

# WELLINGTON OFFICE MARKET REPORT

## The Tenant's View

June/July 2016

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**TWENTYTWO**  
*Independent Property Advisers*

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## Introduction

Following our Auckland Market Report in January 2016, it seems that the Capital is not immune to 'property headlines' either. The construction industry is in top gear right now as positive economic conditions and increased economic diversity drive a wide range of property and infrastructure projects across the region:

- **Transmission Gully**, McKay to Pekaheka, Smart Motorway and other roading projects
- **Airport expansion** and potential runway extension
- **Cultural developments:** International Convention Centre and Movie Museum
- **Tertiary education expansion** including WelTec and Whitireia's 'Cuba Central'
- **Additional hotel capacity** including Rydges (airport), Softel and Boulcott Suites
- **Renewed retail activity** including David Jones refurbishing ex Kirkcaldie & Stains

Activity in the commercial office development space is also extremely busy. With a range of new developments and refurbished buildings coming available over the next 12-24 months, this will create new opportunities for tenants/occupiers planning well in advance of lease expiries and changing business needs.





1 Victoria Street



Majestic Centre (2017)



Ex Manthels Taranaki Street  
Xero (2017)



Old Public Trust Building  
Ministry for Culture and Heritage



44 The Terrace  
TEC, ComCom, EECA, HRC (late 2016)



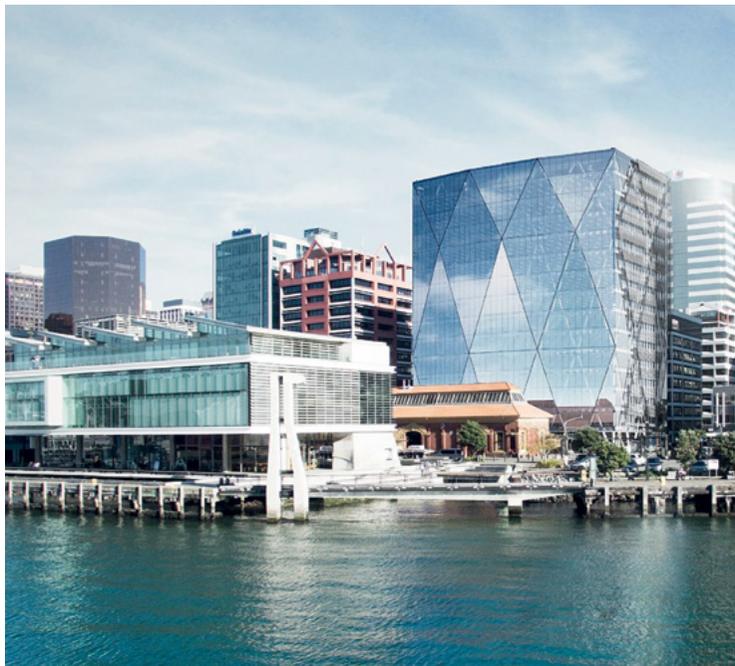
56 The Terrace  
MSD (mid-2016)



The PwC Centre  
PwC, FMG, Cooperative Bank (2018)



33 Bowen Street  
Ministry of Education



20 Customhouse Quay  
Deloitte, IAG (late 2017)



84 Willis Street / Printers Yard  
Intergen and retail (mid-2017)



26 The Terrace  
NZ Medical Association



133 Molesworth Street  
Ministry of Health (late 2016)



7 Waterloo Quay  
NZ Post HQ



22 Boulcott Street  
Transpower (mid-2017)



36 Customhouse Quay  
Craigs Investment Partners

# Commercial office development activity

REFURB

NEW BUILD

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## Changing supply and demand dynamics

Despite the positive economic conditions and general low vacancy rate across all CBD office space (approximately 6%), the buoyant activity across the market will create new opportunities for tenants to:

- Review their business and in turn space needs
- Potentially reduce their footprint by relocating to better quality and more efficient workspace
- Seek smart commercial deals as landlords compete for limited tenants

