

MARKETBEAT



AUCKLAND CBD OFFICE VACANCY TRENDS

Tenants' preference for prime quality of office space in Auckland's Central Business District has once again come to the fore as illustrated in the results of Bayleys Research's mid-year vacancy survey.

The proportion of premium or A Grade office accommodation that is empty has more than halved from 6.9% early in 2014 to 3.2% in the latest survey conducted in July. Much of what is left comprises small pockets of vacant space; a tenant looking for a large single floor area, let alone contiguous floors, of prime space in a building in the CBD has a very limited choice in today's market.

This contrasts with the B and C grade secondary market, where the *Bayleys Research* CBD survey shows a vacancy rate of 16.9%, up from 14.3% at the beginning of the year. This is a complete reversal of what happened during the long and painfully slow recovery from the Global Financial Crisis when prime vacancies increased while secondary vacancy declined as businesses focused on reducing overheads, of which accommodation was one of the largest.

With the economy now growing strongly and business confidence at high levels, companies are much more willing to commit to long term leases on quality premises. Businesses are also once again under competitive pressure to provide market leading premises to attract and retain staff.

Developers are responding to the fall in vacancy rates by creating new state-of-the-art premises such as Mansons TCLM's 18,600m² building at 151 Victoria Street West and Fonterra's new headquarters in Fanshawe Street. There has also been a step up in the refurbishment of existing

buildings.

Tenants' desire to be housed in prime quality accommodation is also reflected in a preference for buildings located at the northern end of the city near the waterfront. As a consequence there has been a strong focus on this part of the CBD in new office development with over 80% of prime grade office space now situated in the northern precincts. This split is likely to become wider as development of good quality office space continues to be concentrated on this area.

The jump in secondary vacancy to almost 17%, means they are now at a level not seen since 1999, again reflecting the flight to quality and the increased opportunity for tenants to access prime buildings.

The proportion of the total office space in the CBD considered to be of prime quality was as low as 26% 10 years ago, meaning the option to locate in quality accommodation was very limited. This has changed dramatically, with prime space now accounting for over 40% of CBD office accommodation."

The education sector has been the savior for the secondary market and it continues to be so, although its growth appears to have plateaued. The majority of office accommodation occupied by education tenants, which includes Auckland and AUT universities, tertiary support services, language schools and training colleges, is secondary B and C grade quality. The amount of space occupied by the education sector across the CBD has remained largely unchanged for a number of years, sitting at just under 180,000m².

This represents a significant 13% chunk of the total office space in the CBD. In con-

trast to the corporate tenancy drift to the north, the education sector dominates the southern precincts where education tenants occupy a quarter of office accommodation. This preference for secondary space is about affordability and location. The southern precincts offer proximity to the city's two largest education providers in the CBD, the University of Auckland and Auckland University of Technology.

The continuous evolvement of the CBD will result in it consolidating more and more into quite distinct zones. We are already seeing the CBD evolve into a corporate and hospitality north and an education and entertainment south. The next growth phase will be focused to the west with commercial development continuing in the Victoria Quarter and most noticeably in the Wynyard Quarter where most of the CBD's development land is located. Low vacancies in prime grade buildings is already a feature of the western precincts with the Viaduct and Wynyard recording levels of 5% and lower while the Victoria Quarter has no vacant prime space.

