

Insights

Topical commentary on the Auckland economy



September
2020

The city centre: Will she really be right?

- The city centre has been hit harder than many other parts of Auckland by the effects of the COVID-19 pandemic.
- Watching what happens in the city's commercial property market has traditionally been a useful bellwether for the wider economy.
- Three key drivers of the commercial property market - occupancy, investment, and construction – all face risks that provide insights into the economy at large.
- COVID-19 has massive implications for the future of our city centre, but it has also revealed a need to revisit the role the city centre plays in how we work, live and play.
- Importantly, the private sector, central and local government will need to play their part in overcoming the challenges that have been accelerated by COVID-19.

Just as the New Zealand economy began to kick off after the Wave One lockdown, Auckland was hit with community transmission (Wave Two). With roughly 15-20% of economic activity coming to a halt in

Level 3 lockdown, this put the brakes on Auckland returning to business-as-usual.

Under both of Auckland's lockdowns, those who were able went about their business as normally as possible by working from home or trading online. But it is not surprising that COVID-19 has changed the way we live, work and play. Higher unemployment, fewer visitors and an accelerated appetite for flexible working is already shaking up the office and retail markets. This has forced people, government, and businesses to re-evaluate the choices they make and the feasibility of their business models.

We coupled our own analysis with interviews with several industry leaders in Auckland to understand their views on the outlook for commercial property and what it tells us about the economy more broadly. The focus has been primarily on the city centre, hit hard by the loss of tourists and foreign students, higher unemployment and more office workers working from home. By evaluating the three drivers of occupancy, investment, and construction, we begin to get a clearer view of the outlook for the Auckland macro-economy.



Occupancy

For obvious reasons, recessions and booms tend to be closely connected with rises and falls in vacancy rates. Since the Global Financial Crisis, vacancy rates in the City Centre have fallen to record lows as we enjoyed the longest economic boom in recent history. But what is not always the case in downturns is the flight to quality. Because this downturn is not a financial crisis, appetites for premium floorspace appear relatively buoyant.

But demand for more floorspace per existing business will be negative in the short to medium term, so this risks lower quality spaces becoming increasingly vacant. Industry leaders remain confident that the need of the modern business for collaborative working will support demand for office space longer-term.

It is unclear where the needle will come to rest on working from home versus office collaboration. As businesses recover from lockdowns, they will be trading off impacts on office culture and productivity against the benefits of needing less floor space.

Investment

Investor demand accounts for more than 80% of commercial property purchases and has been robust in recent years. Record low interest rates globally have led investors to seek out higher yield markets. But higher unemployment rates (and slower employment growth) and lower GDP growth could discourage some investment.

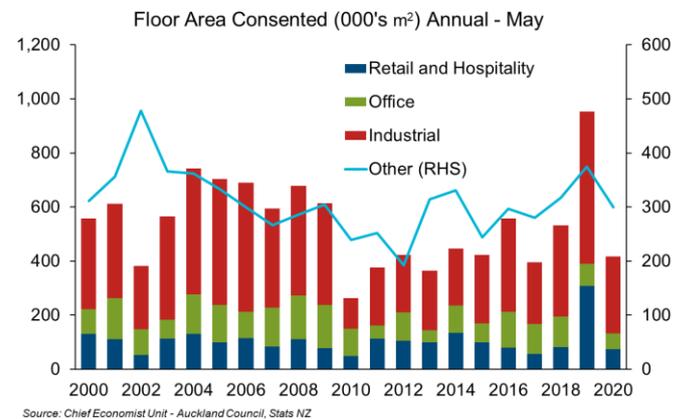
That said, the flood of less pessimistic data we have seen in New Zealand over the last two months will provide some encouragement for investment. It also helps that the RBNZ and central government have significantly ramped up policy support to underpin the economy from catastrophic economic failure.

Despite valuations peaking in 2019, transaction data shows high quality tenants and low interest rates are keeping valuations stable, which investors like. Rents and yields are expected to ease, as record low vacancy rates rise. But as the flight to quality gains traction, commitment to invest in costlier developments may be slow to take off.

Construction/refurbishment

Commercial floor space consented tapered off in late 2019 after setting records. Nevertheless, the

pipeline of work yet to be built is significant. As firms that can turn their gaze toward higher quality office space by trading-off floorspace for quality, the completion of Commercial Bay could be a catalyst for more refurbishment of dated stock.