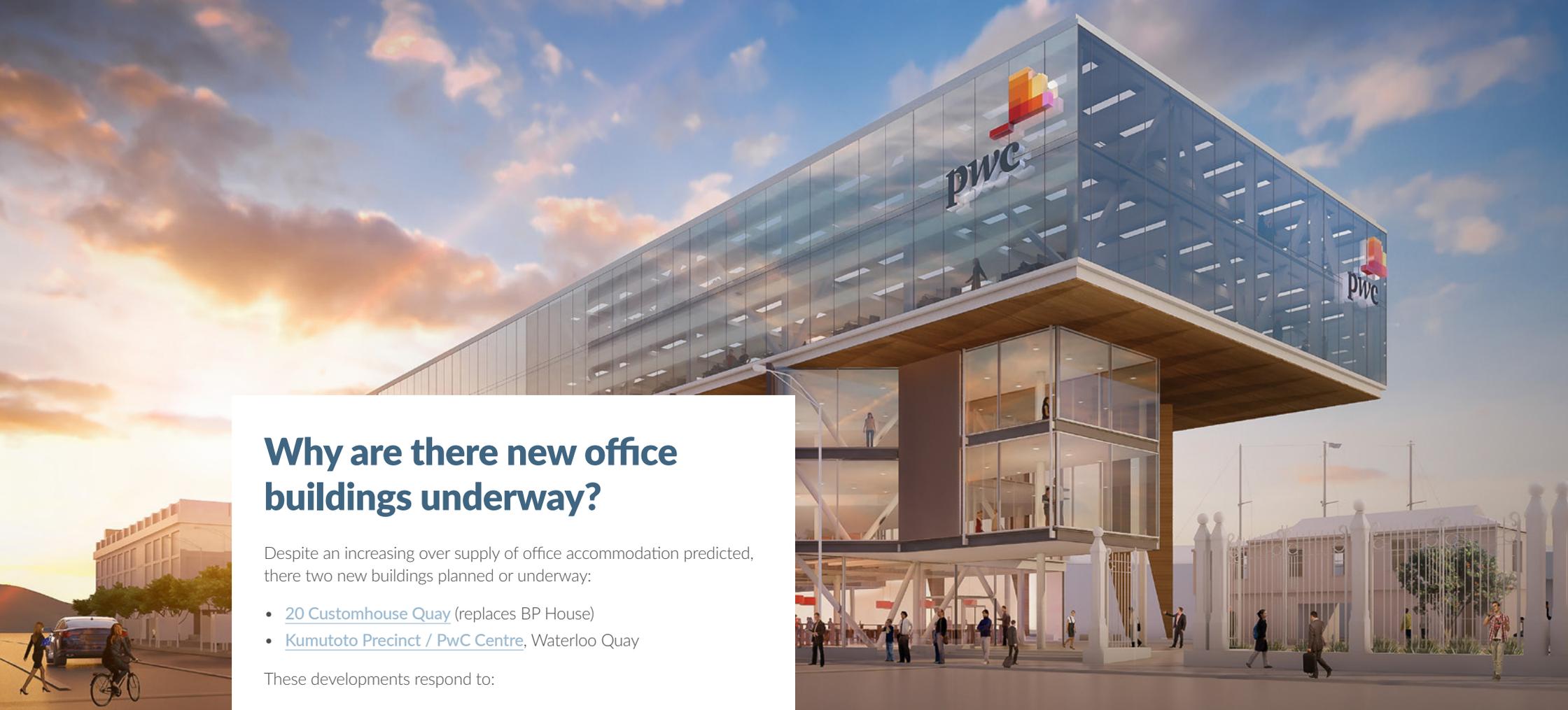
### Supply up, demand down

- Increasing supply of office space (up to 35,000m<sup>2</sup> of new space coming to market by 2018)
  - New developments
  - Refurbished and seismically strengthened buildings
- Contracting demand:
  - Further consolidation of Government into fewer buildings by 2019

- Reduction in footprint by corporate/private sector (by adopting new work styles and leasing better quality buildings)
- No significant new tenant leasing commitments on the horizon

While office conversions to residential/hotels/student accommodation is absorbing some of the older B and C-grade space, this is having a minor dent at the moment on vacancies in Te Aro – which are sitting at 20%.





