COMMERCIAL

property Research

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AUCKLAND CBD OFFICES

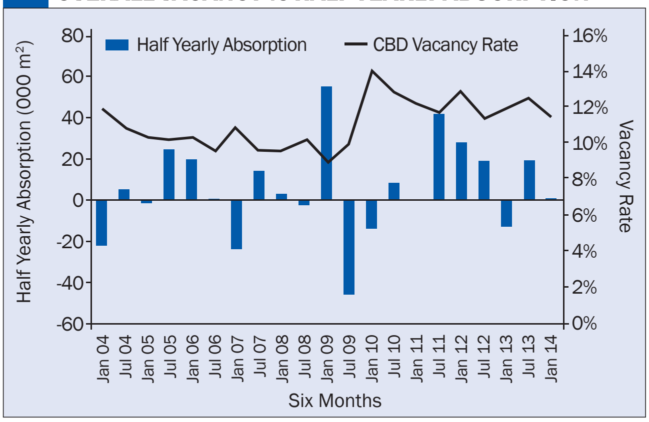
AUCKLAND OVERALL OCCUPANCY

Auckland has long been regarded as New Zealand's commercial capital. This is becoming further emphasised as businesses continue to migrate north from the rest of New Zealand. Over the last three years, Westpac, ASB and BNZ have consolidated their space requirements and moved into purpose built head office locations in Auckland's Central Business District. The companies have moved staff from various locations, both within the region and further afield.

The latest company to announce its head office move into Auckland is BP, relocating from Wellington. Reasons for the move appear to be various, with one of the catalysts for the move cited as a low seismic rating of BP House on Willeston Street. The company will move into city fringe based Watercare House in Newmarket in July.

A growing economy and an increasing base of tenants has already manifested in an improving vacancy rate in Auckland's central office precincts. The overall vacancy rate for CBD offices dropped from 13% at the mid-year 2013 survey to 11% for January 2014, according to the latest Bayleys Research Auckland office survey.

AUCKLAND CBD OFFICE OVERALL VACANCY vs HALF YEARLY ABSORPTION

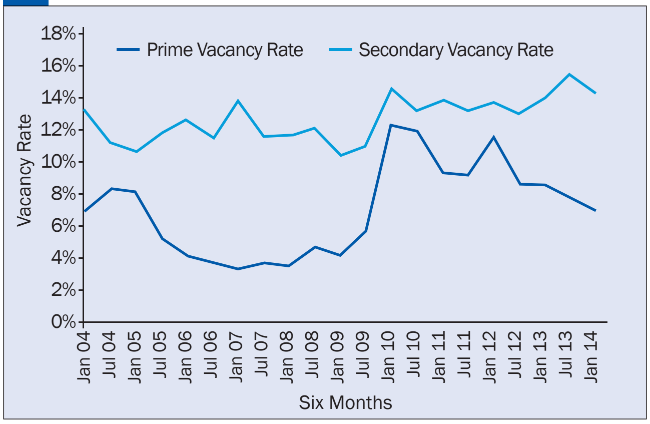


Source: Bayleys Research

The rate of vacancy in the CBD increased between the July surveys from 2012 to 2013, during which time additional office space was brought to the market. This was due to the completion of ASB's new headquarters in Wynyard Quarter and the completion of the major refurbishment project of ANZ Tower on Albert Street. The reduction in vacancy is a result of strong absorption of space over the last 12 months and the absence of new space coming to the market.

