November 2007

Hamilton Office Market in Top Shape

➲ Record Low Vacancy Rate of 5.4%

The Hamilton CBD office market is approaching 2008 in one of its healthiest conditions on record. Steady demand for quality accommodation and a positive uptake of space has resulted in a record low vacancy rate. *Darroch Waikato's* latest survey shows vacant office accommodation now comprises just 5.4% of total floor stock - a vast improvement on 9.3% recorded one year prior. Since the survey commenced in 1999, Hamilton's office vacancy rate had never fallen below 6.0%, so the latest results sees the market arguably in its best ever shape.

Quadcon's new "green" office building is underway. Deloittes will occupy the Bridge Street development.

The improvement is partially attributable to Waikato District Health Board (WDHB) leasing almost 3,000 square metres in the former Language Institute Building on the corner of London/Tristram Street - previously vacant for 18 months. Darroch Waikato Manager, Glenn Attewell says "without the WDHB leasing, the market vacancy rate would have been closer to 7.5%, so its overall impact is quite significant". Steady demand from small to medium sized tenants has also played its part according to Mr Attewell "the vacancy rate back in mid 2006 was just over 10%. Since then regional growth and a corresponding strengthening in demand for office accommodation has seen the vacancy rate almost halve."

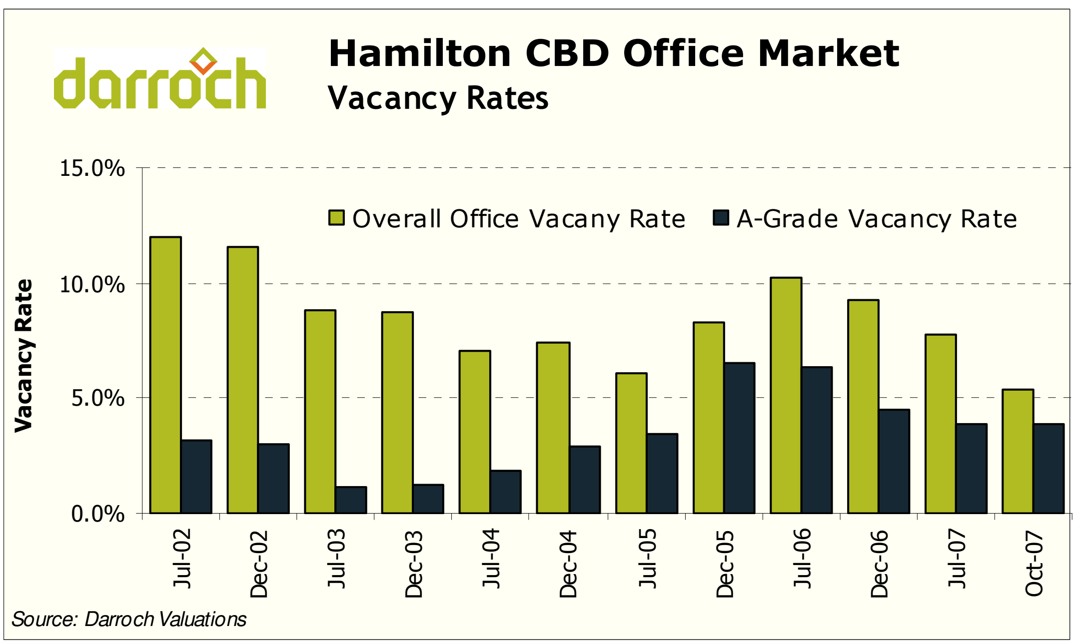
The Darroch survey also shows there is clear demand for quality office accommodation in Hamilton. A-Grade space has a vacancy rate of just 3.9%. Developers are currently in the process of trying to cater to this demand. Already underway is a new three level office and basement carparking development in Bridge Street (pictured). The project is being undertaken by Quadcon Properties Limited and its design is focused on a four-star plus "green" rating. Darroch were involved in an advisory capacity and two floors have been pre-leased to Deloittes for ten years. Also planned is Perry Developments 'Victoria on the River' – a 12 level development comprising 11,500 sq metres of offices which is expected to boost A-Grade stocks considerably. This will comprise the largest office project undertaken in Hamilton for many years and could well test vacancy rates in due course.

Of the remaining office market, B-Grade vacancies are 10.5% and C-Grade recorded 5.6%. The biggest improvement has been in the B-Grade sector which had a 23% vacancy rate just 15 months ago. Obviously, the WDHB leasing (categorised B+ space) has helped considerably.

Hamilton CBD Office *Vacancy Rates*			
Building Quality	**Oct 2007**	**Jul 2006**	**Change**
A-Grade	3.9%	6.3%	-2.4%
B-Grade	10.5%	23.9%	-13.4%
C-Grade	5.6%	9.2%	-3.6%
Total Overall	**5.4%**	**10.2%**	-4.8%

Source: Darroch Valuations

One of the benefits of a low vacancy rate is usually a corresponding increase in rentals, and Hamilton is no exception. Rental levels for A-Grade offices are now in the order of $180 psm to $240 psm (net of OPEX) and rising. Current rents for B-Grade space vary with quality and location but are generally in the order of $140 psm to $180 psm.



Overall, building owners need to be aware that demand for accommodation is focusing more on quality and staff facilities. In order to maintain strong positive cashflow landlords need to be proactive and regularly upgrade to meet the demand challenges of the market.