sqm at 919 Victoria Street.

The decrease in Grade D vacancy was more significant, moving from 10.5% to 9.4% in the six months to December 2023. Take up of previously vacant space by various health care and social assistance businesses has been a driver of this.

Finally, Grade E experienced a small decrease in vacancy from 19.7% to 19.5% between June 2023 and December 2023. In percentage terms this grade continues to have the highest vacancy rate.

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

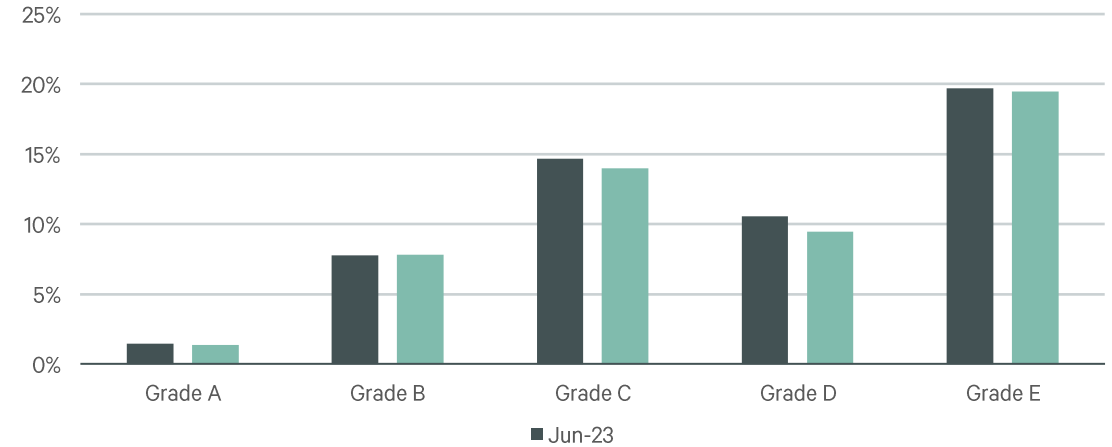
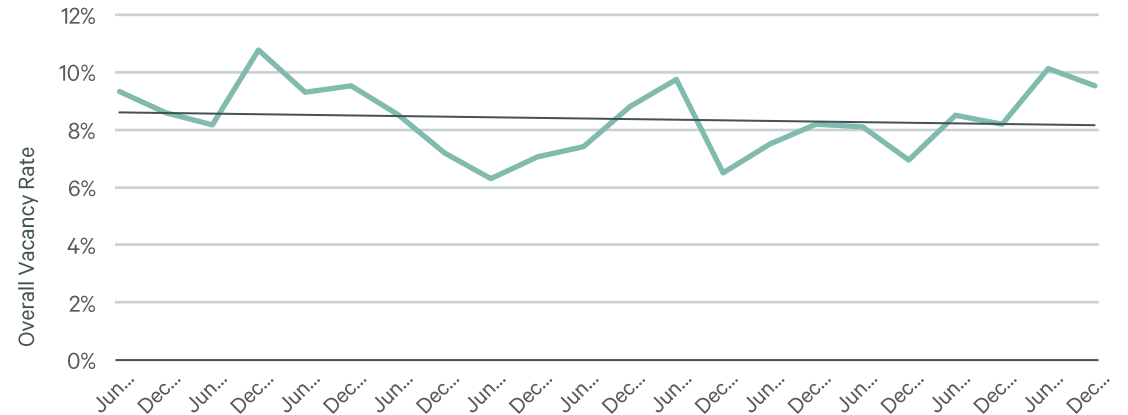


