

Introduction

Over the last eighteen months Auckland CBD vacancy rates have been increasing due to a combination of falling demand and ongoing construction activity. The overall CBD office vacancy rate increased by 2.7 percentage points to 11.7% over the six months since the March 2009 survey, at the same time, net effective rents have fallen and net absorption remains negative.

The impact of the current recession on the demand for office space is likely to continue through to the end of 2010 and combined with the completion of a number of office buildings currently under construction is likely to result in vacancy rates increasing to levels not experienced since the mid 1990s.

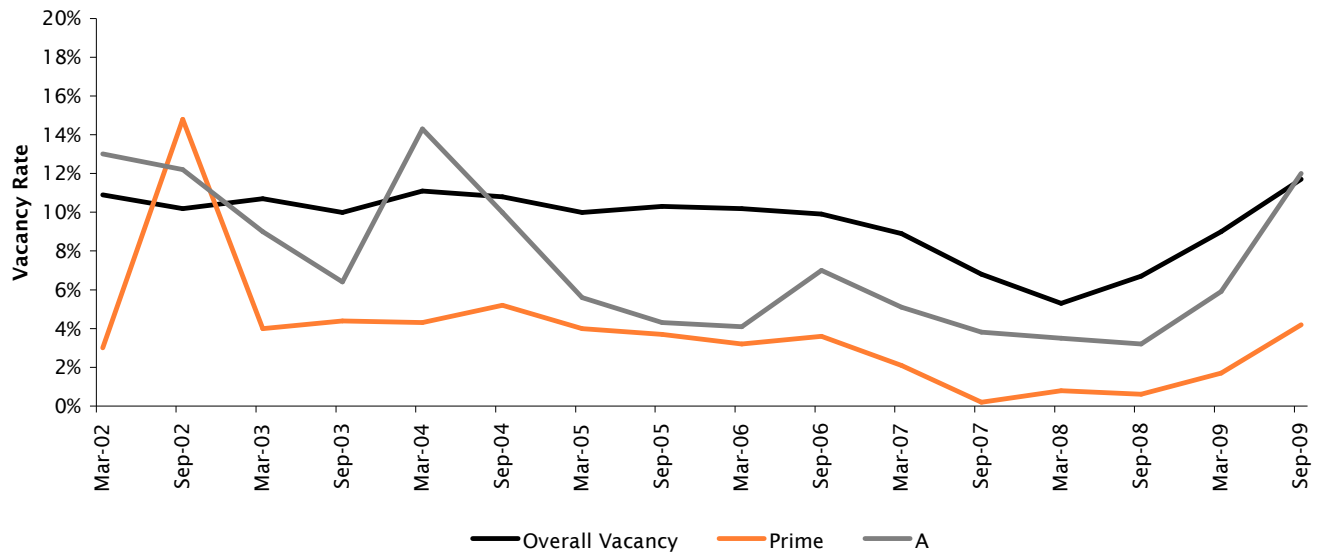
Key Results

Key results from the September 2009 CBD office vacancy rate survey include:

- The overall CBD office vacancy rate as at September 2009 was 11.7%, up from 9.0% in March 2009 and 6.7% in September 2008;
- Increases in vacancy rates occurred across all building quality grades ranging between 1.7 and 6.1 percentage points, with the exception of D Grade which decreased by 7.5 percentage points. The largest increase in vacancy was experienced in A Grade building stock which increased to 6.1%, however, a large proportion of this increase is as a result of the completion of Downtown House at 21 Queen Street which is fully vacant; and
- All CBD precincts experienced a slight increase in vacancy, ranging from 1.0 to 3.3 percentage points, except the ANZAC Avenue precinct where a slight decrease was recorded.

Figure 1 presents the trend in vacancy rates by quality over the period September 2002 through to September 2009.

