

→ Office Property Market Report 26 | 9 February 2018

1 of 4 Macro-Office-Industrial-Retail Reports | Celebrating 20 Years!

Key observations:

- *Substantial Hastings Healthcare medical centre development completion expected early 2019.*
- *Seismic performance is a relative value consideration – Napier City Civic and Library buildings effects for Napier market.*
- *Havelock North is increasingly a significant office location alternative to Hastings – most recently and successfully The Exchange.*
- *Hawke’s Bay property values have escalated impressively, although are not as hyped as Auckland and elsewhere. It seems to Turley & Co that the commercial-industrial property investment market for most regional/ smaller centres New Zealand possibly peaked in 2017.*
- *The effect of recent global stock market jitters is yet to play out, but could indicate an economic fragility stemming from quantitative easing measures that was perhaps “kicking the can down the road”.*

Hawke’s Bay based Turley & Co is continuously engaged in high-quality commercial property analysis and valuation as a **Registered Valuer** and **Registered Property Consultant**.

Principal property strategist and projects leader since 2009 for acquisitions **\$120M** and disposals **\$30M** for corporate, Crown and Council clients nationally.

Since 1998 acquisitions-disposals **\$0.5B** nationally alongside considerable volumes of valuation work, litigation and related advisory.

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Streamside reserved land planting of +2,000 native seedlings funded | MTT volunteer Trustee 2009-18 | Chair 2015-18 www.maraetotaratretrust.co.nz

Office Market Indicators for Napier | Hastings | Havelock North

Offices Category	Rental Range Gross TOC (\$/m ²)	Forecast Rental Growth Next 24 Months (%)	Yield Range (%)	Forecast Yield Change Next 24 Months (%)
Prime	\$160 - \$290	-5% to +5%	6.0-8.0%	0.0 to 0.5%
Secondary	\$85 - \$160	-5% to +5%	8.0-11.0%	0.0 to 1.0%

Vacancy Rates: - Prime Office 7.0% - 10.0% estimate
 Secondary Office 25.0% plus estimate
 Many occupied office premises are underutilised

Inducements: - Prime Office 2 to 6 months rent free equivalent
 Secondary Office 4 to 12 months rent free equivalent
 Depending on premises, term and tenant

HB Office Market | News | Quick Summary

- Substantial Hastings Healthcare medical centre development completion expected early 2019
- Office development activity remains frequent, largely stemming from Hawke’s Bay tenants reshuffling
- Developers are attracting office tenants by offering very competitive new-build rents, with asset valuation maintained by firmer cap rates
- Some very high new premises rents apply (some undisclosed inducements)
- Seismic performance is a relative value consideration – Napier City Civic and Library buildings effects for Napier market
- New to Hawke’s Bay office tenants/ businesses new trend emerging in 2017
- Napier office occupiers migration to Ahuriri – includes the ‘Tech Collective’ – other tech hubs Havelock North and planned for Hastings
- Havelock North is increasingly a significant office location alternative to Hastings – most recently and successfully The Exchange
- State sector office demand has been contained since 2008 – that may expand 2018-20 given Government change
- Office investment sale transactions are infrequent (developments principally developer held)



Village Exchange Upper Floor Offices – StockCo & BM Accounting | Photo TCL

Office Rental Market

The Hawke's Bay's office sector has seen considerable development over the past 3-4 years. Relatively competitive rents for new build accommodation are common. Firm cap rates (asset values) has provided sufficient developer headroom at competitive rents. Growth of the office tenant pool has been limited (total m2 demand), in contrast with total m2 supply being greater. Most market activity is generated by tenants seeking to upgrade, or is led by seismic considerations. Market reshuffling accounts for most activity.

Backfilling lower grade office stock has been a challenge since Canterbury earthquakes (2011). Many Government agencies and major corporates relocated (CYFs WINZ new build), or to strengthened premises (Napier City Council and others). There remains an abundance of older office stock vacancy in Hawke's Bay. Hastings District Council has an initiative to encourage conversion of disused upper levels CBD office space to residential.

