Hamilton CBD Office Market Overview

Summary

The total Hamilton CBD office stock remained essentially unchanged in the first half of 2022 with no new buildings added to stock or withdrawn since December last year.

Over the six months to June 2022 , overall office vacancy increased from 7.0% to 8.5%. Vacancy remained stable in A Grade at 3.1% with the increase impacting Secondary grade stock, mainly in Grades B and D.

The overall net change in occupied office stock was negative 3,900sqm in H1 2022. While the occupied Grade A stock remained unchanged, losses were recorded in Secondary grade buildings across the CBD.

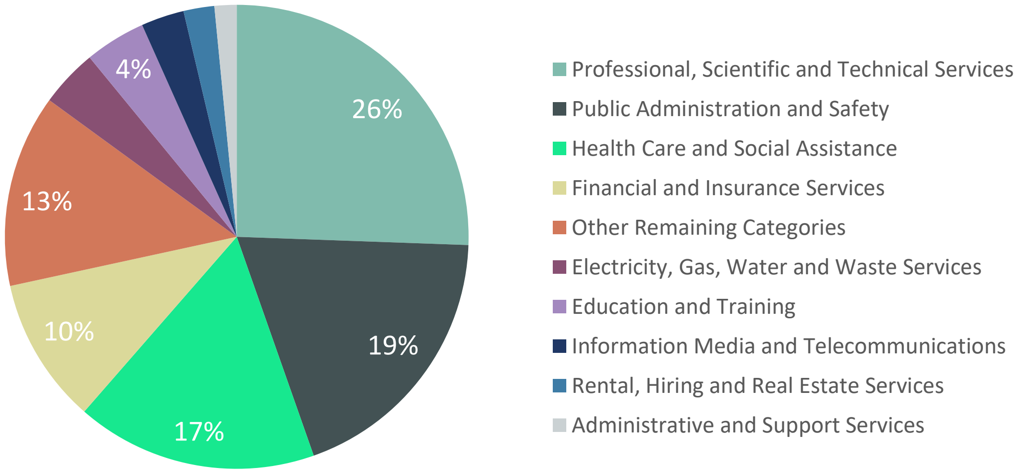
INTRODUCTION

This publication provides a summary of the Hamilton office occupier survey conducted in July 2022.