Figure 1: CBD Office Vacancy by Quality – September 2002 to September 2009



Source: Darroch Research

Key Trends

- The September 2009 CBD vacancy rate is at its highest level in over 7 years. The CBD vacancy rate hit a record low of 5.3% in March 2008; however, over the eighteen months since then vacancy levels have seen a dramatic increase, reflecting the current recessionary economic conditions. We would expect a further increase or a stabilisation in CBD vacancy levels at the next survey in March 2010;
- A Grade office space experienced the most substantial growth in vacancy, up 6.1 percentage points to 12.0%, bought about largely by the addition of 14,700 square metres of newly completed space within Downtown House, 21 Queen Street, which as at the time of the survey was fully vacant. We understand CB Richard Ellis Ltd have signed a nine year lease on one floor of 910 square metres commencing in January 2010;
- Prime vacant office space increased by 3,800 square metres over the last six months, predominantly located within Vero Centre and ASB Centre. Vero Centre's vacant space increased by 5.4%. This increase is largely attributable to Guardian Trust vacating level 9, approximately 1,200sqm. Vacancy in ASB Bank Centre has increased by 5.5 percentage points, which was as a result of Sheffield Consulting vacating 1,200 square metres and Mitsubishi vacating 600 square metres;
- New space was added in the Viaduct precinct with the recent completion of the NZI Centre at 1 Fanshawe Street. This added 9,000 square metres of A grade office space that is fully occupied by NZI. As a result of occupying their new premises NZI have vacated approximately 10,000 square metres of space over a handful of properties within the last six months predominantly from 151 Queen Street (former IAG House) and the AXA Building at 41 Shortland Street; and
- Market conditions has resulted in an increased supply of sublease office space as numerous large tenants down size their operations into smaller areas. Major tenants currently subleasing space are GE Money, BNZ and ING. There are also many smaller spaces available for sublease throughout the CBD office market. We also understand Deloitte are attempting to sublease some of their new space within the yet to be occupied Deloitte Centre.