In June, Napier City Council advised that its Civic and Library buildings seismic assessments were rated 10% and 15% NBS respectively. Council temporary relocation accommodation comprises three separate office sites whilst it plans its long-term situation. The Civic building is unlikely to be strengthened or refurbished, whereas the library may be upgraded. A hotel is touted for the Civic building site. IRD, a tenant in the Council's Library building, is yet to find suitable permanent accommodation while staff are split over two temporary sites. The market effect has been office supply reduction in central Napier and vacancy take-up. The influence will be more likely development and/ or increased Napier CBD office rents.

Napier's former police station was reported in 2013 at 16%NBS, providing the impetus for a new \$5.5M station which opened December 2016. In Hastings, the old courthouse adjoining the existing police station is earmarked for a new Eastern Police HQ that came into unexpected geotechnical results in April, delaying development. Proposed was 2,600 sqm over three-stories at cost \$18.9M.

Ahuriri hosts a new Tech Collective development anchored by NOW and Xero, alongside other tech enterprises in a transformed 2,900 sqm former wool store. Refer to [NBR story](#). The development offers an open collegial working environment with hot-desking, shared cafeteria and amenities. The quayside suburb is attracting Government agencies and various professional services, and has over decades progressively transformed from an inner-harbour industrial heartland. The vibrancy of mixed use including popular bars, restaurants, boutique shops and apartments, has attracted Napier CBD tenants. A similar dynamic is occurring for Havelock North, with competitive effects for Hastings' CBD office sector and city centre.

Other Wallace Development Tech Collective offices include 120 sqm dedicated hot desk space at Havelock North (21-23 Napier Road) which opened in August, and soon to be ready Hastings (119 Heretaunga Street East). Collaborative workspaces are a trending alternative to traditionally tightly-partitioned segregated offices.

Occupiers are looking for crosspollination and synergies, and less real estate employed per person, making better use of the property costs outlay. An effect of increasing office density is a slower take-up rate for existing office supply. Refer to [Hawke's Bay Today story](#).

Significant Hastings CBD office new leasings in prime Farming House include a Government agency in mid-2017 and this year, another Crown tenant and accountants Crowe Horwath. Its former Hastings offices create a large vacancy. BM Accounting relocated to Havelock North in December creating another Hastings office vacancy.

The Hastings Health Centre has outgrown its current premises and is constructing its own 3,900 sqm primary health centre on a site adjoining Totara Health. HHC is committed to completing the development by early 2019. Its current 2,700 sqm two-storey premises on Queen St is being marketed for sale.

As cited in previous Turley & Co reports, the outlook for Hawke's Bay mid-quality and lesser-quality offices, is mid-term ordinary, and especially if seismic rating is below 65-70%NBS. For better rated, upper-third quality or new buildings; the Hawke's Bay offices market is much healthier. Tenants relocating from underutilised and inefficient office layouts can often afford higher quality offices by taking less space (occupancy higher density).

The silver-lining for occupiers or new businesses looking for lower-quality offices (2nd or 3rd tier), is improved rents cost economy. The mid-market upgradable office supply is a Hawke's Bay economy competitive advantage. Its conversion potential for collaborative workspaces/ tech hubs or residential redevelopment is an upside opportunity.

Overall, the current Hawke's Bay situation remains office over-supply, with little increase in demand until 2017. Kiwibank in Hastings is a contrary example, albeit utilising formerly two-storey retail. Tremain's Hastings is another, redeveloping former Warehouse Stationery premises. The outlook for the Hawke's Bay office market is mixed from very good to stagnant; or declining for older or seismically challenged office buildings.