## Why are there new office buildings underway?

Despite an increasing over supply of office accommodation predicted, there two new buildings planned or underway:

- [20 Customhouse Quay](#) (replaces BP House)
- [Kumutoto Precinct / PwC Centre](#), Waterloo Quay

These developments respond to:

- Improved economic conditions providing developers with renewed optimism
- No new buildings since 2010/11
- Demand from professional services firms and corporate businesses for modern/efficient workspace not offered by the current stock in the market

### **20 Customhouse Quay**

20 Customhouse Quay (being developed by Auckland-based Newcrest) involves 15,000m<sup>2</sup> of waterfront-located workspace. Lead tenants committed to the building include Deloitte and IAG (TwentyTwo clients).

### **Kumutoto Precinct / PwC Centre**

Similarly, Kumutoto Precinct / PwC Centre being developed by Willis Bond on the northern end of Wellington Waterfront is a low-rise development involving office and ground floor retail, due for completion in 2018. Lead tenants include PwC, FMG and The Cooperative Bank.

These new developments are targeting a small part of the market and more than satisfy demand in our view at the top end in the immediate future. So we don't anticipate any further new developments in the next 24 months.

## Why are there new office buildings underway? cont'd



So what's going to happen to the space vacated by the tenants committed to new buildings? By mid-2018, we will see options/space become available in:

- PwC Tower – The Terrace
- Grant Thornton Building (FMG)
- Deloitte House
- State Insurance Tower

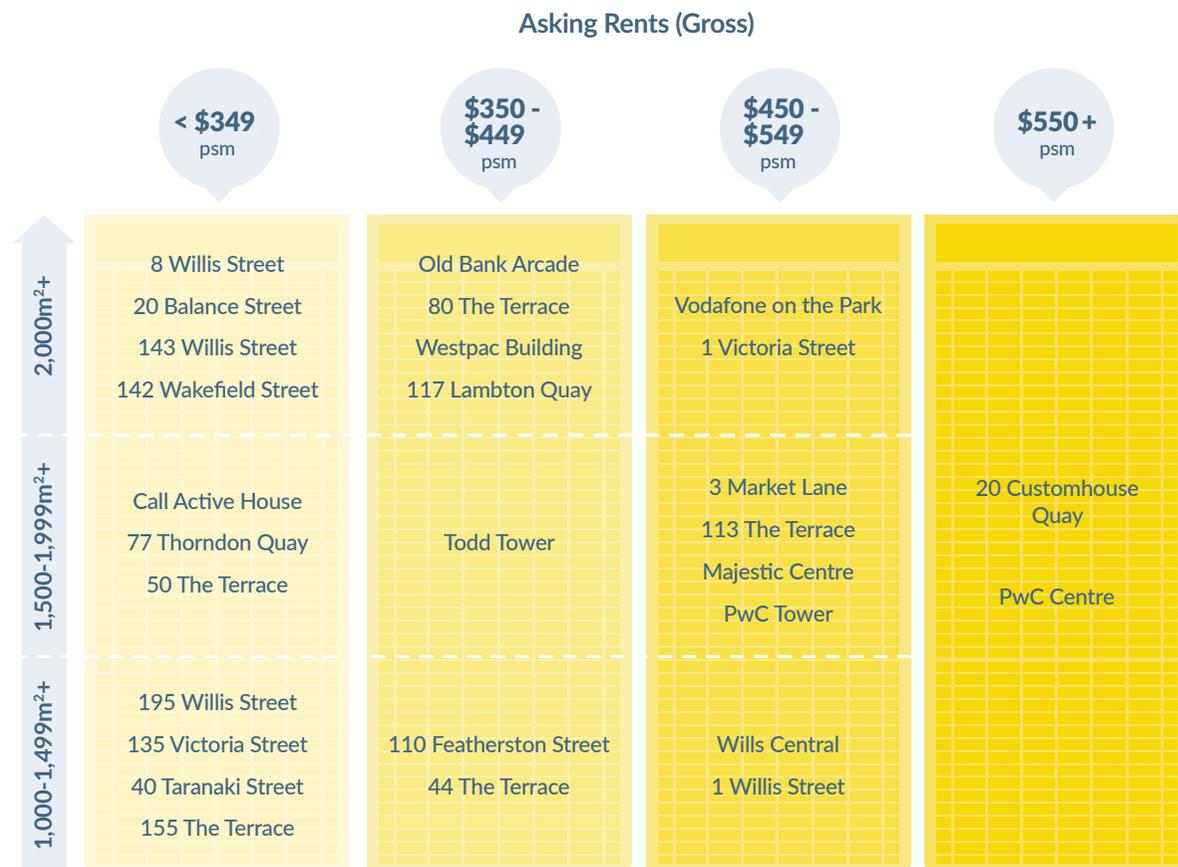
Added to this is the impact of refurbishments/ upgrade projects underway:

- Xero vacating Market Lane (2,279m<sup>2</sup> available for sublease)
- Transpower vacating their Terrace premises (when they move to 22 Boulcott Street)
- The consolidation of Government's footprint once WAP2 is confirmed, with several existing buildings occupied by Government likely to become vacant

So where are all the tenants coming from?

## Premises options snapshot – May 2016

If you are currently 'in the market', there is a wide range of options available at present for small to mid-size requirements across all grades of space and localities. The following table captures some of the options by way of example.



## Where are all the tenants going to come from?

The shift of office tenants to better quality workspaces and generally to the 'north and east' of the CBD means there'll be an increasing number of vacancies in older buildings:

- Government is moving to the northern CBD and reducing its overall footprint
- Corporates and professional services are moving to the waterfront

The buildings they vacate will be upgraded and refurbished over the next two years. But who will fill them? The Wellington economy might be growing, but we don't have many large organisations outside of Government, professional services, banking, energy and the shining lights like Xero, Z Energy, Trade Me and Datacom. We don't see a sudden influx of large private sector businesses to the Capital.

Given that the Wellington economy is made up of a lot of small business – 90% of all businesses across the region have 10 employees or less – we're reliant on attracting more small businesses to the region or waiting for the existing ones to grow their staffing levels. With the technology transformations taking place reducing the reliance on human capital, it's hard to see how vacancies are going to be filled.

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*We predict we will see more space provided by landlords to suit smaller business needs, including shared workspaces and more flexible leasing terms*



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## What can tenants expect?

It's not quite a buyers' market yet but, because we see 'rocks in the river', we think it's going to be 'advantage tenants' from 2017 onwards. Tenants can expect a greater choice of options available to them over the next three years:

- **Rents across all property grades likely to stabilise** over the next 12 months and then soften into 2017-2019 as competition for the existing pool of tenants heats up
- Given ample time to identify and negotiate options ahead of expiry/relocation, **tenants should be able to secure more flexible and favourable terms** than previously. Good advice will help to identify terms that provide the greatest benefit over the lease term
- Tenants whose rents are not being held up by a full ratchet could possibly see **a softening in rental levels at upcoming reviews**
- The range and level of incentives will increase. Offers of longer rent-free periods and free fitouts are now becoming evident for a typical six-year lease
- **Gross rents will remain the norm.** The strong presence of Government and its requirement for grossed up rents will support the continuation of this. We do not expect to see net rents take precedence in the future
- Green Star Certification is no longer a selling feature for many tenants. Instead, tenants will focus on reducing operating costs such as energy and maintenance. The NABERSNZ rating system is expected to receive greater attention, led initially by Government

However, as in any market, the best outcome is driven by a robust procurement process:

- Fully understanding your business and workspace requirements
- Using time to your advantage (to keep options alive)
- Keeping the market (including your current landlord) 'guessing' as to what your plans are
- Using a competitive process to drive the best commercial and lease terms
- Being clear on 'what you are getting'