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

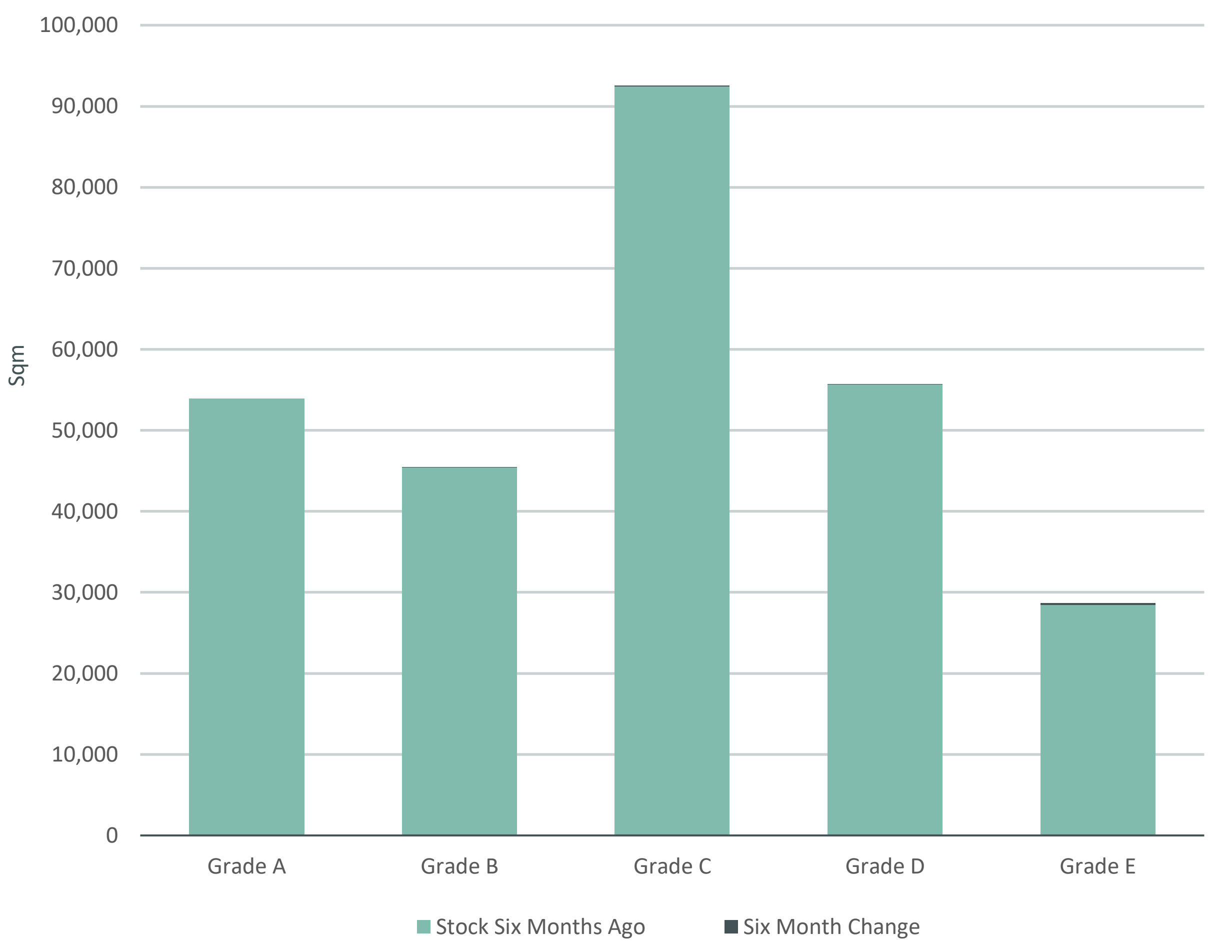
As Figure 2 shows, the Hamilton CBD office stock remained largely unchanged in the six months to June 2022. The minor changes in Secondary grade stock reflect the return of smaller office suites to active stock following light refurbishments, and some premises previously occupied by non-office tenants now being used as office.

The total amount of space under refurbishment decreased from 18,065sqm to 13,464sqm over the six months to June 2022. Works are ongoing at 189 Collingwood Street and 48 Ward Street in addition to the 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.

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 (Building F), the car park and second building (Building E) at Union Square are well underway, as is the TGH developed office complex on the corner of Collingwood and Tristram Streets for ACC, expected to be finished in early 2023.

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

FIGURE 2: CBD office stock by grade in June 2022



Vacancy

Overall office vacancy in the Hamilton CBD increased by 1.5% to 8.5% in December 2021.

Vacancy in Grade A remained stable at 3.1% in the first half of 2022, representing only four available options, starting in size from just under 250sqm in the NZI building on Collingwood Street.

Grade B experienced a sizeable increase in vacancy, moving from 3.6% to 6.3% in the six months to June 2022, influenced by a handful of occupier moves out of the grade, including Stace Hammond lawyers vacating 420sqm at 3 Caro Street and Rabobank leaving behind 390sqm at 1 London Street.

The increase in Grade C vacancy was more modest, moving from 7.5% to 8.3% in the first half of the year. Of the four moves out of the grade, the largest was by Oranga Tamariki that vacated 956sqm in Anglesea Tower.

In D Grade, vacancy increased by 1.4% in the six months to June 2022 (from 12.2% to 13.6%) impacted by 10 businesses vacating Grade D quality premises, including GDC Consulting vacating 365sqm of first floor space at 489 Anglesea Street.

Finally, in Grade E vacancy increased significantly from 7.8% to 12.9% between December 2021 and June 2022, and while in percentage terms this has been the largest increase, given the now relatively small stock size, in sqm terms, it represents a little more than 1,000sqm of new vacancy, including 386sqm vacated by Kordia in the Tower Building and 350sqm vacated by Industry Training Solutions at 153-159 Victoria Street.

