

## Introduction

Over the last two years Auckland CBD vacancy rates have significantly increased due to a combination of falling demand and the downstream effects of new building completion. The overall CBD office vacancy rate increased by 1.6 percentage points to 13.3% in the six months to March 2010. Over the same period, net effective rents have continued to fall.

The impact of the recession of 2008 / 2009 on the demand for office space is likely to continue to be felt over the short term and this combined with the completion of a number of office buildings currently under construction is likely to result in vacancy rates, over the next couple of years, increasing to levels not experienced since the mid 1990s.

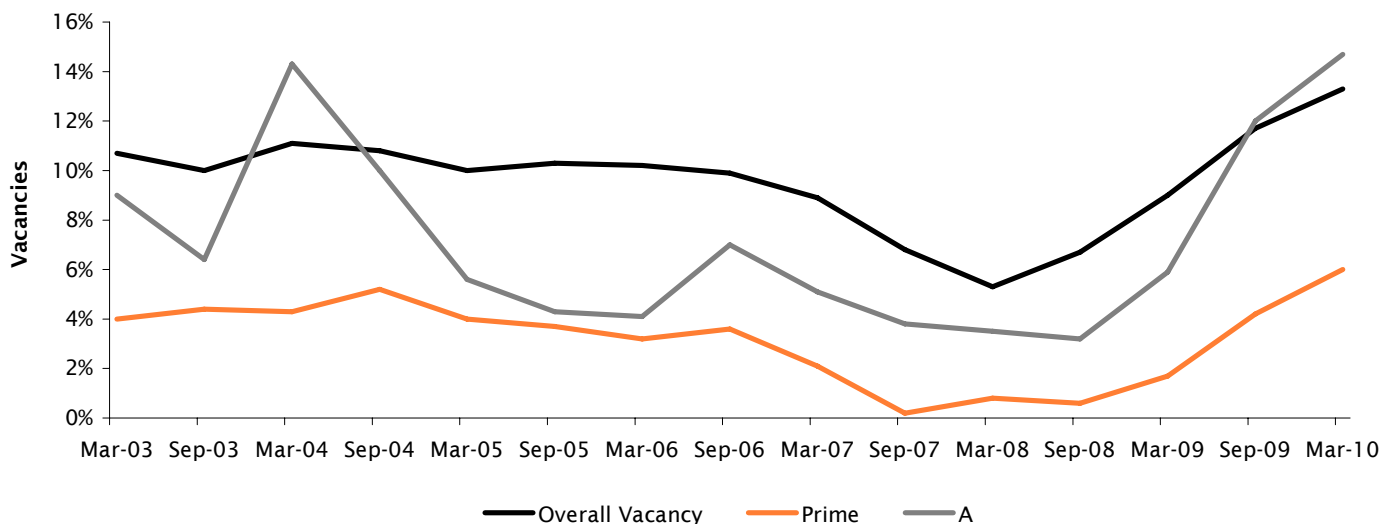
## Key Results

Key results from the March 2010 CBD office vacancy rate survey include:

- The overall CBD office vacancy rate as at March 2010 was 13.3%, up from 11.7% in September 2009 and 9.0% in March 2009;
- Increases in vacancy rates ranging from 0.8 to 2.7 percentage points occurred across all building quality grades. The largest increase in vacancy rate was experienced in A Grade building stock, up from 12.0% to 14.7%; and
- Most CBD precincts experienced an increase in vacancy, ranging from 1.2 to 6.3 percentage points, with the exception of the Symonds Street and Quay Park precincts which recorded vacancy rate falls of 0.9 and 3.6 percentage points respectively.

Figure 1 presents the trend in vacancy rates by quality over the period March 2003 through to March 2010.

