

Introduction

Vacancy rates in the Auckland City Fringe have increased significantly over the last six months, stayed relatively flat in the Southern Corridor over the same period, and declined on the North Shore.

Demand for office space is likely to remain weak over the short term. Whilst there are a few developments currently underway in Auckland’s city fringe and suburban office markets there are a significant number of proposed developments. Developers, however, would require significant tenant commitment in order to proceed.

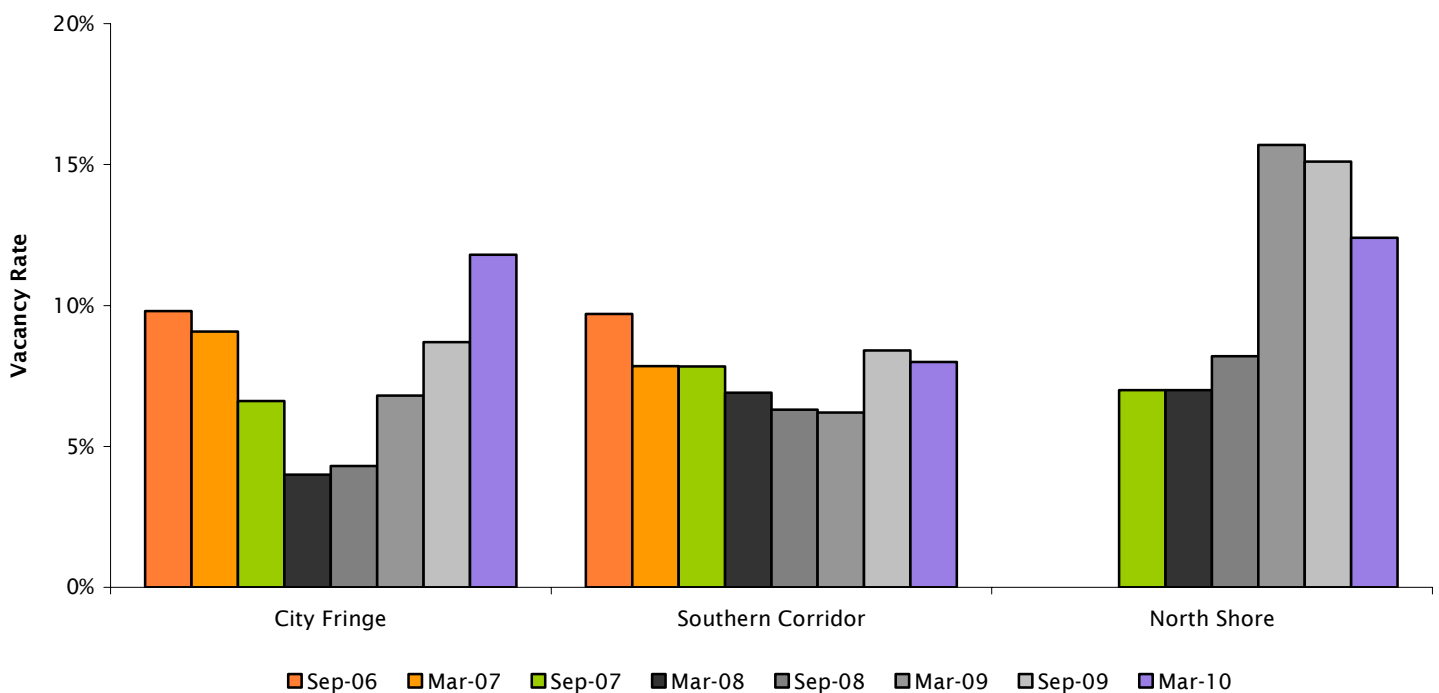
Key Results

The overall vacancy rate results, as at March 2010, for each of the office markets surveyed were as follows:

- City Fringe 11.8%, up from 8.7% as at the September 2009 survey;
- Southern Corridor 8.0%, down from 8.4% as at the September 2009 survey; and
- North Shore 12.4%, down from 15.1% as at the September 2009 survey.

Figure 1 presents the results of the vacancy surveys undertaken by Darroch Research since September 2006. Note that September 2007 was the inaugural North Shore vacancy survey.