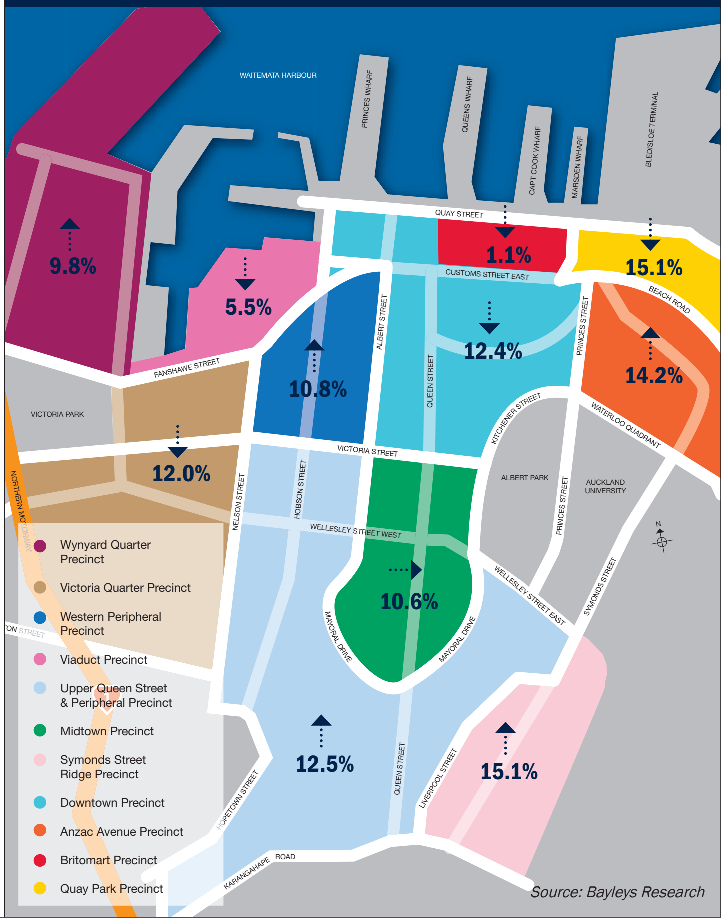
When split between prime and secondary vacancy rates, it becomes clear that the improvement in vacancy has been driven by the top

AUCKLAND CBD OFFICE PRIME & SECONDARY VACANCY RATES



Source: Bayleys Research

AUCKLAND CBD PRECINCT VACANCY



Source: Bayleys Research

end of the market. The prime vacancy rate, which encompasses premium and A grade buildings, has declined over the last two years and now sits at 6.9%. Improvements in occupancy at the top end of the office market have been on-going for the last two years. Businesses have been upgrading the quality of space they choose to occupy, which has been driven by two main factors. Firstly, a flight to quality saw tenants taking an opportunity, when opportunities were more abundant, to reposition ahead of the next economic upswing. The second driver leading the improvement in prime office occupancy over secondary space is an enduring desire to be in buildings that have sufficient seismic stability. Given a high NBS rating is usually associated with newer, higher graded buildings, this is where tenants have been focussing their attention.

PRECINT OVERVIEWS

The annual reduction in vacancy in the CBD is from a combination of movements across the precincts. The northern migration of tenants has shown itself once again as vacancy in waterfront precincts declined over the year, while the southern precincts mostly experienced increases in vacancy. The CBDs largest precinct – Downtown – experienced a drop in vacancy of nearly four percentage points and has come back into alignment with the balance of the precincts. The mooted refurbishment of 125 Queen Street, the office floors of which currently sit empty, will have a big impact on overall vacancy in Downtown.

Britomart has further solidified itself as the CBD's most popular office precinct. The master-planned development by Cooper and Company has meant that the suburb, formerly dominated by underutilised quay-side buildings, now provides a good supply of premium and A grade space, as well as beautified character space, for both office users and retailers. Quay Park is another small precinct with relatively new stock available for lease. The elevated vacancy in the latest survey is largely due to space still available for lease or not yet occupied in Aecom House on Mahuhu Crescent.

Midtown was the only precinct that showed little to no movement over the last 12 months. In the precinct, vacancy increased just 30 basis points. The space that was vacated by National Bank at 209 Queen Street has now largely been absorbed.