**Figure 1: CBD Office Vacancy by Quality – March 2003 to March 2010**



Source: Darroch Research

## Key Trends

- The March 2010 CBD vacancy rate is at its highest level in over eight years. The CBD vacancy rate reached a record low of 5.3% as at March 2008. Over the two years since then, however, vacancy levels have significantly increased to the current 13.3% recorded in the March 2010 survey;
- A Grade office space experienced the most substantial growth in vacancy, up 2.7 percentage points to 14.7%. A large proportion of this increase is as a result of Deloitte vacating their premises at 2-8 Nelson Street to relocate into their newly completed premises at 80 Queen Street. Goodman Fielder have since leased the space at 2-8 Nelson Street;
- Prime vacant office space over the same period increased from 6,400 to 10,550 square metres over the last six months, largely as a result of vacant space within Vero Centre and new vacant space being available for sublease in the Deloitte Centre;
- B Grade and C and D Grade combined vacancy rates increased over the six month period from 13.9% to 16.0%, and 12.2% to 13.0%, respectively;
- Vacancy rates over the six months to March 2010 increased in all precincts, with the exception of Symonds Street (14.2% to 13.3%) and Quay Park (22.9% to 18.1%) precincts. Vacancy rates increased in the CBD Core precinct from 12.0% to 13.7%, in the Frame precinct from 7.9% to 14.2%, in the ANZAC Avenue precinct from 11.6% to 12.8%, and in the Viaduct precinct from 6.0% to 7.4%;
- New space was added in the Core precinct with the completion of the Deloitte Centre at 80 Queen Street. This added 23,000 square metres of Prime grade office space that is occupied by Deloitte and the BNZ. Deloitte are subleasing the two upper floors of the tower; and
- Market conditions have resulted in an increased supply of sublease office space as many larger tenants down size their operations into smaller areas. Major tenants currently subleasing space are GE Money, BNZ, Deloitte and ING. There are also many smaller spaces available for sublease throughout the CBD office market.

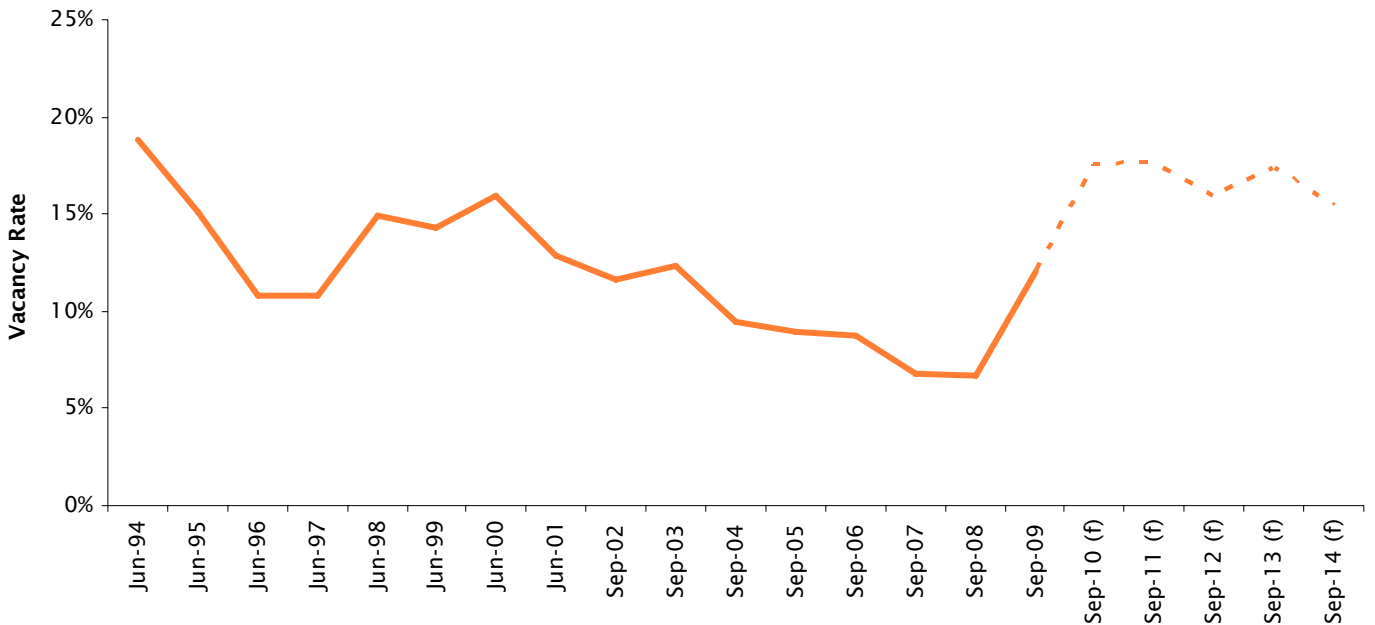
## Market Outlook

A number of factors are likely to drive CBD vacancy rates to levels not experienced since the mid 1990s. The market is currently experiencing classic late cycle characteristics. These include:

- Falling tenant demand as a result of the 2008 / 2009 recession's impact on businesses demand for labour. The total area of occupied space is forecast to contract by 30,000 and 35,000 square metres over the next two years; and
- The market is also in the later stages of a mini construction boom. Over 50,000 square metres of space will be completed over the next two years. The majority of this space is pre-let, however, the tenants shifting into their new premises will leave significant vacancies behind in their existing premises.

