Taking care
OF BUSINESS

Artist's impression of Christchurch's Te Kaha multi-use arena in Phillipstown. Photo credit: Christchurch City Council.

TODAY'S OFFICE HAS A HUGE PART TO PLAY IN BUSINESS GROWTH, CONTINUITY, CULTURE AND TEAM PRODUCTIVITY SO HOW'S THE SECTOR TRACKING IN THE MAIN CENTRES?

CORPORATE NEW ZEALAND IS mirroring global leads, with business owners actively and creatively enticing employees back to the office and vacancy figures in preferred locations defying talk that the future of the office is in peril.

There is clear evidence that the big corporate players are becoming more comfortable about real estate footprint decision-making in the post-pandemic environment, while smaller occupiers are also recognising the importance of having a company office.

In its (Y)our Space 2022 insights report, Bayleys' global real estate partner Knight Frank says while corporate real estate sentiment is generally still positive around growth fundamentals, hybrid working experiences have blurred the relationship between headcounts and required office space.

A-grade and prime office stock has fared well, with demand outstripping supply in Auckland, Hamilton, Tauranga, Wellington and Christchurch according to Bayleys' insights and data team.

"The flight to quality as occupiers seek higher amenity and modern buildings to help draw staff back to the office and, in the case of Wellington, to address seismic risks with older buildings, characterises today's office leasing market," says Bayleys senior analyst, Ankur Dakwale.

"That movement to quality was apparent prior to the pandemic, but has since gained momentum as business owners look to strengthen their position in the market from both a commerce and staffing perspective.

"While flexi/hybrid working models will still have a place as we cycle out of pandemic forces, quality remains the defining characteristic of the market and tenant mandates for sustainable buildings are bolstering this trend as stakeholders prioritise environmental, social and governance (ESG) policies."

This drive to quality has resulted in a two-step market whereby B- and C-grade properties are requiring savvy marketing programmes and higher incentives to mitigate weaker demand.

"Lower quality buildings are at greatest risk of persistent vacancies, with many landlords front-footing this and refurbishing buildings with a focus on revamped arrival lobbies and end-of-trip facilities," says Dakwale.

"Many are working towards NABERSNZ accredited ratings, but in the interim, energy efficiency initiatives like LED lighting are bridging some of the gap.

> **"MOVEMENT TO QUALITY HAS GAINED MOMENTUM AS BUSINESS OWNERS LOOK TO STRENGTHEN THEIR POSITION IN THE MARKET."**
>
> ANKUR DAKWALE, BAYLEYS SENIOR INSIGHTS AND DATA ANALYST

"Owners of secondary quality offices are increasingly looking at repositioning their buildings, and in Auckland, where waterfront drift is reigning, landlords are looking to position their buildings towards smaller tenancies.

"Change of use to residential is also being considered, but the weaker housing market has slowed the momentum in this space."

THE POWERHOUSE

To November 2022, overall office vacancy across the key Auckland CBD precincts was 10.9 percent – up on the 10-year average of 8.8 percent.

High vacancy in areas such as the Anzac Avenue and Symonds Street education precincts, given the downturn in international student numbers, is dragging the vacancy average up.

Several of the precincts surveyed by Bayleys' insights and data team show extremely low vacancy with the Wynyard Quarter at 1.5 percent, Britomart 3.1 percent and the Viaduct – where a number of existing office properties are being completely refurbished – at 4.9 percent.

Rents for premium and prime office space have been rising in Auckland and look likely to keep increasing through 2023, while rents for secondary space will continue to soften.

Lloyd Budd, Bayleys executive director Auckland commercial and industrial categorically dismisses talk that "the office has had its day".

"While the global work-from-home experiment showed that when prescribed, business could continue remotely, it's what was lost rather than what was gained that's important here.

"Business owners are now acutely aware of the need to re-establish strong corporate loyalties and consolidating a culture of connection for high-performing teams.

"They want people back in the office, interacting face-to-face, and being optimally productive so office space needs to have a high level of amenity, be suited to collaborative work models, have strong sustainability credentials and be well-placed for commuting.

"Business owners are demanding flagship workspace that astutely positions them to attract and retain the best personnel."