CBD PRECINCT	2014	2013	Movement
Anzac Ave	14.2%	12.5%	↑
Britomart	1.1%	3.3%	↓
Downtown	12.4%	16.3%	↓
Midtown	10.6%	10.3%	→
Peripheral/Upper Queen	12.5%	7.4%	↑
Quay Park	15.1%	16.1%	↓
Symonds St Ridge	15.1%	14.2%	↑
Viaduct	5.5%	7.2%	↓
Victoria Quarter	12.0%	13.2%	↓
Western Peripheral	10.8%	9.5%	↑
Wynyard Quarter	9.8%	5.8%	↑
CBD Total	**11.4%**	**12.0%**	↓

Source: Bayleys Research

Precincts with a large amount of secondary stock remain with elevated levels of vacancy. Anzac Ave, Upper Queen and Peripheral and Symonds Street Ridge have vacancy rates of 14.2%, 12.5% and 15.1% respectively and all of these are increases over the January 2013 survey.

Wynyard Quarter experienced an increase in vacancy over the 12 months to January. This is a precinct that will be very dynamic over the next few years as development of various forms of accommodation continues. Current and planned developments will add a mix of commercial office, retail and residential accommodation to the area.

The Viaduct is another precinct which has experienced reducing vacancy over the last 12 months. Rather than there being any grand addition to the list of the precincts tenants, the reduction in vacancy since the January 2013 survey is due to a process of natural attrition. Excess space has been taken up gradually as businesses have expanded, reducing the overall rate of vacancy.

Victoria Quarter sits at 12.0% vacancy as at the January 2014 survey, down 1.2 percentage points since the survey one year earlier. This is mainly due to uptake of the speculative office space brought on by the completion of 162 Vic, a Manson TCLM development. This space has now been leased.

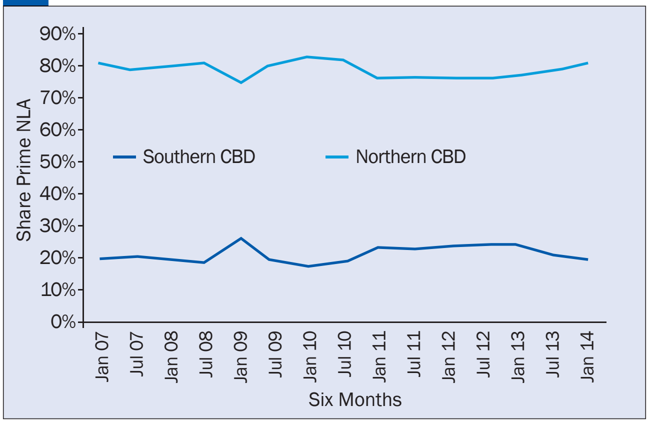
MIGRATING NORTH FOR THE LONG TERM

The migration of tenants toward the waterfront is a persistent trend in the Auckland CBD office market. The trend of better utilising our cities' waterfront spaces is a global phenomenon, with many international cities having embraced this. Cape Town's redevelopment of the Victoria & Alfred Waterfront, which is one of South Africa's most visited destinations, is a good example of waterfront regeneration. Melbourne's Docklands is another notable example.

In Auckland, the transformation of the Waterfront started with the Viaduct. Previously occupied by warehouses associated with the port, the redevelopment evolved largely in the late 1990s into what is now a successful mixed-use precinct. Focus has now turned west with commercial development continuing in the Wynyard Quarter.

Attention and development at the northern end of the CBD means that now over 80% of prime grade office space is situated in the northern precincts. This split is likely to become wider as development of good quality office space continues to be focussed

PRIME OFFICE NET LETTABLE AREA GEOGRAPHIC SPLIT



Source: Bayleys Research

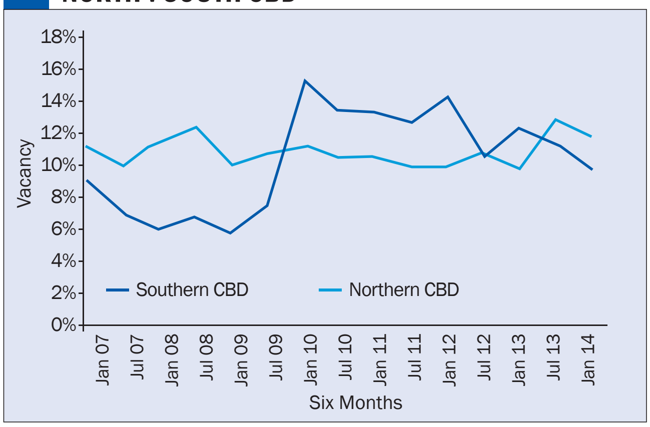
on formerly port-use land.