Figure 2 presents Darroch's forecast increase in CBD vacancy rates over the next three years.

**Figure 2: Vacancy Rate Forecasts**



Source: Darroch Research March 2010 Forecast

Darroch is forecasting CBD vacancy rates to increase to between 17% and 19% by March 2012. The rapid change in underlying market conditions is likely to have a significant impact on the CBD office market in the short to medium term and result in a shift in the balance of bargaining power from the landlord to the tenant.

# Auckland CBD Office Vacancy Survey Results

**Table 1: Auckland CBD Office Vacancy Survey Results by Grade**

| Survey    | Total CBD               |                          |              | Prime                   |                          |              | A Grade                 |                          |              | B Grade                 |                          |              | C & D Grade             |                          |              |
|-----------|-------------------------|--------------------------|--------------|-------------------------|--------------------------|--------------|-------------------------|--------------------------|--------------|-------------------------|--------------------------|--------------|-------------------------|--------------------------|--------------|
|           | Stock (m <sup>2</sup> ) | Vacant (m <sup>2</sup> ) | Vacancy Rate | Stock (m <sup>2</sup> ) | Vacant (m <sup>2</sup> ) | Vacancy Rate | Stock (m <sup>2</sup> ) | Vacant (m <sup>2</sup> ) | Vacancy Rate | Stock (m <sup>2</sup> ) | Vacant (m <sup>2</sup> ) | Vacancy Rate | Stock (m <sup>2</sup> ) | Vacant (m <sup>2</sup> ) | Vacancy Rate |
| Mar 2002  | 1,099,785               | 120,350                  | 10.9%        | 103,460                 | 3,124                    | 3.0%         | 176,069                 | 22,959                   | 13.0%        | 345,023                 | 50,514                   | 14.6%        | 475,233                 | 43,754                   | 9.2%         |
| Sept 2002 | 1,129,390               | 115,132                  | 10.2%        | 134,615                 | 19,857                   | 14.8%        | 175,226                 | 21,298                   | 12.2%        | 345,023                 | 40,748                   | 11.8%        | 474,526                 | 33,230                   | 7.0%         |
| Mar 2003  | 1,128,980               | 120,401                  | 10.7%        | 134,615                 | 5,385                    | 4.0%         | 175,226                 | 15,744                   | 9.0%         | 345,023                 | 52,360                   | 15.2%        | 474,117                 | 46,911                   | 9.9%         |
| Sept 2003 | 1,129,390               | 113,243                  | 10.0%        | 134,615                 | 5,908                    | 4.4%         | 175,226                 | 11,168                   | 6.4%         | 345,023                 | 35,559                   | 10.3%        | 474,526                 | 60,609                   | 12.8%        |
| Mar 2004  | 1,147,058               | 127,191                  | 11.1%        | 134,615                 | 5,781                    | 4.3%         | 185,773                 | 26,644                   | 14.3%        | 345,023                 | 44,919                   | 13.0%        | 481,647                 | 49,847                   | 10.3%        |
| Sept 2004 | 1,139,690               | 122,874                  | 10.8%        | 134,615                 | 7,004                    | 5.2%         | 185,773                 | 18,563                   | 10.0%        | 345,023                 | 46,787                   | 13.6%        | 474,279                 | 50,521                   | 10.7%        |
| Mar 2005  | 1,134,531               | 112,895                  | 10.0%        | 134,615                 | 5,412                    | 4.0%         | 185,157                 | 10,347                   | 5.6%         | 344,658                 | 38,585                   | 11.2%        | 470,101                 | 58,550                   | 12.5%        |
| Sept 2005 | 1,168,784               | 120,141                  | 10.3%        | 152,616                 | 5,582                    | 3.7%         | 202,702                 | 8,750                    | 4.3%         | 344,658                 | 51,398                   | 14.9%        | 468,808                 | 54,411                   | 11.6%        |
| Mar 2006  | 1,171,194               | 119,117                  | 10.2%        | 152,616                 | 4,859                    | 3.2%         | 207,302                 | 8,575                    | 4.1%         | 344,658                 | 45,599                   | 13.2%        | 466,617                 | 60,084                   | 12.9%        |
| Sept 2006 | 1,175,074               | 116,779                  | 9.9%         | 152,616                 | 5,552                    | 3.6%         | 231,044                 | 16,218                   | 7.0%         | 337,069                 | 33,059                   | 9.8%         | 454,345                 | 61,951                   | 13.6%        |
| Mar 2007  | 1,157,334               | 102,773                  | 8.9%         | 152,616                 | 3,252                    | 2.1%         | 231,044                 | 11,898                   | 5.1%         | 338,892                 | 29,016                   | 8.6%         | 434,782                 | 58,607                   | 13.5%        |
| Sept 2007 | 1,151,311               | 78,545                   | 6.8%         | 152,616                 | 236                      | 0.2%         | 237,717                 | 9,002                    | 3.8%         | 336,548                 | 20,009                   | 5.9%         | 424,431                 | 49,297                   | 11.6%        |
| Mar 2008  | 1,166,670               | 61,468                   | 5.3%         | 152,616                 | 1,227                    | 0.8%         | 237,717                 | 8,222                    | 3.5%         | 355,740                 | 17,503                   | 4.9%         | 420,597                 | 34,516                   | 8.2%         |
| Sept 2008 | 1,175,647               | 78,639                   | 6.7%         | 152,616                 | 973                      | 0.6%         | 258,917                 | 8,207                    | 3.2%         | 357,545                 | 30,351                   | 8.5%         | 406,569                 | 39,109                   | 9.6%         |
| Mar 2009  | 1,189,502               | 107,449                  | 9.0%         | 152,616                 | 2,617                    | 1.7%         | 269,505                 | 15,909                   | 5.9%         | 360,849                 | 43,939                   | 12.2%        | 406,532                 | 44,984                   | 11.1%        |
| Sept 2009 | 1,224,823               | 142,756                  | 11.7%        | 152,616                 | 6,387                    | 4.2%         | 293,254                 | 35,141                   | 12.0%        | 360,849                 | 50,194                   | 13.9%        | 418,104                 | 51,033                   | 12.2%        |
| Mar 2010  | 1,244,540               | 165,262                  | 13.3%        | 175,616                 | 10,558                   | 6.0%         | 293,254                 | 43,027                   | 14.7%        | 356,751                 | 57,229                   | 16.0%        | 418,919                 | 54,447                   | 13.0%        |