FIGURE 3: CBD office vacancy by grade June – December 2021

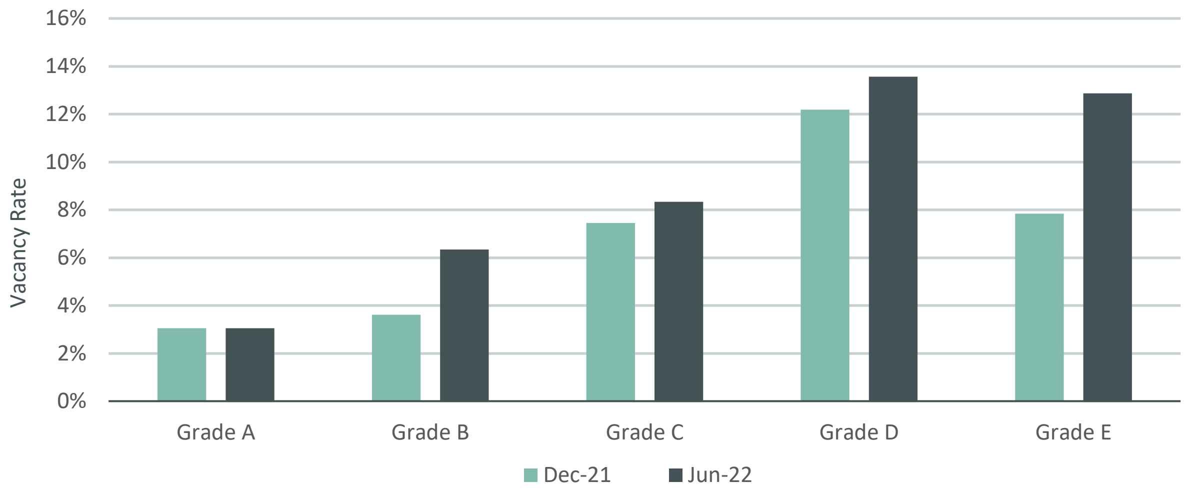
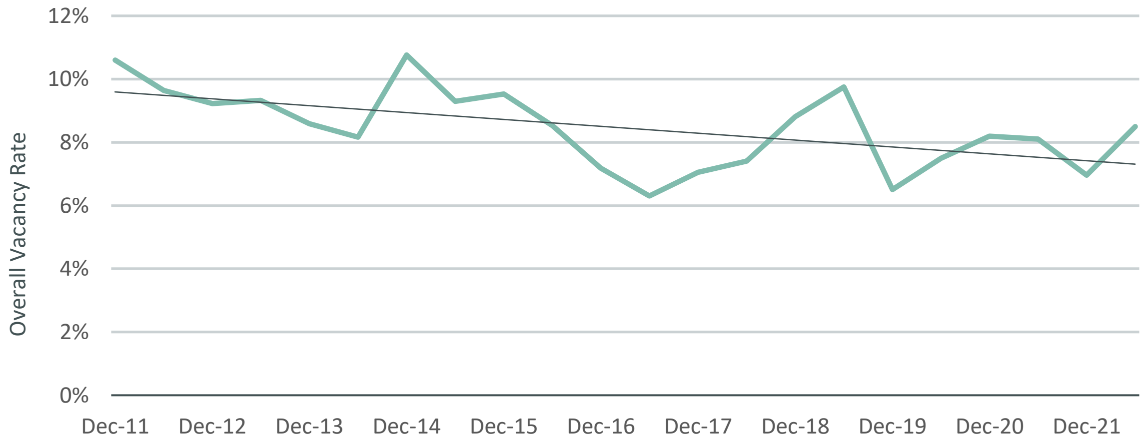