Figure 1: Auckland City Fringe and Suburban Office Vacancy Rates - September 2006 to March 2010



Source: Darroch Research

Key Trends

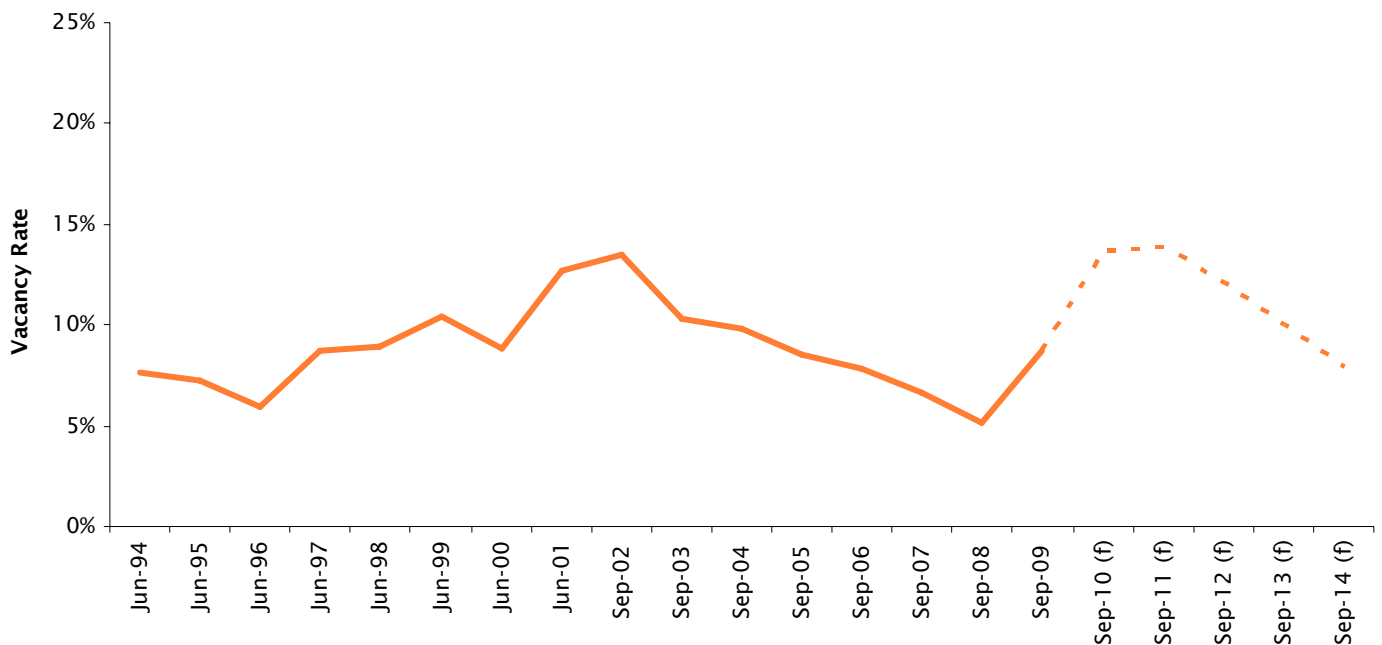
- The City Fringe vacancy rate increased to 11.8% as at March 2010, up from 8.7% as at September 2009 and 6.8% as at March 2009;
- Over the six months to March 2010, the A grade vacancy rate increased significantly from 4.0% to 16.2% and the secondary grade vacancy rate increased from 9.6% to 10.9%. The vast majority of the increase in A grade vacancy was attributable to two new build completions over the period; Ironbank, 50-54 Karangahape Road, Newton and 8 on Nugent, 8 Nugent Street, Grafton;
- All City Fringe precincts experienced an increase in vacancy over the six months to March 2010, ranging from 0.9 to 7.3 percentage points. The most significant increases were seen in the Newton (8.5% to 15.8%) and Grafton (8.4% to 13.5%) precincts;
- The Southern Corridor vacancy rate decreased by 0.4 percentage points in the six months to March 2010, down to 8.0%. Notable changes included NDSA leased approximately 850 square metres of space in the Unisys House at 650 Great South Road and Hallmark vacating 580 square metres of space on the ground floor of one of the Avanti Finance House buildings at 65 Main Highway Ellerslie; and
- The North Shore vacancy rate as at March 2010 was 12.4%, down 2.7 percentage points from the rate recorded in September 2009. This decline was largely due to previously vacant space in several buildings recently completed in Albany being taken up, for example North Shore Women's Specialist Centre leased 1,600 square metres at 104 Rosedale Road, The Ministry of Education leased 2,600 square metres of space at the APEX Building at 102 Rosedale Road, and Supadeal Furniture leased 700 square metres of space in E2 - The Gateway on Corban Drive. The decline in the vacancy rate on the North Shore is also attributable to the recent completion of the North Shore City Council building at 1-7 The Strand, Takapuna, which has added 6,100 square metres of fully occupied space to the market.

Market Outlook

A number of factors are likely to drive City Fringe and Suburban 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; and
- The market is also in the later stages of a mini construction boom with over 10,000 square metres of space to be completed over the next two years.

Figure 2 presents Darroch's forecast increase in City Fringe and Suburban combined vacancy rates over the next three years.



