# CITY OFFICE dynamics

**THE TWO-STEP OFFICE MARKET IS EVIDENT IN THE CENTRAL CITY AS PRIME SPACE REIGNS AND SECONDARY STOCK SEEKS TO REINVENT ITSELF.**

TO NOVEMBER 2022, OVERALL OFFICE vacancy across the key Auckland CBD precincts was sitting at 10.9 percent – up on the 10-year average of 8.8 percent.

Several of the precincts surveyed by Bayleys' insights and data team have very low vacancy with Wynyard Quarter at 1.5 percent, Britomart 3.1 percent and the Viaduct 4.9 percent.

In response to heightened demand and the higher construction costs and softer yields borne by landlords, rents for premium and prime office space have been rising in Auckland and look to keep increasing throughout 2023, while effective rents for secondary space will continue to soften.

The much-talked about flight to quality and drift to the waterfront is still very evident, as corporates and large occupiers seek to position themselves strongly in workspace that has premium amenity, high sustainability credentials and cutting-edge design to facilitate modern ways of working.

As the return-to-office movement picks up speed after the pandemic hiatus, astute occupiers are tuning into employee needs to help entice staff back to the city.

Prime new-build office space is aligned with the push for collaborative workspace that contributes to corporate culture and allows robust interactions for idea bouncing and mentoring, and also ticks the sustainability initiative box that is increasingly important to younger staff at a recruitment and retention level.

The sub-500sqm market has enjoyed high tenant demand, with building owners committed to the delivery of fully-fitted office suites with add-ons like access to additional event space and meeting rooms when staff numbers and circumstances require this.

Slightly more dated stock located in premium locations close to public amenities, transport links and flagship new-builds is being reimagined and refurbished to a high standard to attract occupiers requiring large floor plates and high-spec'd fitout.

With signs that supply chain disruptions and construction material shortages are moderating, it is expected that the Auckland CBD office market will continue to be refreshed and while secondary-quality properties are requiring higher incentives to mitigate weaker demand, there is strong confidence being shown in the office market according to Bayleys' brokers.

## A-GRADE AT A PREMIUM

At the upper end of the market, Bayleys Auckland director of office leasing James Thorburn, says vacancy rates are very low to the west of the core CBD and in waterfront locations, and that shows no sign of easing.

"For those businesses with 80-plus staff, it has taken some time to distil down what space was needed, who will be in the office and when, how the space should be configured and where they should be located after a period of uncertainty," he says.

"After trialling various iterations of hybrid working, our customers are largely committing to workplaces that will have inherent flexibility and while they may be taking or keeping the same floor area, they're reconfiguring space to better suit new ways of working with the design part of the equation paramount."

Thorburn and his team work closely with corporates and large occupiers on defining a workplace strategy, by diving into their plans for the business, the type of culture they want to create, what they need for their office space, and what they want it to look like.

"The office of today is more than just bricks and mortar – it's about fostering a work lifestyle and experience because employees need to feel that it's worth their while to come into the office.

"We run through a process with key employees to identify what an ideal workplace comprises and then set about finding new premises or facilitating ways that existing space can be adapted – while ensuring business continuity.

"Retaining and recruiting top talent has taken on new priority and it has been a balancing act for business owners to keep the wheels of commerce turning while trying to entice staff back to the office – all backdropped by the drive for productivity."

With vacant spaces in new developments in the CBD and immediate surrounds generally not becoming available for occupiers until late 2024, that lag in the development pipeline means there's huge pressure on existing stock, according to Thorburn.

"There are not a lot of big tranches available in the prime A-grade market which will ultimately put upwards pressure on rents and add to an already competitive market.

"Those occupiers looking to increase their office footprint, consolidate large floor plates for efficiencies and secure a presence in the most sought-after precincts, will need to think quite long-term, particularly if they have an expiring lease.

"Two years is not enough lead time. 3-4 years is optimal so we encourage occupiers to talk to us now."

Long before the pandemic, proactive bigger landlords were already factoring quality, sustainability and high amenity into their buildings and Thorburn says the major players are well ahead of the curve.

**"THE OFFICE OF TODAY IS MORE THAN JUST BRICKS AND MORTAR – IT'S ABOUT FOSTERING A WORK LIFESTYLE AND EXPERIENCE."**

JAMES THORBURN,
DIRECTOR OF OFFICE LEASING,
BAYLEYS AUCKLAND

Artist's impression

"Owners of existing buildings in good locations are increasingly having to step up and meet the market in order to protect against empty space.

"There is still a lot of dialogue around sustainability credentials within buildings and younger employees in particular are looking for workplaces that align with their views on the environment.

"If business owners are to continue attracting and retaining quality people, then things like fresh air, water quality, wellness, events, end-of-trip amenities that encourage active commuting, and energy efficiencies of a workplace need to be considered."

Thorburn highlights the Harbour Grounds development located between Victoria Park, Wynyard Quarter and the Viaduct Waterfront (previously known as the VXV precinct) as a prime example of a business precinct being reimagined to provide ultimate workspace in a proven and highly competitive area.

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POLLY MARKUS,
SENIOR OFFICE LEASING BROKER,
BAYLEYS AUCKLAND

"Comprising seven office buildings, along with integrated food and beverage and retail offerings, regular ongoing events including markets and food trucks, Harbour Grounds will offer large floor plates, enviable amenity and a pivotal location to create a world-class office environment in what is one of the city's best locations."

While there are fewer obvious sites available in the popular inner city commercial precincts thanks to active development in the last decade, Thorburn says there is an identified pipeline of potential sites that could be optimised and says, "watch these spaces".