Interviewees suggested that the pipeline of work consented or underway is still likely to be delivered, albeit at a slower pace. The city centre has a great deal of construction activity being undertaken, but we expect to see the weaker pipeline that started before the pandemic continue for a few years with much weaker overall demand for space given higher unemployment and more home-working.

The future of the city centre

The city centre has been hit disproportionately by the ban on overseas visitors, loss of foreign students, higher unemployment rates and more working from home.

As employers become accustomed to more flexible working, where and how people work and live may change. Some recent research shows that although people have traded-off their commute for the home-office, people are also spending more time “connected to their offices” each day¹. But is the cost of fewer workers in the city centre worth the benefit of a mechanical gain in work time (and hopefully productivity)? Only time will tell.

What we do know is that Auckland’s city centre has been a major employment hub home to over 130,000 workers, many in highly productive industries. The city centre represents around 19% of Auckland’s GDP. Part of the success of the city centre rests on that concentration of workers supporting retail and hospitality businesses. The maps at the end of this paper show the six

¹ <https://theconversation.com/have-we-just-stumbled-on-the-biggest-productivity-increase-of-the-century-145104>

industries that together employ 80% of workers in the city centre. Finance and professional services account for over 40%, which contributes to Auckland's big-city productivity advantage².

If trends on where people work from in future continue the pattern that the pandemic lockdowns have accelerated, major changes loom for the city centre. These changes may reduce the agglomeration and economies of scale benefits that thriving city centres typically enjoy.

The residential-retail complex

One way to offset the impact on retail from lower number of workers coming into the city is to keep growing the city's resident population. The city centre is home to 37,000 people who have chosen to live closer to work and the amenities the city centre offers. But as the city and city fringe increasingly support density, public transport and modern amenity, will this be sufficient to continue to attract residents? Or will workers now only in the office irregularly live further away in bigger homes?

There is an increasing need to consider how retail can cater not just predominantly for the worker that steps out at lunchtime to do some shopping or for a coffee. Taking a page out of other large cities' playbooks, "after-hours" trading that presents the city centre as a destination will be a strong drawcard that sets the city centre apart.

Roles for the private sector and government

In times like these, private business and governments (central & local) will both need to help stabilise the city centre and ensure a growth path from here. The goal is to bring more visitors, workers and residents back into the city centre.

First, businesses and workers in retail in particular will need to keep embracing change, realising that to remain viable, the offerings and times of day at which they operate will have to increasingly cater for Aucklanders **visiting** the city centre. While there are several pockets of strong hospitality offerings such as in the Wynyard Quarter, city centre retailers can no longer rely on the office worker. Businesses will need to work together at turning the city centre into more of a night-time shopping destination than it is.

But there is also a role for government (central and

local). The first is in building confidence. The **health** confidence that was present after Wave One was strong – it was safe to get on the bus, or to be in the city centre. Can that be replicated? And second, government needs to bolster **economic** confidence. This can be as complex or as simple as re-opening venues, or staff of government agencies returning to their offices and supporting local businesses.

Second, central government can use mechanisms it controls to **stimulate the economy**. For example, strictly managing the return of international students as a matter of urgency. International students support businesses in the city centre and our export education sector. Additionally, targeting nations like Taiwan that are world-leading in their handling of the pandemic for **students** and **visitors**, could go a long way to reinvigorate the city centre.

The city centre needs the value from transforming into a more obvious night-time destination as already highlighted. Auckland Council group can support this by continually improving connectivity, safety and the attractiveness of the city centre, especially after sunset, and can enable the mix of services and planning rules to support this change.

The council can review its rules to ensure that we are making the city as liveable as possible, and can continue to **encourage residential development** in the city, close to transport, close to jobs, and at a lower carbon footprint than further out, to provide greater economic mass for the city centre.

Government efforts to **attract highly productive firms** to the city centre should continue. For instance, Auckland's high-tech sector is still only about 2.5% of city centre workers. A stable, well-educated democracy with no plans for world domination makes us a strong candidate for growing cyber-security and other tech niches here. This country ranks first in the ease of doing business, but we need to continue to turn that theoretical fact into more highly productive business locating in Auckland and its city centre³.