Source: Darroch Research March 2010 Forecast

Darroch is forecasting City Fringe and Suburban vacancy rates to increase to between 13% and 15% by March 2012. The rapid change in underlying market conditions is likely to have a significant impact on the City Fringe and Suburban 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 City Fringe & Suburban Vacancy Survey Results

Table 1: Auckland City Fringe Office Vacancy Survey Results by Grade

Survey	Total			A Grade			Secondary		
	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate
Sept 2006	430,665	42,211	9.8%	43,982	593	1.3%	386,683	41,618	10.8%
Mar 2007	514,086	46,643	9.1%	66,644	4,154	6.2%	447,442	42,489	9.5%
Sept 2007	542,838	35,906	6.6%	68,515	3,103	4.5%	474,324	32,803	6.9%
Mar 2008	543,845	21,643	4.0%	68,515	1,374	2.0%	475,330	20,269	4.3%
Sept 2008	521,055	22,373	4.3%	68,515	1,473	2.1%	452,540	20,900	4.6%
Mar 2009	524,711	35,419	6.8%	80,843	3,529	4.4%	443,868	31,890	7.2%
Sept 2009	530,176	46,206	8.7%	80,843	3,220	4.0%	449,334	42,986	9.6%
Mar 2010	540,270	63,948	11.8%	91,172	14,813	16.2%	449,098	49,135	10.9%

Source: Darroch Research

Table 2: Auckland City Fringe Office Vacancy Survey Results by Precinct

Survey	Grafton			Newton			College Hill			Parnell			Newmarket		
	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
Sept 2006	108,755	68,457	9.0%	54,267	12,695	9.7%	54,863	8,390	9.6%	68,401	21,860	13.8%	144,376	5,376	13.7%
Mar 2007	133,588	59,113	7.9%	75,553	10,357	8.5%	60,441	4,304	4.8%	88,467	23,207	14.6%	156,038	5,792	14.8%
Sept 2007	133,152	40,269	5.4%	85,047	13,263	10.0%	63,705	2,563	3.0%	101,795	17,471	11.6%	159,140	4,979	12.7%
Mar 2008	134,615	39,474	5.2%	80,613	4,262	3.3%	64,334	1,344	1.5%	102,882	13,943	9.3%	161,401	2,445	6.2%
Sept 2008	132,224	50,216	6.8%	78,771	4,276	3.4%	63,168	2,685	3.1%	91,179	16,816	11.3%	155,714	3,314	8.5%
Mar 2009	118,017	65,450	8.7%	78,771	6,820	5.3%	63,168	4,486	5.0%	102,429	18,630	12.5%	162,327	5,640	14.4%
Sept 2009	117,486	9,880	8.4%	79,301	6,704	8.5%	63,168	3,611	5.7%	100,264	9,420	9.4%	169,958	16,592	9.8%
Mar 2010	124,995	16,900	13.5%	82,701	13,056	15.8%	62,352	5,193	8.3%	100,264	10,586	10.6%	169,958	18,214	10.7%

Source: Darroch Research

Table 3: Southern Corridor Office Vacancy Survey Results

Survey	Total			A Grade			Secondary		
	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate
Sept 2006	177,002	17,173	9.7%	76,860	8,128	10.6%	100,142	9,045	9.0%
Mar 2007	165,690	12,996	7.8%	81,278	5,780	7.1%	84,412	7,216	8.5%
Sept 2007	176,286	13,824	7.8%	91,265	10,592	11.6%	85,022	3,233	3.8%
Mar 2008	185,443	12,875	6.9%	92,246	7,879	8.5%	93,197	4,996	5.4%
Sept 2008	189,679	11,873	6.3%	96,133	7,385	7.7%	93,547	4,487	4.8%
Mar 2009	197,892	12,202	6.2%	104,346	6,931	6.6%	93,547	5,271	5.6%
Sept 2009	197,892	16,556	8.4%	104,346	6,333	6.1%	93,547	10,223	10.9%
Mar 2010	197,892	15,901	8.0%	104,346	6,080	5.8%	93,547	9,821	10.5%

Source: Darroch Research

Table 4: North Shore Office Vacancy Survey Results by Grade

Survey	Total			A Grade			Secondary		
	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate
Sept 2007	244,054	17,062	7.0%	40,963	690	1.7%	203,091	16,372	8.1%
Mar 2008	257,164	17,896	7.0%	55,463	1,910	3.4%	201,701	15,986	7.9%
Sept 2008	265,909	21,688	8.2%	64,208	4,480	7.0%	201,701	17,208	8.5%
Mar 2009	302,994	47,510	15.7%	72,005	11,362	15.8%	230,989	36,148	15.6%
Sept 2009	314,377	47,422	15.1%	77,652	9,358	12.1%	236,725	38,064	16.1%
Mar 2010	321,801	39,756	12.4%	77,652	7,373	9.5%	244,149	32,382	13.3%