Newly built or re-developed Napier-Hastings office development supply includes:

- Hastings Health Centre [expected early 2019]
- Hastings Eye Surgery clinic redevelopment of former Hirepool premises
- Hastings Tech Collective proposed – Heretaunga St East
- Hastings Tremain's office (former Warehouse Stationery)
- Hastings Business HQ – Queen St multi-office complex [largely occupied by professional services] – 8 new tenancy units
- Hastings Aon development
- Hastings Forsyth Barr House office development

- Havelock North \$25M Village Exchange hotel/ retail/ offices development (almost fully leased)
- Havelock North Donnelly St office development
- Havelock North Tech Collective
- Ahuriri Wright Street offices redevelopment
- Ahuriri Business Hub office redevelopment
- Ahuriri Tech Collective (former wool store)
- Napier former ANZ office redevelopment proposed
- Napier Cosmopolitan Club site redevelopment [RCR Energy, ASB and TPG] – 2012 initiated
- Napier Williams Building three-storey retail-office development [Colliers, Tremain’s and Macpac]
- Napier CPO redevelopment [retail-office including NZ Post re-tenanted and Vodafone]
- Napier Marine Parade former Crombie Lockwood two-storey redevelopment

Government change in time may result in expanded state sector demand for regional New Zealand offices including Hawke’s Bay. This demand layer was 2000-2007 significant and contained since 2008.

There remains quite intense competition for office tenants who are generally in the box seat. This seems set to continue. Face rent is sometimes disguised by an untold leasing inducements backstory. Effective rent may be something else, being a challenge for valuers.

Napier | Hastings | Havelock North Office

Sample office rents Total Occupancy Cost (refer to *TOC Definition* later):

Property	Date	Area (m ²)	Rate \$/m ² TOC
Maraekakaho Rd	Jul-17	758	\$163
Heretaunga St W	Oct-17	150	\$180
Munroe St	Apr-17	985	\$196
Havelock Rd	Oct-17	430	\$291

Refer to Turley & Co for more data and more recent transactions. Gross rents above exclude fitout and parking etc. Lower rents apply for some office propositions depending on qualities and scale.

Refer to Turley & Co for information specific to a property and for Registered Valuer and Registered Property Consultant advisory www.turley.co.nz

Market rent is principally objective over subjective and is determined according to valuation case law principles. Turley & Co Registered Valuer assistance should be preferred. Face rents are potentially misleading. Turley & Co is a successful litigator of “market rent”.

Office Investment Market

Our macro-market commentaries (refer to *Macro Report*), broadly hold for Hawke’s Bay office investment property.

There remains limited advertised office investment stock of good traits that is mostly tightly held (or developers retained). Napier’s prominent iconic three-level CPO building (over 3,100sqm and 100%NBS), has just been brought to the market via Bayleys. The property is fully leased with a mix of twelve retail and office tenants including NZ Post/ Kiwibank, Vodafone, Adoro Café and Napier City Council.

In October, Colliers reportedly sold ‘the largest office building in Hawke’s Bay for over a decade’ however, sale details of the 100 McLeod Street property part tenanted by the District Health Board remain confidential. Business HQ was advertised for sale in March but is unsold. Four of five unit titles in the prominent landmark Napier PWC Building were offered for sale via Bayleys and remain unsold. Porse Havelock North sold July 2016 by sale and leaseback at \$4.4M reflecting a 7.34% cap rate with remaining lease duration ~7 years. Kel Tremain House on Marine Parade (three-storey with balconies and ocean views), was reportedly sold at 5.3% (details unconfirmed).

Office supply-demand conditions and leasing/ rent prospects impact competitive cap rates (investment values). For considerably aged office properties or low seismic NBS rated properties, much higher yields apply (relative values are much lower).

Office Investment Transactions

Office investment property sales are generally infrequent in Hawke’s Bay:

Location	Price	Date	Yield
Marine Pde (unconfirmed)	-	Sep-17	5.30%
Wellesley Rd	\$930,000	Aug-16	6.18%

Location	Price	Date	Yield
Porse Havelock North	\$4,400,000	Jul-16	7.34%
Maraekakaho Rd	\$1,300,000	Dec-16	8.10%

Considerable yield divergence typically applies for property quality and tenancy surety, lease term and vacancy aspects. Albeit in recent times, the yield spread has generally narrowed. Office property sales are still running at a very low ebb for Hawke’s Bay with recent new developments mostly retained by developer-landlords.