Throughout the GFC, tenant preferences shifted from quality to cost. Rather than profile and location being a determinant of office occupancy decisions for tenants, total occupancy costs became the forerunning consideration. This change in mentality was noticeable in the elevated vacancy rate recorded in the Northern CBD precincts from January 2010 through to January 2012. Over the five survey periods encompassed, the rate of vacancy in the Northern CBD ranged from 13.1% to 15.6%.

During this time there was still a raft of high grade offices to be completed, but a reluctance of tenants to commit. Either that, or they were leaving behind space in the northern CBD and there was no tenant backfill. The completion of the refurbishment of Downtown House, now Zurich House, is a good example of tenants generally adhering to the cost versus quality paradigm. This was completed to an A grade standard. The building had no tenant pre-commitment and uptake of the space was slow.

This has reversed over the last few surveys though and the Northern CBD market has experienced a reduction in overall vacancy while the southern precincts, which have historically been very stable, have experienced a vacancy lift. As we move forward through 2014 and into the coming years, we can expect that the prime-office heavy northern precincts will continue to lead the southern CBD, reverting back to pre-GFC market conditions.

AUCKLAND CBD OFFICE VACANCY NORTH v SOUTH CBD



Source: Bayleys Research

ECONOMIC OUTLOOK

New Zealand's economy is continuing its emergence from the recession with vigour. 2013 closed with news of strong economic growth of 1.3% for the September quarter and 2.6% for the September year-end. Subsequently, 2014 has commenced with further positive economic news. Improvement in the labour force was confirmed with the release from Statistics New Zealand (StatsNZ) that the unemployment rate improved a further 20 basis points over the quarter, sitting now at 6.0%. This follows 18 months of nearly continuous reductions in the number of unemployed people nationally.

Good economic news is permeating business and consumer confidence. Businesses are at their most optimistic since mid-1994, according to the New Zealand Institute of Economic Research (NZIER) Quarterly Survey of Business Opinion. Of significance to the Auckland office market is strength in the services sector. Activity in the services sector, which makes up two thirds of economic activity, is growing strongly and the volume of services is at the highest level since June 2007.

Consumers are feeling optimistic as well. In the January 2014 ANZ Roy Morgan Consumer Confidence survey, respondents' confidence increased to the highest level since January 2007. Sustained confidence by consumers has lead to improvements in the retail sector. Retail spending for the December quarter increased 1.2%, when adjusted for seasonal effects, according to StatsNZ. This isn't a short term trend. Looking at the longer-term picture, the trends for both total retail sales volumes and values have been rising since mid-2009.

Growing economic confidence in the region, happier consumers and more optimists in the business sector are all fuelling the notion that 2014 will be a year of growth. Along with this a strong finish to 2013, with GDP growth of 1.4% in the September quarter, points towards continued improvement in Auckland's office markets in 2014, led by the CBD.

The impact that an improving and optimistic economic environment will have on the office sector will be significant. Business expansion is the most obvious of these. As businesses take on more staff, they will need more space and look to increase their leasing footprint. This will be music to the ears of landlords who have had prolonged vacancies. Another spin off for the office sector from improving business sentiment is that, as leasing deals are completed in an environment where the outlook is very positive, potential tenants will feel they are better positioned to absorb rental increases.

DEVELOPMENT PROGRESS

With diminishing options for tenants looking for highly graded office space, particularly if large tracts of space are required, the number and scale of office developments around the CBD has begun to increase once again. This is a significant turning point for the office market, in which development activity was halted throughout the global financial crisis, save for pre-committed projects. Some of the projects underway, or mooted, in the CBD include the following;

Mansons Victoria Street

The next major new development to come on to the market will be Mansons new building on Victoria Street West. The building, which Mansons is developing to a five star Green Star rating, will have six floors of 3,100m² and is due for completion in September 2015. While there is no tenant commitment as yet, there is significant interest in the space with some under negotiation.