Source: Darroch Research

Table 5: North Shore Office Vacancy Survey Results by Precinct

Survey	Albany			Takapuna		
	Stock (m ²)	Vacant (m ²)	Vacancy Rate	Stock (m ²)	Vacant (m ²)	Vacancy Rate
Sept 2007	83,875	6,245	7.4%	160,179	10,817	6.8%
Mar 2008	83,875	5,797	6.9%	173,289	12,099	7.0%
Sept 2008	89,356	9,791	11.0%	176,553	11,897	6.7%
Mar 2009	122,291	31,978	26.1%	180,703	15,532	8.6%
Sept 2009	130,303	28,230	21.7%	184,074	19,124	10.4%
Mar 2010	133,347	19,438	14.6%	188,454	20,317	10.8%

Source: Darroch Research

Development Activity

Table 6: Auckland City Fringe and Suburban Office Developments - Under Construction

Property	Developer	Office Floor Area (m ²)	Expected Rent (\$psm)	Expected Completion	Tenants
Under Construction					
<i>The Slider Building</i> - 8 Stanley Street, Parnell	McDougall Reidy	6,700	Unknown	Being fitted out	National Library
96 Apollo Drive, Albany	Northbridge Properties	2,058	Unknown	Late 2010	Unknown
<i>Geyser Building</i> , 102-106 Parnell Road, Parnell	Samson Corporation Limited	5,040	Unknown	2011	Unknown
<i>Soho</i> - 4 Williamson Avenue, Ponsonby	Marlin Group	24,000	\$340	Unknown (site for sale)	

Source: Darroch Research

Table 7: Auckland City Fringe and Suburban Office Developments - Proposed

Property	Developer	Office Floor Area (m ²)	Expected Completion
Proposed			
1 William Laurie Place, Albany	Platypus Group	3,114	2011
<i>E1 The Gateway</i> - Oteha Valley Road, Albany	Albany City Holdings Ltd	7,000	2011
<i>E3 The Gateway</i> - Oteha Valley Road, Albany	Albany City Holdings Ltd	2,700	2011
<i>Ascot Parade</i> - Ascot Avenue, Ellerslie	McConnell Property Ltd	17,400	Building 1 - 2011 Building 2 & 3 - 2011 Building 4 - 2012
<i>Merge</i> - Cnr Auburn & Northcroft Streets, Takapuna	Location Group	10,500	2012
<i>Interplex Business Park</i> - 96 Apollo Drive, Albany	Northbridge Properties	2,058	Unknown
<i>Highbrook Office Park</i> - Highbrook Drive, East Tamaki	Goodman Group	23,731	Unknown
<i>Sylvia Park; Buildings A and B</i> - Mt Wellington Highway	Kiwi Income Property Trust	Bldg A - 11,362 Bldg B - 7,900	Unknown
<i>LA Central</i> - 63-89 Lunn Avenue	Greenstone Group	52,000	Unknown (site for sale)
<i>B28-30</i> - 28-30 Balfour Road, Parnell	NZ Strong & Balfour Projects	4,569	Unknown (site for sale)
<i>A1 Central Park</i> - 666 Great South Road	Goodman Group	8,700	Unknown (on hold)
<i>A2 & A3 - Central Park</i> - 666 Great South Road	Goodman Group	11,998	Unknown (on hold)
<i>Napier Plaza</i> - 27 Napier Street, College Hill	Latitude Group	8,720	Unknown (on hold)
<i>Eden 6; Eden Business Park</i> - Normanby Road, Mt Eden	Orchard Funds Management	7,325	Unknown (on hold)
<i>Eden 7; Eden Business Park</i> - Normanby Road, Mt Eden	Orchard Funds Management	8,035	Unknown (on hold)

Source: Darroch Research

Table 8: Auckland City Fringe and Suburban Office Developments - Mooted

Property	Developer	Office Floor Area (m ²)	Expected Completion
Mooted			
<i>Lion Brewery Site - Khyber Pass Road, Newmarket</i>	AMP Capital Investors	Unknown	Unknown
<i>Building C; Smales Farm - Taharoto Road, Takapuna</i>	The Smale Family	11,500	Unknown
<i>Albany City - Don McKinnon Drive, Albany</i>	Symphony Group / ACPIIL	20,000 - 40,000	Unknown
1B William Pickering Drive, Albany	Platypus Group	Unknown	Unknown
<i>Carter Holt Harvey Site - 640 Great South Road</i>	Unknown	Up to 30,000	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

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
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Christchurch

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