Shyamal Maharaj

Economist, Chief Economist Unit

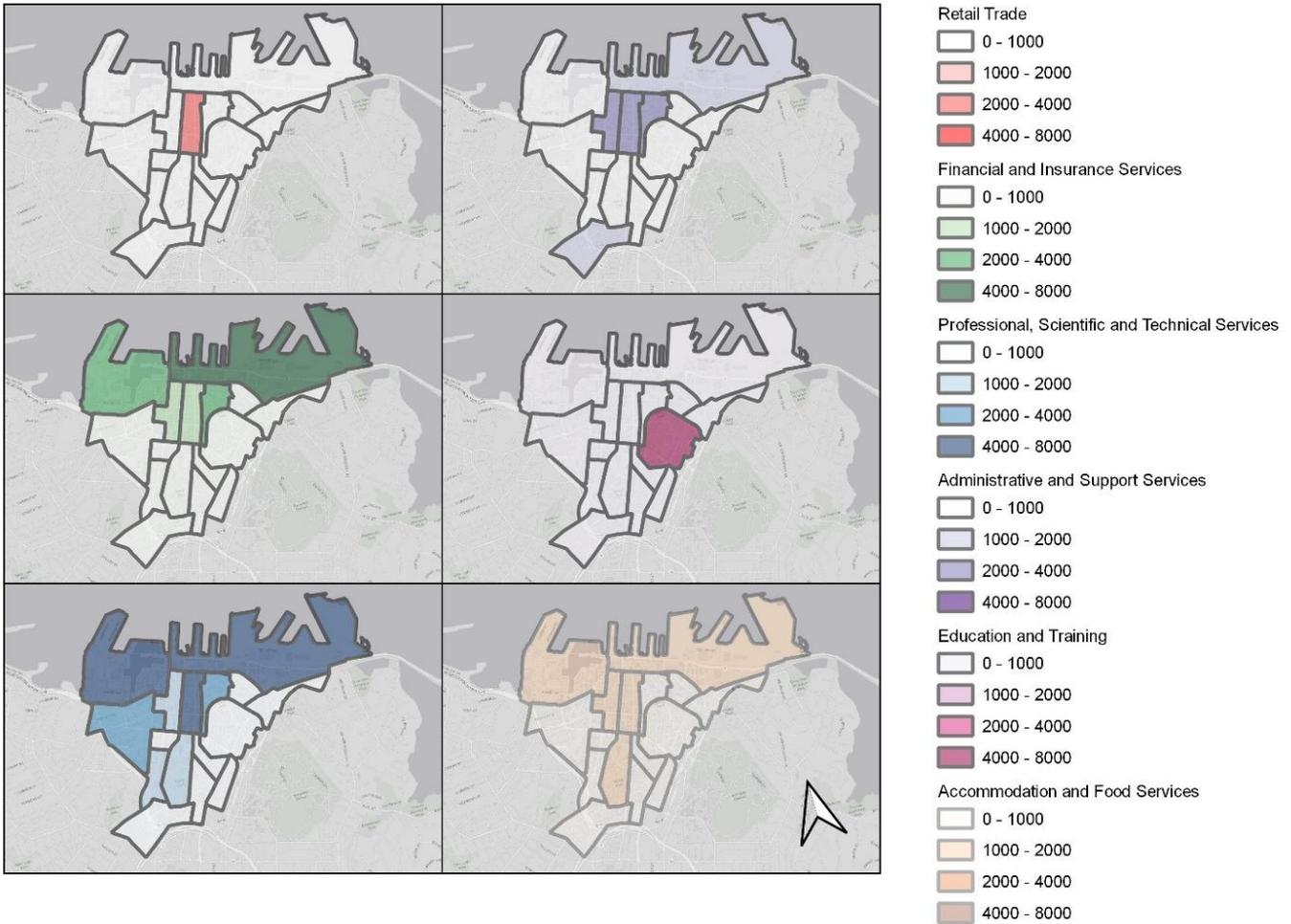
David Norman

Chief Economist

² Industry by workplace address, for those employed 15 years and over, Census 2018 – Auckland City Centre (16 SA2).

³ <https://www.doingbusiness.org/content/dam/doingBusiness/country/n/new-zealand/NZL.pdf>

Where city centre workers work by major industry



Disclaimer

This newsletter provides general information on economic issues and is not intended to be used as a basis for any particular course of action or as substitute for financial advice. The views and opinions expressed are those of the relevant author, and do not necessarily reflect the views of Auckland Council. Auckland Council disclaims all liability in connection with any action that may be taken in reliance of this newsletter, and for any error, deficiency, flaw or omission contained in it.

Find out more: visit the [Auckland Council Chief Economist Page](#)

or contact us chief.economist@aucklandcouncil.govt.nz