**CBD office entering the next phase**

*The country’s buoyant business activity is proving the catalyst for strong CBD office market conditions*

**September 19, 2016**

Office leasing activity has increased nationwide, but quality is still the top priority for tenants heading into the next phase of the cycle states Colliers International’s CBD Office Report.

Despite the growth of the industry – led by employment growth intentions and solid fundamentals – many tenants looking to combat rising rents are reviewing their options. Consolidation, rationalisation and efficiency are approaches many tenants are adhering to in this environment, to stay on top of ever increasing costs per square metre.

The prolonged period of positive economic conditions has enabled banks and developers to increase their risk appetite and progress with major supply projects. This will provide the CBD office market with new leasing options to progress to the cycle’s next phase.

Investors continue to be extremely active and competitive in this low interest rate and strong occupier market. More supply provides some relief, but not enough to dampen market activity or purchaser demand.

**Further key findings of the report include**:

* Businesses are confident, but cautious in their outlook. Employment intentions are up and this is assisting leasing activity. Economic growth will be near the long-term average over the next few years, which will keep the market stable at current growth rates.
* Occupancy rates are trending upwards across most major locations across New Zealand. This is seeing rents increase steadily. The areas experiencing the highest levels of employment growth are experiencing the highest levels of rental growth, and vice-versa.
* We are now entering the next phase of the cycle with construction activity ramping up across the main cities. This will provide the market with more space to consider.
* Auckland remains on track for another strong year in the CBD office sector. We forecast that the vacancy rate has bottomed out this cycle with new supply on its way. Rents will continue to rise with a short hiatus between 2019 and 2020 as the market recalibrates the effect of additional supply. Yields will firm further.
* Wellington has consolidated its market position after major government initiatives to rationalise their space. The market will move on more confidently. The 60% of the office occupiers not in the public sector will continue to maintain market momentum.
* Christchurch is a market with a large development pipeline that continues to progress well. The level of new supply is dampening rental rises with vacancy likely to head above 20% over the next few years – this is not the first time, or the highest. Investors remain highly competitive for the best assets, but they remain conscious of the shift of suburban tenants back to the CBD.
* Trends in regional markets show a major focus on higher quality premises for occupation and purchasing. This is widening the gap between sectors which will be hard to rectify. Investors are scouring the market for opportunities, often pushing yields to new lows. However, yields at 8% plus can still be found.

Outlook

* Positive employment intentions across New Zealand provide underlying support for the office sector. A prolonged period of market activity has enabled banks and developers to be more comfortable with their risk appetite and commit to building more supply. This will see the market move through the next phase of the cycle with more stock availability than experienced since the highs of 2007.
* While some of this supply is still a few years away, tenants as well as landlords will be jostling for pole position. CBD markets that are at, or near, cyclical vacancy lows will be insulated from a significant market correction. Certain sectors of the CBD market will also cope better than others, with lower quality ‘seismically challenged’ premises being the most at risk to perform badly over the next year.
* Rents will continue to rise, forcing tenants to become smarter in the way they occupy and use their space. Some landlords can provide the latest in workplace environments much more easily than others. There will be winners and losers over the short-term.
* The difficulty at the moment for prospective purchasers is finding suitable properties to purchase. Investors, owner-occupiers and syndicators are all very active. This has seen competitive pricing when stock does become available. While some view the new price levels as ‘untenable’, the fear of missing out (FOMO) is promoting greater levels of acceptance, facilitating a new wave of asset appreciation.

**Ends**

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