FIGURE 4: CBD total office vacancy 2011-2021



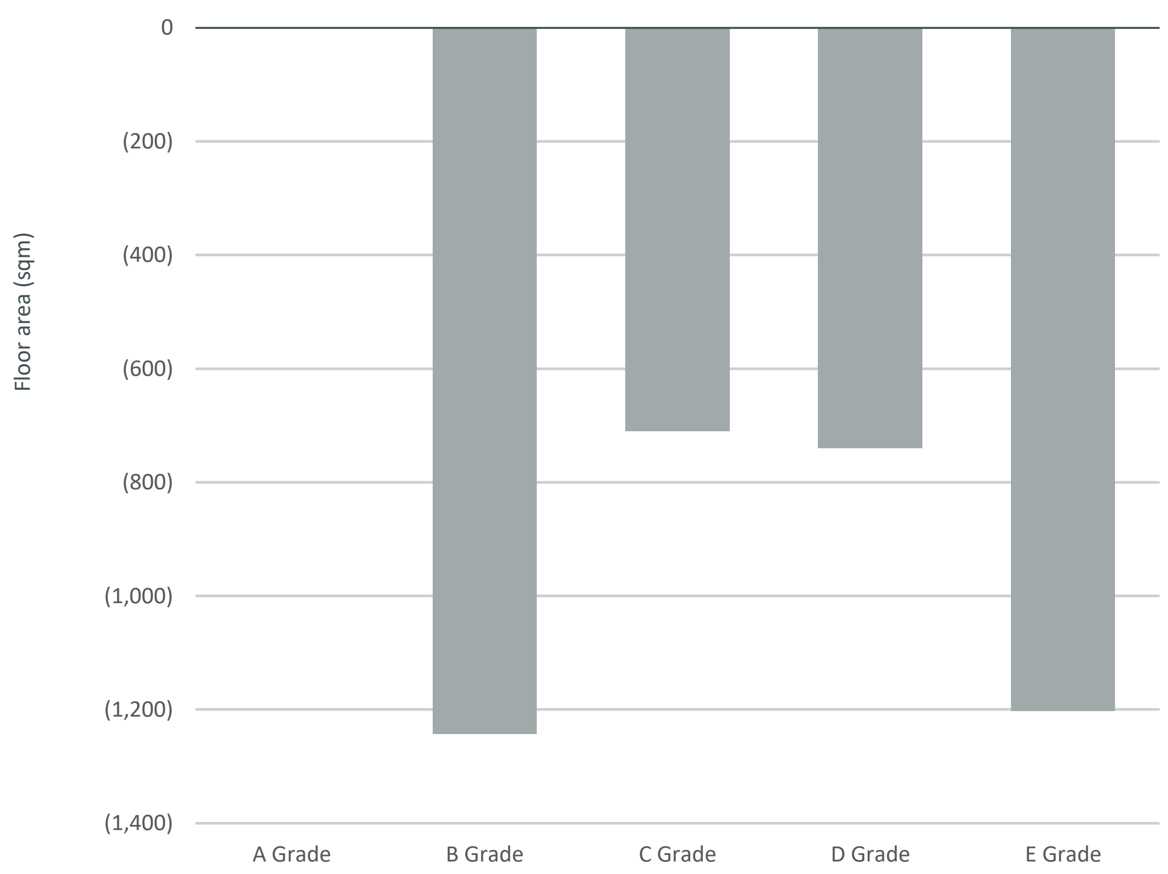
Demand

The overall net change in the amount of occupied office stock from December 2021 to June 2022 was negative 3,900sqm. As Figure 5 indicates, the overall net absorption loss was driven solely by losses in the Secondary grade segment of the market, with Grades B and D experiencing almost two thirds of the total occupancy loss (63%).

Not surprisingly, new vacancies detailed in the previous section were the main reasons for the negative absorption in the Secondary grade market segment. That said, there have also been a few sizeable new leases recorded in Secondary grade buildings in the first half of the year, totalling over 1,300sqm and including Holmes Consulting taking up 420sqm at 18 London Street and Age Concern (HCC) moving into 286sqm at 150 Grantham Street.

While the existing Grade A quality stock remained unchanged in the past six months from both a vacancy and net absorption perspectives, this does not necessarily mean a drop in demand for high quality office space in the Hamilton CBD, as evidenced by a number of sizeable precommitments in currently under construction developments, including Baker Tilly Staples Rodway and Bloxham Burnett & Oliver, who both committed to Building E at Union Square.

FIGURE 5: Net uptake of CBD office space by grade



Conclusions and outlook

Although the latest survey results of the Hamilton CBD office market show vacancy increasing and net absorption turning negative, both of these only impact Secondary grade assets, underpinning the generally strong desire of occupiers to provide better quality workplaces for their employee communities.

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

Undoubtedly, Hamilton is going through a major transformation period with a plethora of developments 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. 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 (as evidenced by some large precommitments in under construction developments), 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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