Budd says the four crucial office pillars – quality, amenity, sustainability and flexibility – are embraced by seasoned developers that know the

Artist's impression of Beca's global headquarters in Wynyard Quarter, Auckland.
Photo credit: Precinct Properties

office sector intimately and deliver world-class property.

"Those on the supply side of the industry have cultured a detailed understanding of occupier needs and are responding with bespoke space that is driving precommitments and giving the market confidence.

"In committing to new-build high amenity space, firms like Beca, BNZ, and Deloitte have signalled that the office is core to business growth, productivity and staff retention/attraction."

CITY OF THE FUTURE

With office vacancy in the Hamilton market sitting at 6.6 percent in November 2022, the CBD's rejuvenation on the back of Council-led zoning and infrastructural changes and projected population growth is paying off.

David Cashmore, director Bayleys Waikato commercial says the city has cemented a pivotal place in the economic golden triangle, and emerged as a viable location for a wide range of office occupiers.

"The quality of stock has improved dramatically and there's been a notable uptick in new-build and refurbished office inventory with a roll call of A-grade stock hitting the leasing market since 2018," he says.

"A number of office and mixed-use projects are currently under construction and there's a proposed pipeline of additional new-builds planned for the Hamilton CBD, although some of these have been delayed."

Cashmore says vacancy rates for prime stock have continued to fall as new developments coming on stream

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have been constructed for specific, precommitment, tenants.

"A-grade stock has a vacancy rate hovering around three to four percent, and the gap in rental values has spread between prime and secondary rents.

"Some of the lesser-quality buildings with low seismic ratings have seen challenging vacancy rates, and supply chain delays and labour force issues haven't helped the refurbishment story for those landlords with older buildings."

"However, well-financed developers are looking to set up for the next cycle and to capitalise on the demand for better quality office spaces in the central city."

Cashmore says central city office rates are holding firm for prime stock, approaching $400 per sqm in some instances, but more typically in the mid-to-high $300 per sqm range.

"Good quality refurbished stock is generally achieving between $220 to $280 per sqm, while secondary and older stock can still be leased for considerably less than $200 per sqm."

Cashmore points to Harwood House as a good example of a landlord willing to upgrade with a new internal fitout, with the building now 80 percent let at $265 per sqm.

"We're expecting vacancy rates to remain low in Hamilton as companies encourage their staff back to the office and the commercial world resets."

PLENTY OF ACTIVITY

Bayleys Tauranga commercial and industrial manager Mark Walton says the city's office vacancy rate of just 5.1 percent reflects the strong demand for new A-Grade office space with corporate occupiers recognising the opportunity Tauranga offers and committing to above-market rental rates for business future-proofing.

"There's a big regenerative drive for the central city via the Tauranga CBD Blueprint which envisions exponential growth and transformation through to 2030," he explains.

"The Blueprint includes 20 committed major catalyst developments underpinning $1.5 billion in investment in the city centre and laying the foundation for further opportunities.

"Professional firms are keen to have a physical presence in the city's heart for staff and clients and that's positive for the city's retail and hospitality sectors."

Three key office developments underway in Tauranga by experienced developers with strong track records will inject an additional 20,000sqm of premium office space in the market.

The developments are the four-storey, 5 Green Star-rated Northern Quarter development on The Strand to be anchored by Holland Beckett Law, the seven-storey office development at 2 Devonport Road for cornerstone tenant Craigs Investment Partners, and the Tauranga City Council's new administration hub – to be New Zealand's largest mass timber office building – at 90 Devonport Road.

"This demonstrates that innovation is alive and well in the regions," says Walton.

With widespread low vacancy in the office market expected in the next few years, Walton said rental incentives are minimal and landlords are meeting demands for upgraded space.

"Owners are willing to refurbish B-grade office space as leases organically expire, and a number of older buildings in the CBD are being totally refurbished and modernised, with strong initial tenant interest.

"THERE'S A BIG REGENERATIVE DRIVE FOR THE CENTRAL CITY VIA THE TAURANGA CBD BLUEPRINT WHICH ENVISIONS EXPONENTIAL GROWTH AND TRANSFORMATION."

