2nd Quarter 2009

DARROCH VALUATIONS
VALUERS & PROPERTY ADVISERS

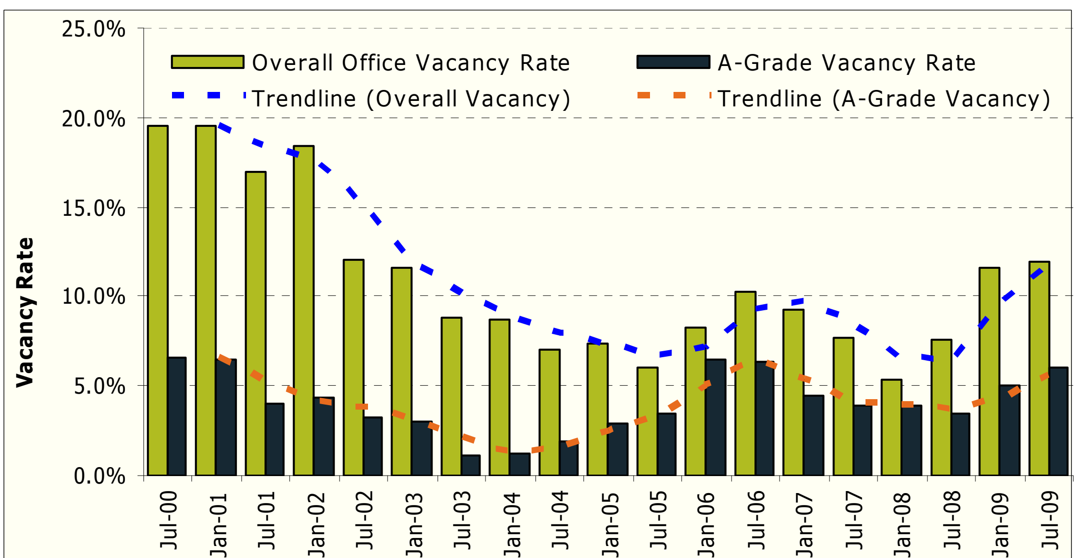
Office Vacancy Rates on the Rise in Hamilton

➲ Leasing Activity Slows - Incentives are on the Cards

The CBD office market in Hamilton is starting to feel the impact of economic recession and a slowdown in business activity. According to Darroch Waikato's latest office survey, vacancy levels are on the rise for the second year in a row. The overall vacancy rate is now up to 12%; almost double what it was just one year ago and at a level not seen since 2003. The result reinforces general sentiment that market conditions have slowed considerably over the past 18 months.

Secondary office markets have been hit hardest with the vacancy rate climbing from 8% to over 20% in just 18 months. Prime vacancies are up as well, albeit to a respectable 6%. The net effect is that landlords are finding current market conditions tough with fewer tenants ready to occupy vacated space. Weaker business confidence is impacting on strategic decision making. Previous tenant relocation and/or office expansion plans have been shelved with many businesses instead coming to grips with potential downsizings.

New enquiry to lease offices remains weak and therefore new office developments appear unlikely in the short term. Perry Group's planned "Victoria on River" office development has been put on hold indefinitely, despite a three year work in progress. Tenant pre-commitment at this time is also very difficult to attain.



Source: Darroch Research, Darroch Waikato

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Darroch Waikato Manager, Jamahl Williams, confirms; “Leasing conditions have softened and tenant enquiry is pretty weak. Given rising vacancy levels, we expect to see more leasing incentives appear in the marketplace over the next 6 to 12 months, as landlords step up their efforts to attract tenants and generate cash flow”.

“When vacancy rates rise above 10%-12%, market conditions favour the tenant over the landlord, since tenants have alternative accommodation options. In a tough economic climate, the pool of prospective lessees is already small so landlords need incentives to entice tenants. The offshoot of this is that rental growth is limited” said Mr Williams.

Mr Williams also said that “Market incentives need to be analysed in order to determine the ‘effective’ market rent. The most common incentive is usually a rent free period. If a company can move into a newer premises and get 6 months or more rent free, the temptation is very strong”.