Source: Darroch Research

**Table 2: Auckland CBD Office Vacancy Survey Results by Precinct**

| Survey    | Core CBD                |                          |              | Fringe CBD              |                          |              | Viaduct                 |                          |              | Symonds Street          |                          |              | ANZAC                   |                          |              | Quay Park               |                          |              |
|-----------|-------------------------|--------------------------|--------------|-------------------------|--------------------------|--------------|-------------------------|--------------------------|--------------|-------------------------|--------------------------|--------------|-------------------------|--------------------------|--------------|-------------------------|--------------------------|--------------|
|           | Stock (m <sup>2</sup> ) | Vacant (m <sup>2</sup> ) | Vacancy Rate | Stock (m <sup>2</sup> ) | Vacant (m <sup>2</sup> ) | Vacancy Rate | Stock (m <sup>2</sup> ) | Vacant (m <sup>2</sup> ) | Vacancy Rate | Stock (m <sup>2</sup> ) | Vacant (m <sup>2</sup> ) | Vacancy Rate | Stock (m <sup>2</sup> ) | Vacant (m <sup>2</sup> ) | Vacancy Rate | Stock (m <sup>2</sup> ) | Vacant (m <sup>2</sup> ) | Vacancy Rate |
| Mar 2002  | 733,496                 | 90,493                   | 12.3%        | 141,536                 | 3,521                    | 2.5%         | 33,529                  | 4,201                    | 12.5%        | 152,132                 | 19,885                   | 13.1%        | 39,092                  | 2,247                    | 5.7%         | -                       | -                        | -            |
| Sept 2002 | 764,651                 | 97,718                   | 12.8%        | 141,536                 | 1,739                    | 1.2%         | 32,686                  | 3,495                    | 10.7%        | 150,518                 | 8,476                    | 5.6%         | 39,999                  | 3,704                    | 9.3%         | -                       | -                        | -            |
| Mar 2003  | 764,241                 | 107,330                  | 14.0%        | 141,536                 | 2,431                    | 1.7%         | 32,686                  | 507                      | 1.6%         | 150,518                 | 6,578                    | 4.4%         | 39,999                  | 3,556                    | 8.9%         | -                       | -                        | -            |
| Sept 2003 | 764,650                 | 85,700                   | 11.2%        | 141,536                 | 7,215                    | 5.1%         | 32,686                  | 507                      | 1.6%         | 150,518                 | 15,712                   | 10.4%        | 39,999                  | 4,110                    | 10.3%        | -                       | -                        | -            |
| Mar 2004  | 758,266                 | 94,822                   | 12.5%        | 144,217                 | 8,201                    | 5.7%         | 43,233                  | 4,161                    | 9.6%         | 161,342                 | 16,714                   | 10.4%        | 39,999                  | 3,293                    | 8.2%         | -                       | -                        | -            |
| Sept 2004 | 756,712                 | 85,766                   | 11.3%        | 140,017                 | 8,266                    | 5.9%         | 43,233                  | 4,174                    | 9.7%         | 159,728                 | 21,927                   | 13.7%        | 39,999                  | 2,741                    | 6.9%         | -                       | -                        | -            |
| Mar 2005  | 756,280                 | 70,125                   | 9.3%         | 138,792                 | 10,847                   | 7.8%         | 42,617                  | 3,725                    | 8.7%         | 157,562                 | 22,778                   | 14.5%        | 39,280                  | 5,420                    | 13.8%        | -                       | -                        | -            |