MARK WALTON, BAYLEYS TAURANGA COMMERCIAL AND INDUSTRIAL MANAGER

CAPITAL INVESTMENT

Bayleys Wellington office leasing specialist Luke Frecklington says the flight to quality has been amplified in the Wellington office market on the back of seismic challenges and with CBD office vacancy at 6.7 percent (November 2022), occupiers are jostling for suitable space.

"Many large corporates and government agencies have had to split teams across multiple buildings while seismic remedial or strengthening work is carried out, or new-builds are completed.

"Confusion around building seismic assessment regulations is creating uncertainty in the capital as office tenants and landlords grapple with implications of the current guidelines versus the potential raising of the seismic bar.

"This has led some building owners to delay assessments until there's more clarity."

With Wellington largely revolving around the government sector, city activity is picking up as public sector employees return to office-based roles.

"Traffic is increasing on the motorway which is always a good indication of how busy the CBD is," says Frecklington.

Corporate occupiers are trending north towards the parliament precinct with high-profile tenants EY, Fujitsu and KPMG committing to space in Precinct Properties' new Bowen Street campuses where there is high amenity and close proximity to main transport hubs and motorway arterials.

Frecklington says most of the "big corporate movement" has either happened or there are precommitments in place, with the next significant move expected to be BNZ's relocation to new 12-storey headquarters at 1 Whitmore Street, developed by Auckland company, Newcrest.

New-build office stock in the capital is essentially all fully-leased, with little in the forward pipeline.

Willis Bond's proposed development at 110 Jervois Quay is seeking tenant precommitment, while Precinct Properties' proposed 11-storey building at 61 Molesworth Street is understood to become home to the Ministry of Foreign Affairs.

"Much of the cross-city movement is a direct result of seismic issues, with occupiers having to find compliant, newer buildings," says Frecklington.

"The space these occupiers have vacated is either being backfilled, has undergone conversion to residential, or is being refurbished.

"The likes of RJH are undertaking significant refurbishment projects and creating beautiful spaces on a largely speculative basis, while smaller landlords are waiting for tenants to come to them before they commit to major upgrades."

SOUTHERN GROWTH

In the Christchurch office market where CBD office vacancy is just 4.6 percent, Bayleys general manager South Island commercial and industrial, William Wallace says quality runs the show.

"It's very much a matter of 'out of the old and into the new' as office occupiers return to the CBD," he says.

"Occupier groups are looking for green accredited buildings, and the majority of the A-grade developments underway have high tenant interest or precommitment.

"2024 will be the year of the great relocation as occupiers take up completed space in the CBD."

Wallace says some of Christchurch's most experienced and prolific developers are behind some of the planned new office stock.

"Canterbury-based company Carter Group has got resource consent to rebuild on the former Holiday Inn site in central Christchurch, with a four-storey development with street level retail, three floors of office above and an underground car park planned," he says.

Iwi-owned intergenerational investor Ngāi Tahu Property is also proactive in the city's office sector, and Wallace understands it has further proposed developments for central city sites.

With Canterbury having a significant number of small to medium sized businesses (SMEs), Wallace says there is strong demand and enquiry for high-spec fully fitted-out serviced offices, while in the secondary office market, the Christchurch leasing team has been "flat out" with massive uptake of sub-500sqm office stock.

"City fringe suburbs like Sydenham, Middleton and Phillipstown have locational advantages, are cost-effective and generally offer decent parking," explains Wallace.

"Philipstown is seeing some revitalisation thanks to the new Te Kaha multi-use arena, and the catchment area is attracting fresh interest."

Wallace says there's been very little conversion/change of use for older office stock in Christchurch as there's limited space city-wide and occupiers have tended to retain physical office space in the wake of the pandemic and despite flexible work styles.

"The push to get staff back to the office is apparent in Christchurch with week-time foot-traffic noticeably increased, a vibrant buzz in the city and the Friday work lunch very much back on office agendas."

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WILLIAM WALLACE, BAYLEYS' GENERAL MANAGER SOUTH ISLAND COMMERCIAL AND INDUSTRIAL


Artist's impression of Tauranga City Council's new administration hub. Photo credit: Willis Bond