FIGURE 4: CBD total office vacancy 2013-2023



Demand

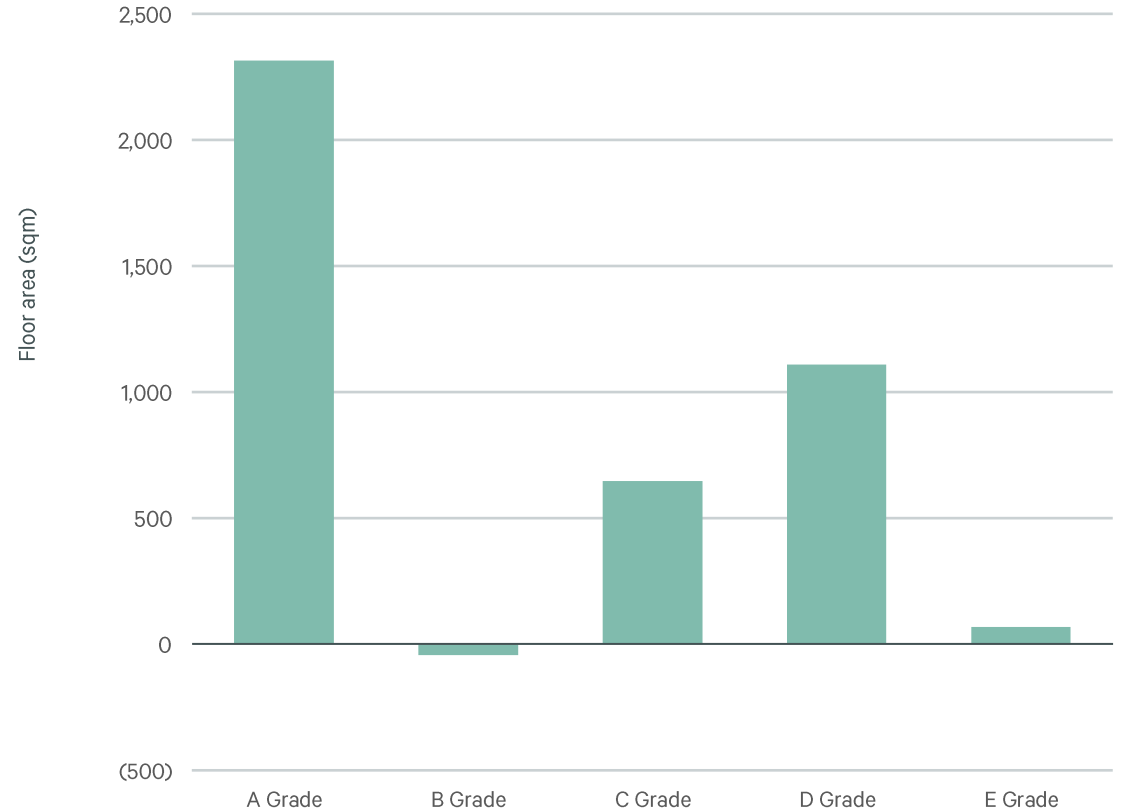
Hamilton office market has experienced growth during the last 6 months. The overall net change in the amount of occupied office stock from June 2023 to December 2023 was 4,100 sqm. As Figure 5 indicates, all secondary grades experienced net absorption gain, where the overall net absorption gain was mainly driven by the increase in Grade A with occupied new build spaces coming on stream, including 1,740sqm for Bloxam Burnett & Olliver at Building E, Union Square.

Aside from occupied new builds, the limited number of new vacancies as outlined in the previous section were another reason for the positive net absorption gain. Some of the new vacancies have been due to businesses upgrading their space, such as the 316sqm at 450 Anglesea Street which had been occupied by Basecorp Finance and is now currently vacant.

There have also been examples of space upgrades resulting in churn, being change from one tenant to another. One example is Stark Property who vacated 250sqm of Grade B space at Panama Square, in favour of a 380sqm of Grade A space at 469 Grey Street, which had been previously occupied by Wise Group. The space they previously occupied at Panama Square is now tenanted by Designwell and Daymark.

Our absorption data continues to show positive momentum for Grade A quality stock. The combined effect of new construction being finished at the Union Square Building E and 467 Anglesea Street net take up of existing spaces, portray generally strong demand for quality buildings.

FIGURE 5: Net uptake of CBD office space by grade



Conclusions and outlook

The Hamilton CBD office market's most recent survey results indicate continued growth, with declining vacancy and vacant stock levels, an increase in occupied space, and positive net absorption. The second half of 2023 was buoyed by the addition of occupied new build stock and full take-up of a recently completed refurbishment.

The latest survey results shows that while no Grade A space became vacant in the last 6 months, vacant stock in Grade B has increased only slightly, due in part to backfill vacancy created from several businesses upgrading. Net absorption was positive for the Grades C and D indicating that cost consideration is a reason behind some businesses choosing space expansion in these grades, while other businesses are upgrading and sometimes expanding into higher quality spaces, reflecting the flight to quality trend that has strengthened post pandemic. Work environments and culture remain key drivers for businesses and their staff.

Hamilton is going through a transformation period with a plethora of redevelopment and developments recently completed, under construction, 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 is 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 government entities from Wellington, 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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