Other transactions insights

- o Refer to Turley & Co for more data, lease durations and more recent transactions.

Refer to Turley & Co for information specific to a particular property, and Registered Valuer and Registered Property Consultant advisory www.turley.co.nz



Tim Whittaker Te Mata Peak Millennium Sunrise



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Turley & Co Profile

Hawke's Bay based Turley & Co was formed in 1998 employing **six professionals** www.turley.co.nz

Pat is a *Registered Valuer* and *Registered Property Consultant*. He was an Auckland based practitioner with Jones Lang LaSalle and Darroch & Co for five years until 1995, before moving to Hawke's Bay. Pat has over 25 years of property consultancy and valuation experience focused on commercial and specialised property. He started his property career shortly after the crash of 1987. He has undertaken detailed appraisals and valuations, for single property assets from \$4,000 value to plus \$100M in the Auckland CBD. He is an experienced valuation arbitration and Court expert witness.

Turley & Co services a loyal group of prime clients across the private, corporate and public sectors in New Zealand. Turley & Co is LINZ Accredited and a division of the firm is a longstanding preferred property acquisitions, technical and statutory services provider to Government and Council clients nationally including Ministries of the Crown. Turley & Co is continuously engaged in commercial property analysis and valuation as a **Registered Valuer** and **Registered Property Consultant** in Hawke's Bay and nationally including Auckland.

Turley & Co's professional team: Pat Turley, Wayne Smith, Kurt Richards, Nikki Whelpton and Dayna Campbell. Sue Turley is a co-director and commercial manager since 1998.

TCL Analytics and Research ¹⁹⁹⁸

Publisher of market research papers 1998-2018 including:

Q1-2 2005 Hawke's Bay Market Report - 1	Q3-4 2009 Hawke's Bay Market Report - 10	Q1-2 2014 Hawke's Bay Market Report - 19
Q3-4 2005 Hawke's Bay Market Report - 2	Q1-2 2010 Hawke's Bay Market Report - 11	Q3-4 2014 Hawke's Bay Market Report - 20
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Q1-2 2007 Hawke's Bay Market Report - 5	Q3-4 2011 Hawke's Bay Market Report - 14	Q1-2 2016 Hawke's Bay Market Report - 23
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Turley & Co is a publisher of property market analytics and commentary predating 1998, and for 20 years, maintains an extensive private database of market transactions/ valuation evidence for Hawke's Bay and nationally.





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Definition Gross Rent | TOC

Gross rent or TOC (Total Occupancy Cost) values cited in this report:

- Include tenant outgoing costs: Council rates, building insurance and may include unique occupancy costs.
- Exclude tenant opex.
- For office and retail premises reflect a sealed shell net of the added value of landlord fitout: flooring treatments, subdivision partitioning, air-conditioning, etc.
- Are net of car parking and possibly excess yard value.
- Generally adjusted for corner site value and known letting inducements (frequently an undisclosed item).

The TOC definition above applies to most sample rent evidence cited in this report. Reliable values interpretation requires Turley & Co Registered Valuer and property specific advisory. The data herein should otherwise be considered unreliable.

Sources | Reliability

Turley & Co has been a valuer analyst or advisor for usually a majority of the transactions cited. Whilst all property data represented is believed to be correct Turley & Co does not warrant the accuracy of information published in this report. Transaction samples details may be incomplete and include: dated and newly-built premises, ground and upper-floor, first-lettings and sitting-tenant agreements, properties of various location strength, scale, lease content and seismic status, etc. The forgoing factors substantially influence relative market value and reliable application of data. In the absence Turley & Co Registered Valuer assistance, values or information in this report may be erroneously interpreted.

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