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property pulse
darroch
DARROCH VALUATIONS
VALUERS & PROPERTY ADVISERS

Hamilton Office Market in Top Shape

Record Low Vacancy Rate of 5.4%

In this issue

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.

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."

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

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.

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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.

Yields Still Competitive

Income returns for investment property are still at very competitive levels according to the latest analysis by Darroch Research.

Provisional results for the September quarter have the Auckland Industrial Median Yield at 7.3% – the lowest on record. Industrial rent returns in the preceding June Quarter were 7.4%. Despite mortgage interest rate rises this year, income returns for tenanted investment property trended down.

The median yield for Auckland Retail was 7.0% during the September quarter. One year ago it was closer to 7.5%. Despite a slight drop off in seasonally adjusted retail sales across Auckland in 2007, demand for retail investment properties remained fairly positive.

However, we are aware that some commercial agents are now reporting a softening in buyer enquiry across some sectors of the Auckland investment market. If this sentiment is sustained it could pose some pressure on prices in due course. We therefore aim to give you a more in-depth update on the state of income returns/yield performances in our 2008 issue.

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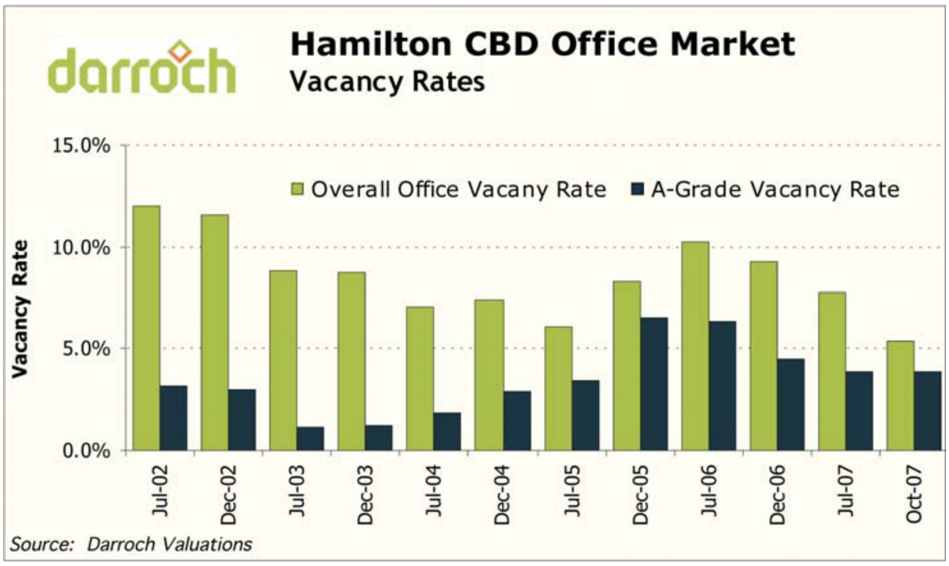
Also planned is Perry Developments 'Victoria on the River' – a 12 level development comprising 11,500 sq metres of offices which is expected to boost A-Grade stocks considerably.

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.

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.

Prime Rentals Show Consistent Growth

Industrial rents for prime properties in Manukau have shown consistent growth over the last three years, according to Darroch Research.

The factory/warehouse component of a typical prime industrial property in Manukau averaged close to 5% growth per annum. By comparison showroom/offices averaged closer to 3.5%. The results are shown in the table.

An improvement in stud heights helps to better understand this growth. Darroch Manukau Manager, Stewart Littlejohn says "it is not uncommon now for new warehousing premises to be constructed with a stud height in excess of seven metres and in some cases as high as 10 to 12 metres. Just two decades ago, the average internal stud height of a factory was 5 to 6 metres. Now, New Zealand is manufacturing less and importing/distributing more and as such the volume capacity of warehousing has taken on greater significance".

Rent levels in excess of $100 per square metre (net) for warehousing are becoming more common, particularly where volume is better. Just six or seven yeas ago, prime rents were still around $80 psm net and secondary rents hovered even lower.

Prime Industrial Rent Growth Per Annum – Manukau City

East Tamaki	2004–05	2005–06	2006–07
Warehouse/Factory	5.0%	4.8%	4.7%
Showroom/Office	3.2%	3.2%	3.5%
Wiri/Manukau City			
Warehouse/Factory	5.2%	5.2%	5.1%
Showroom/Office	3.7%	3.7%	3.3%

Source: Darroch Valuations.

Despite businesses and staff demanding more "modern" internal office accommodation, the rent returns for this part of industrial property have lagged behind a little. Average prime rents for showroom/offices have risen from around $145 psm in 2000 to $185–190 psm today.

The secondary market for this type of space remains mixed with some rents still as low as $120–$130 psm – particularly space without disabled facilities – which is now mandatory in new accommodation.

Wellington CBD Retailing Strengthens

Retailing in Wellington's CBD has further strengthened during 2007 according to Darroch Wellington. Tenant demand for prime premises remains strong, vacancy rates are low and rents continue to creep up. A strong regional economy and job security has helped keep this sector buoyant.