## BESPOKE AND BOUTIQUE

In the sub-500sqm sector of the office market, there is a raft of B-grade stock sitting vacant but a real shortage of premium and prime space – especially in Britomart and other areas at the harbour-end of the CBD.

There's soaring demand for fitted-out space in buildings where proactive landlords have stepped up to the quality plate, according to Bayleys' office leasing brokers Polly Markus and Ben Laing.

"Building owners who have observed and listened to the market and committed to improving their properties in line with occupier demands have really hit the 'suite' spot," says Markus.

"Tenants are actively seeking quality space that doesn't involve a huge amount of upfront capital outlay their end and they're prepared to pay a premium rental rate so turn-key high end suites are leasing exceptionally well."

Laing says they have a plethora of different businesses looking at space currently, including creatives, public relations companies, tech sector occupiers, lawyers and other professional services.

"As the return to office continues after extended work-from-home (WFH) models, businesses want high-spec' space in prominent commercial buildings offering efficiencies, strong corporate image and added benefits."

Notable new office suite stock coming to the market is concentrated in the downtown area, and Markus says high-end net rents of $700 - $1000 per sqm are being achieved for sub-500sqm fitted-out space.

"Up and coming is Private Offices by Precinct at One Queen Street inside the broader Commercial Bay precinct.

"These will be fully fitted-out private office suites equipped with internal meeting rooms, kitchen facilities and a shared lobby designed as an exclusive, high-quality solution for sophisticated businesses seeking smarter ways of working."

Due for completion Q4 2023, One Queen will be anchored home to Bell Gully, Deloitte, and Auckland's first Intercontinental Hotel.

At 3 Lorne Street, the iconic early-1900s' Hallenstein Brothers building is currently undergoing a major refurbishment to transform it into a modern character workspace.

HB Central will blend history with contemporary workplace amenity, boasting architecturally-designed up-to-the-minute technology-enabled meeting rooms and offices, collaborative and social spaces, top quality kitchenettes, end of trip facilities and an on-site cafe.

Meanwhile, The Formery at 1 Albert Street will provide collaborative and separate workspaces, with aspirational design to foster culture and community, with a premium location next to Te Wai Horotiu (Aotea) station, Queen Street retail, restaurants and cultural hubs.

Laing said he expects the strong push for greater amenity within buildings to continue throughout 2023 on the back of changing workplace expectations.

"Employees are seeking gym memberships and additional well-being activities – with some business owners providing on-site catering a few times per week to entice staff back into the office on set days."

Aesthetics-wise, Markus says softer-style fitouts with a slightly more upmarket "homely" feel are emerging, rather than the industrial-chic trend with exposed services and lots of concrete and steel favoured in recent years.

## FRINGE BENEFITS

Bayleys' office leasing and sales broker Matt Gordon says there's been strong activity and "quite a bit of movement" in the Auckland city fringe market including Ponsonby, Newmarket, Greenlane, Grey Lynn, Parnell, and Morningside.

"During the first three-quarters of 2022, occupiers needed to get their heads around space requirements going forward, but by Q4 the majority of business owners had concluded that they really do need an office to cement their presence in the market," he says.

"Typifying this is a customer currently in around 600sqm of space in Morningside who is now looking for 800sqm of space because they're making a concerted push to get all their team back into the office for at least four days a week."

Gordon says Bayleys works closely with business owners to provide them with market data first, then using staff surveys, drilling down to find out what employees really want from an office space.

"Many employees had become quite comfortable working from home, but occupiers are telling us that being in the core office in 2023 will be the default," he says.

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MATT GORDON, SENIOR OFFICE LEASING BROKER, BAYLEYS AUCKLAND

Recently, Gordon and Thorburn worked with Serato - the Auckland-based maker of the world's most popular software for live DJs – to position them into high-spec'd space in Ponsonby Central, taking a smaller footprint than originally envisaged and leveraging off the high level of amenity both in the building itself, and the wider Ponsonby precinct.

"They can now tap into additional spaces within Ponsonby Central's office offering when they need to, and then the rest of Ponsonby is their playground to expand social options for staff."

Gordon says his team also works with landlords to optimise B and C-grade space, but in some cases, lag times in getting refurbishment work completed or expectations of rental incentives are off-putting.

"Around the city fringe there are patches of office stock that are dated and perceived as less workable in today's modern office environment.

"Older stock generally does need money spent on it, however, tenants – and landlords – often have difficulty visualising how a property could look.

"We liaise with fitout companies to get renders to illustrate how great a property could look if some love – and money – was put into it."

Visionary thinking will transform the office market and Gordon says lower Parnell (St Georges Bay Road precinct) proves this point with a resurgence underway.

"Innovative landlords are reading the market beautifully and creating spaces that occupiers want to be in.

"A good example is Krukziener Properties' redevelopment of a character building in St Georges Bay Road into a mix of office and retail tenancies, along with service and showroom space within a cool broader precinct that offers great hospitality options, including a coffee roaster, design stores, and a high level of award-winning amenity."

The 5 green star rated Augustus development that is planned for 35-45 The Strand is also a modernised heritage space that Gordon says epitomises the type of space in high demand from astute occupiers.

"Due to open late-2024, it provides office space on its upper levels, and is anchored by Dawson & Co, a New Zealand-owned retailer that specialises in luxury European furniture, on the ground floor."

Gordon says ease of access is what draws a lot of occupiers to the city fringe, and counterintuitively, it's not always cheaper than CBD space.

"In some newer developments, occupiers could be paying more than CBD rates however, the fringe areas suit their staff and clients and there remains a perception that the CBD is trickier to navigate and access – particularly recently when there has been so much infrastructural disruption."

Artist's impression