| Sept 2005 | 774,279                 | 77,731                   | 10.0%        | 137,662                 | 12,425                   | 9.0%         | 60,162                  | 3,769                    | 6.3%         | 157,870                 | 21,457                   | 13.6%        | 38,811                  | 4,760                    | 12.3%        | -                       | -                        | -            |
| Mar 2006  | 778,879                 | 74,993                   | 9.6%         | 135,117                 | 14,838                   | 11.0%        | 60,162                  | 2,036                    | 3.4%         | 157,870                 | 21,478                   | 13.6%        | 39,165                  | 5,772                    | 14.7%        | -                       | -                        | -            |
| Sept 2006 | 759,928                 | 68,457                   | 9.0%         | 130,826                 | 12,695                   | 9.7%         | 87,284                  | 8,390                    | 9.6%         | 157,870                 | 21,860                   | 13.8%        | 39,165                  | 5,376                    | 13.7%        | -                       | -                        | -            |
| Mar 2007  | 748,000                 | 59,113                   | 7.9%         | 122,406                 | 10,357                   | 8.5%         | 89,107                  | 4,304                    | 4.8%         | 158,655                 | 23,207                   | 14.6%        | 39,165                  | 5,792                    | 14.8%        | -                       | -                        | -            |
| Sept 2007 | 742,257                 | 40,269                   | 5.4%         | 132,538                 | 13,263                   | 10.0%        | 86,763                  | 2,563                    | 3.0%         | 150,589                 | 17,471                   | 11.6%        | 39,165                  | 4,979                    | 12.7%        | -                       | -                        | -            |
| Mar 2008  | 762,273                 | 39,474                   | 5.2%         | 129,311                 | 4,262                    | 3.3%         | 86,763                  | 1,344                    | 1.5%         | 149,158                 | 13,943                   | 9.3%         | 39,165                  | 2,445                    | 6.2%         | -                       | -                        | -            |
| Sept 2008 | 741,339                 | 50,216                   | 6.8%         | 127,406                 | 4,276                    | 3.4%         | 86,763                  | 2,685                    | 3.1%         | 149,158                 | 16,816                   | 11.3%        | 39,165                  | 3,314                    | 8.5%         | 31,816                  | 1,332                    | 4.2%         |
| Mar 2009  | 749,660                 | 65,450                   | 8.7%         | 129,637                 | 6,820                    | 5.3%         | 90,066                  | 4,486                    | 5.0%         | 149,158                 | 18,630                   | 12.5%        | 39,165                  | 5,640                    | 14.4%        | 31,816                  | 6,424                    | 20.2%        |
| Sept 2009 | 763,943                 | 91,966                   | 12.0%        | 132,852                 | 10,539                   | 7.9%         | 99,115                  | 5,990                    | 6.0%         | 159,576                 | 22,623                   | 14.2%        | 37,521                  | 4,350                    | 11.6%        | 31,816                  | 7,289                    | 22.9%        |
| Mar 2010  | 786,943                 | 107,635                  | 13.7%        | 133,667                 | 19,008                   | 14.2%        | 99,115                  | 7,358                    | 7.4%         | 155,478                 | 20,705                   | 13.3%        | 37,521                  | 4,786                    | 12.8%        | 31,816                  | 5,770                    | 18.1%        |