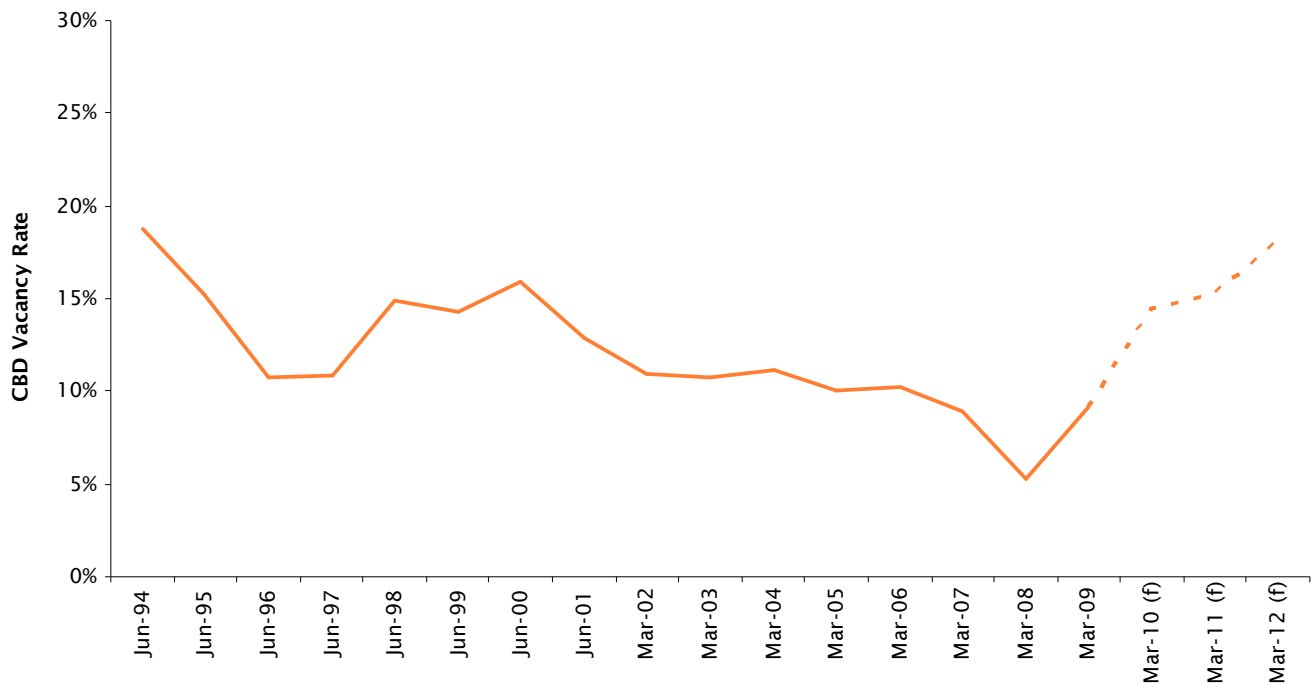
Market Outlook

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 current 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 75,000 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 September 2009 Forecast

Note that these forecasts are based on an economic outlook consistent with NZIER's September 2009 quarter economic forecasts. If economic conditions deteriorate faster than this vacancy rates experienced will be higher.

Darroch is forecasting CBD vacancy rates to increase to between 16% and 18% 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 ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	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%

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 ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	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%	37,251	4,350	11.6%	31,816	7,289	22.9%

Source: Darroch Research

Development Activity

Auckland CBD Office Developments – Under Construction

Property	Developer	Office Floor Area (m ²)	Expected Rent (\$psm)	Expected Completion	Tenants
Under Construction					
Deloitte Tower 80 Queen Street	Multiplex Developments	23,000	\$530 - \$600	Oct-09	BNZ and Deloitte
East 1 and East 2 Buildings 54 Customs Street East	Cooper & Company	22,500	Confidential	Stg 2 - 2011 Stg 3 - 2011	Westpac and EY
Victoria Square 167-191 Victoria St	Mansons TCLM Ltd	30,000	Confidential	2011	Telecom

Source: Darroch Research

Auckland CBD Office Developments – Proposed

Property	Developer	Office Floor Area (m ²)	Expected Completion
Proposed			
Victoria Quarter – Cnr Cook and Nelson St	Pelago Ltd	5,000	2010 - 2012
Victoria Quarter – Cnr Union and Nelson Streets	Westridge Property Trustco Ltd	5,825	2010 - 2012
Britomart – Quay Street & Customs Street East	Bluewater (Britomart Group)	15,400	2010 - 2015
Project Unity – 125 - 153 Fanshawe Street	Mansons TCLM Ltd	50,000	2011
Former Sky City Carpark – 162 Victoria St West	Mansons TCLM Ltd	8,000	2011
Former Auckland Star Site – 28 Shortland Street	Dae Ju Developments	8,100	Unknown
Westfield Tower – 7 Queen Street	Westfield Group	57,108	Unknown
Viaduct Land – Cnr Gaunt & Beaumont Street	Mansons TCLM Ltd	7,000	Unknown

Source: Darroch Research

Auckland CBD Office Developments – Mooted

Property	Developer	Office Floor Area (m ²)	Expected Completion
Mooted			
69-101 Customs Street East	Kiwi Income Property Trust	18,000	2013
Wynyard Quarter	Kiwi Income Property Trust	Unknown	Unknown
<i>Former 'Stanley Apartments' Site – 35 Albert St</i>	Albert Street Projects Ltd	Unknown	Unknown - Mooted
<i>West Plaza Site Cnr Albert, Wolfe, Customs St</i>	Landcorp Ltd / Harbour City Ltd	Up to 40,000	Unknown – Potential Development Site
<i>Methodist Mission Site Cnr Queen & Wakefield St</i>	Prince Corporation	Unknown	Unknown – Potential Development Site
<i>Chancery Podium – Cnr Chancery St & Bacons Lane</i>	Westmark Group Ltd	Unknown	Unknown – Potential Development Site

Source: Darroch Research

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