Retail spend across Wellington reached $3 billion in the first six months of 2007 – up from the impressive $3.08 billion achieved in the last half of 2006. Regional retail expenditure has grown steadily from $2.2 billion in 2002. Although current monetary policy and higher interest rates might "reign in" spending in due course and put pressure on some retailers, at this stage no downward impact on the retail property sector is evident.

Retail property in Wellington's CBD continues to expand particularly in side streets connecting with Lambton Quay. Manager of Darroch Wellington, Chris Orchard says "one of the notable impacts of demand is that by 2008 retail shopping will extend all the way along Featherston Street to the northern end where the Wellington Railway Station is positioned". The historic railway building has itself been upgraded and now accommodates a supermarket adjoining the ground floor concourse. In side streets such as Featherston Street, Darroch has observed examples of retail rents increasing up to 10% per annum, but expects this growth to ease during 2008. Rentals of $1,250 gross per square metre are currently achievable for some Featherston Street sites. On the south side of Lambton Quay between Stewart Dawson's Corner and Woodward St, prime retail rents are currently achieving $2,400 psm – $2,600 psm (gross) over the front 15 metres of shop depth.

Wellington CBD retail is currently in good shape.

In Central Wellington demand for retail accommodation is extremely healthy with a recent Bayleys Realty survey citing just a 2.5% vacancy for the Lambton Quay precinct and 3.7% vacancy overall for Wellington CBD retail. Mr Orchard notes "Wellington's 'Golden Mile' is highly sought after and largely remains the domain of major retailers. With the exception of a few peripheral properties, vacant premises in this locality are a rarity".

In Lower Hutt however, strip retailing is showing some signs of vacancy pressures. The redeveloped Queensgate Mall has seen its status strengthen – as businesses and shoppers show a preference for this retail format. But its impact has seen demand for strip retail along Queens Drive and High Street decline.

Vacancy rates have risen owing to some tenants moving to the expanded mall. With the current supply of strip retail premises exceeding demand, some downward pressure on existing rental rates is appearing. Darroch Wellington forecasts that recovery is likely to be slow and Mr Orchard hopes history doesn't repeat itself.

"What is of concern is that following the original opening of Queensgate Mall in 1988, Lower Hutt's traditional retail took virtually 15 years to recover before demand and supply factors got back into balance" says Orchard.

Conference a Success

Darroch Valuations recently completed a two-day staff conference.

The conference focused on recognising the strengths of Darroch Valuations, utilising teamwork, and enhancing service delivery to clients.

Auckland Manager, John Darroch said "the organisation has grown significantly in the past year with three new offices established. It was essential that all existing and new staff came together to develop a uniform strategy which would strengthen the Darroch brand".

Mr. Darroch said "overall, some fantastic ideas came out of the conference. We are fortunate to have very clever and innovative people working within the organisation and new ideas implemented will benefit our clients directly".

Darroch Valuations Conference

During the conference, emphasis was placed on the collective valuing expertise of Darroch Valuations. The organisation now has in excess of 20 valuers across the North Island. Specialisation, practical experience and strong I.T. support were seen as important building blocks in the Darroch framework. The organisation is now in a position to compete for national portfolio work.

Property news from Australia

Courtesy of Darroch Valuations alliance partner
Egan National Valuers

egan

ACT

- Department of Defence announces $600 Million expansion, which could lead to a second wave of record construction in Canberra.
- PCA reports no A Grade office space vacant in Canberra and 1.3% vacant overall.

NSW

- 140 Sussex Street, Sydney sells for $41 million. Comprises a 10 storey office building West CBD reflecting $6259/psm.
- 55-73 Kirby Street, Rydalmere sells for $51 million at 6.75% yield. Fully leased distribution centre comprising 24,500 sq metres of accommodation and 122 car spaces.
- Yields for prime retail & commercial property continue to firm and generally range from 5.5% to 6.25%, reflecting internal rates of return of between 7.75% & 8.25%.
- Sydney office vacancy levels at 5.6% compared to January levels at 7.9%. Residential vacancy levels within 25km of the City remain very tight at 1.4%.

SA

- Booze Brothers chain owners sell 5 of 13 Adelaide hotels for between $100 and $130 million.

WA

- Office tenants in the CBD with leases expiring within the next two years could be caught out with much of the supply already being taken within an ever-tightening market. Office vacancy rates are currently 0.7%, down from 0.9% in January and are tipped to stay under 5% until 2011.
- Landmark hotel Grand Chancellor sold for $52M on the back of strong occupancies. Room rate growth is at high levels due to strong demand.

我们的公司也有讲普通話的估价師. 如果您有任何發網, 請聯絡劉先生 021-828-808.

Our company also has a mandarin speaking valuer. If you have any enquires regarding our range of services please call William Liew on 021-828-808.

About Darroch Valuations

Darroch is one of New Zealand's leading independent Property Consultancy & Valuation firms with an excellent reputation for providing quality advice to a wide range of clients. Our professional expertise is highly sought after in the market place and our qualified staff consistently deliver superior services on a timely and confidential basis.

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Rental Reviews – Commercial/ industrial properties and ground leases

Property Consultancy – Site selection, expansion /relocation and feasibility studies

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Asset Valuations – In accordance with current Financial Reporting Standards

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