Source: Darroch Research

## Development Activity

### Auckland CBD Office Developments - Under Construction

| Property  | Developer        | Office Floor Area (m <sup>2</sup> ) | Expected Rent (\$psm) | Expected Completion          | Tenants        |
|---|------------------|-------------------------------------|-----------------------|------------------------------|----------------|
| <b>Under Construction</b>                             |                  |                                     |                       |                              |                |
| East 1 and East 2 Buildings<br>54 Customs Street East | Cooper & Company | 22,500                              | Confidential          | Stg 2 - 2011<br>Stg 3 - 2011 | Westpac and EY |
| Telecom Building<br>167-191 Victoria St               | Mansons TCLM Ltd | 30,000                              | Confidential          | 2011                         | Telecom        |

Source: Darroch Research

### Auckland CBD Office Developments - Potential Developments

| Property  | Developer   | Office Floor Area (m <sup>2</sup> ) | Expected Completion  |
|---|---|-------------------------------------|--|
| <b>Proposed</b>   |   |                                     |  |
| ASB Head Office - Wynyard Quarter   | Kiwi Income Property Trust                        | 18,000                              | Late 2013  |
| Britomart - Quay Street & Customs Street East<br>69-101 Customs Street East | Cooper and Company<br>Waikoro Limited (Tim Edney) | 15,400<br>35,000                    | 2011 - 2015<br>Decision on whether to commence known in next couple of months. |
| Former Sky City Carpark - 162 Victoria St West                              | Mansons TCLM Ltd                                  | 8,000                               | 2011   |
| Project Unity - 125 - 153 Fanshawe Street                                   | Mansons TCLM Ltd                                  | 50,000                              | 2011   |
| Viaduct Land - Cnr Gaunt & Beaumont Street                                  | Mansons TCLM Ltd                                  | 7,000                               | Unknown  |
| West Plaza Site Cnr Albert, Wolfe, Customs St                               | Landcorp Ltd / Harbour City Ltd                   | Up to 40,000                        | Unknown - Potential Development Site   |
| Chancery Podium - Cnr Chancery St & Bacons Lane                             | Westmark Group Ltd                                | Unknown                             | Unknown - Potential Development Site   |
| Former Auckland Star Site - 28 Shortland Street                             | Dae Ju Developments                               | 8,100                               | Unknown  |
| Westfield Tower - 7 Queen Street  | Westfield Group                                   | 57,108                              | Unknown  |

Source: Darroch Research

For more information,  
please contact:

Darroch  
Level 16  
Auckland Club Tower  
34 Shortland Street  
Auckland NZ  
Tel: +64 (0)9 309 3040

[www.darroch.co.nz](http://www.darroch.co.nz)

## Contacts

### Key Auckland Contacts

#### Consulting and Research

Ian Mitchell  
+64 (0)4 460 3857  
ian.mitchell@darroch.co.nz

#### Property Services

Andrew Potter  
+64 (0)9 374 6659  
andrew.potter@darroch.co.nz

#### Sales and Investments

DTZ New Zealand Limited MREINZ  
Licensed Real Estate Agent (REAA 2008)  
Kevin Richards  
+64 (0)9 374 6621  
kevin.richards@dtz.co.nz

#### Valuation

John Darroch  
+64 (0)9 374 6613  
john.darroch@darroch.co.nz

#### Plant and Machinery Valuation

Peter Todd  
+64 (0)9 374 6619  
peter.todd@darroch.co.nz

### New Zealand Office Contacts

#### Auckland

|              |                   |                            |
|--------------|-------------------|----------------------------|
| John Darroch | +64 (0)9 374 6613 | john.darroch@darroch.co.nz |
|--------------|-------------------|----------------------------|

#### Wellington

|              |                   |                            |
|--------------|-------------------|----------------------------|
| Milton Bevin | +64 (0)4 460 3853 | milton.bevin@darroch.co.nz |
|--------------|-------------------|----------------------------|

#### Christchurch

|                |                   |                              |
|----------------|-------------------|------------------------------|
| Lance Collings | +64 (0)3 363 5044 | lance.collings@darroch.co.nz |
|----------------|-------------------|------------------------------|

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