Goodman/Fletcher for Fonterra

16,000 m² of prime grade office space is being developed on the corner of Halsey and Fanshawe Streets for Fonterra. The development is the second major office building to go into what is a master-planned live-work-play precinct, after ASB. It is one of two low-rise commercial buildings going on the site.

Goodman acquired the development for $92.6 million. It and Fletcher Building, which has the controlling lease over the land, are creating the campus-style development. Fonterra has pre-committed to a 15 year lease over the building which includes naming rights, underground car parks, and further rights of renewal.

Downtown Shopping Centre Site

Precinct Properties is advancing plans which were set by Westfield – the previous owners of the site bordered by Albert and Custom Streets and Queen Elizabeth II Square. The listed fund bought Downtown Shopping Centre in September 2012 from Westfield for $90 million. There is consent in place on the site for a 71,000 m² mixed-use office and retail development.

Development of this site is a wee way down the track though, with commencement of development not due until 2016. This is in line with Auckland Council's preferred commencement for the inner-city rail link.

Precinct Properties has announced its involvement in the waterfront development at Wynyard Quarter also. The company has announced it will be a development partner for the innovation precinct planned in part of the precinct.

AUCKLAND CBD COMMERCIAL OFFICES - LEASING TRENDS 2014

	Leasing Market		Net Rent $/m²		Outgoings $/m²	Carparks
Precinct	Demand	Supply	Low - High	Rental Trend	Low - High	$pc/pw
AUCKLAND CBD						
Viaduct Harbour						
Prime Quality	Steady	Sufficient	300 - 320	↑	195 - 240	95 - 105
Secondary Quality	Steady	Sufficient	200 - 250	↑	145 - 190	
Upper Queen St & Peripheral						
Prime Quality	Steady	Sufficient	200 - 240	↑	75 - 95	50 - 70
Secondary Quality	Weak	Surplus	150 - 180	↑	60 - 75	
Midtown						
Prime Quality	Strong	Shortage	225 - 285	→	80 - 115	85 - 120
Secondary Quality	Weak	Surplus	150 - 180	→	60 - 80	
Symonds St Ridge						
Prime Quality	Strong	Shortage	200 - 250	→	85 - 105	55 - 70
Secondary Quality	Steady	Sufficient	170 - 205	→	75 - 85	
Downtown						
Premium Quality	Strong	Shortage	450 - 550	↑	120 - 160	110 - 145
A-Grade Quality	Strong	Shortage	310 - 380	↑	100 - 125	
Secondary Quality	Steady	Sufficient	200 - 250	→	85 - 100	
Anzac Ave						
Secondary Quality	Weak	Surplus	150 - 200	→	75 - 100	45 - 60
Britomart						
Prime Quality	Strong	Shortage	400 - 550	↑	100 - 140	100 - 130
Secondary Quality	Strong	Shortage	200 - 325	↑	100 - 140	
Western Peripheral						
Prime Quality	Steady	Shortage	250 - 550	↑	95 - 130	80 - 110
Secondary Quality	Steady	Sufficient	170 - 240	→	80 - 100	
Quay Park						
Prime Quality	Steady	Sufficient	300 - 400	→	120 - 140	70 - 80
Wynyard Quarter						
Prime Quality	Strong	Shortage	350 - 500	→	195 - 240	95 - 105
Secondary Quality	Steady	Sufficient	180 - 220	→	145 - 190	
Victoria Quarter						
Prime Quality	Strong	Shortage	355 - 450	→	95 - 120	80 - 100
Secondary Quality	Steady	Surplus	200 - 250	→	75 - 95	

NB: Net rent rates exclude GST and carparking costs. Outgoings inclusive of rates and ground rent where applicable
Prime Quality = Premium and A-Grade accommodation. Secondary Quality = B & C Grade accommodation

All rates as at April 2014

Source: Bayleys Research

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