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Office tenants embrace green initiatives

Auckland, NZ (August 15, 2007)

Pressure is mounting for property developers and owners to incorporate green initiatives into new office buildings.

At today's CB Richard Ellis annual Market Outlook breakfast in Auckland, Senior Negotiator, Lorne Somerville said that occupiers, especially the Government, were becoming increasingly focused on sustainability issues.

"There has been a ground swell of public awareness towards green issues in the past 12 months," Mr Somerville said.

"The most interesting area to watch is the government sector, as the Minister for Climate Change, David Parker has announced that all A grade office buildings to house government staff in central business districts must have a 5 star green rating, and a 4 star rating is required for all B and other grade office buildings," Mr Somerville continued.

Mr Somerville noted that central and local government occupy over 161,000sqm of office space in the Auckland market, and that as their current leases expire, they will be required to locate to green buildings.

"Currently there is in excess of 112, 000sqm of office space due to come available in the next 24 months in Auckland city fringe. With this level of supply it will become increasingly important to offer this type of property in order to secure tenants," Mr Somerville said.

Zoltan Moricz, CB Richard Ellis' Director of Research, commented that the office market has recently performed well ahead of the retail and industrial sectors and achieved a return of 23% in the year ended March 2007 - the second best annual return of any property category since the inception of the Property Council Investment Performance Index in 1990.

“When you combine this performance with the lowest vacancy rates in twenty years, it is not surprising that the market is bullish about offices,” Mr Moricz added.

He forecast that the outlook for CBD office space was healthy and that vacancy rates would remain at low levels until mid 2009. During this period some 94,000sqm of new and refurbished space is expected to be completed, of which two thirds currently has tenant commitments in place.

Unfortunately, the forecast for non CBD or suburban office space looks less certain, Mr Moricz said.

“The vacancy rate in the suburban office market is likely to double from its current 6.7% to about 13% over the next three years if all supply in the pipeline gets built and our demand forecasts eventuate. Of the projected suburban office developments, a large proportion is purely speculative – only 28% of this supply has tenant commitment,” Mr Moricz commented.

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