*Tenants can expect a greater choice of options available to them over the next three years*

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## Te Aro to Te Creative

We believe the Te Aro precinct in Wellington City will undergo a major transformation over the next decade. Urban regeneration will create:

- New public amenities and environs, including more green space
- Increased residential use (purpose-built apartments, not conversions)
- More rental accommodation for students and young professionals
- Expanded tertiary education footprint
- Additional shared workspaces (such as BizDojo and Creative HQ) to accommodate small creative businesses and innovative start-ups
- More retail and food outlets to cater for a growing community
- REDUCTION in typical commercial office space

### Traditional office use uneconomic in Te Aro

As one of the oldest parts of the city, many of the current buildings are obsolete, both functionally and economically:

- Offices have typically small floors, old services and poor amenity
- Many offices require seismic strengthening which has a significant cost
- Office vacancies continue and rentals remain stagnant

At the same time, the drift of corporate and government tenants to the northern CDB and waterfront means there is less demand from traditional office users for this part of town. The upshot of these dynamics makes continued office use uneconomic in many cases.

### The regeneration of Te Aro is well underway

#### South

The new Arras Tunnel and construction of Pukeahu National War Memorial Park have made the southern end of Te Aro more attractive, but solutions are still required for traffic at the Basin Reserve / Mt Victoria Tunnel.

#### North

Wellington City Council (WCC) has plans for an upgrade of Civic Square and potential development of the Michael Fowler Centre Car Park.

#### Central

The [mixed use redevelopment](#) of the buildings at the corner of Cuba Street and Dixon Street is well underway. Phase One will see completion of the Whitireia WelTec campus for the creative and performing arts. Up in Wigan Street, VUW's design campus is also expanding.

#### West

Upgrading the 'boulevards' of Victoria, Taranaki and Cambridge/Kent Terraces will help better define Te Aro. The Victoria Street upgrade has commenced with many apartment developments expected along the street. The Victoria Street Precinct development at 160 was recently 100% pre-sold in advance of construction. This suggests there's strong demand for inner city living and investment opportunities.



A [group of local business owners](#) have got together to present new ideas on how to improve access through and amenity in central Te Aro. Concerned that WCC and NZTA might not explore opportunities for a bigger vision, the 'Better Te Aro' collective has created plans for a vibrant 'shared space' similar to those in places such as Fort Street, Auckland. We think it's good to see a community group being proactive in this way.



### WelTec and Whitireia

Construction is well underway of the new building on the corner of Dixon and Cuba Streets, which will house WelTec and Whitireia's new Creative Technologies and Performing Arts Centre (known as Cuba Central).

This initiative is one of the exciting changes we are seeing in Te Aro, as this part of the city transforms into the 'creative heart' of the Capital. Cuba Central is scheduled to open in early 2018 and will see approximately 1,500 students converge on this state-of-the-art campus.

*"Having assisted WelTec and Whitireia develop a Campus Development Strategy (for their overall portfolio) and lead the procurement/ negotiations with the developer Willis Bond, we are taking a keen interest in how this new facility unfolds. It's a great initiative for Wellington and will help shape the ongoing transformation of the southern CBD into a more diverse precinct"*

Dean Croucher, Managing Director, TwentyTwo

# Authors...



**David Lambie** has a stellar track record as one of NZ's leading tenant advisers, having been involved with many of NZ's largest leasing transactions over the last 10 years. With a 20-year background in development, property management and consultancy, he is particularly regarded for his corporate real estate strategy, tenant advocacy, lease negotiation and project directorship skills.



**Paul Mautz** has been a senior member of our team since 2004 and is our Technical Leader: Leasing and Premises Procurement. With 25+ years' experience in the commercial property sector, he's been involved with a number of large leasing transactions, representing clients in project leadership and tenant representation roles.

## ...and other members of our team



**Dean Croucher** is one of NZ's leading advisers with 25+ years' consulting experience acting for major tenants and owner-occupiers. He specialises in property strategy, tenant representation, project leadership and major leasing transactions. As our Technical Leader: Property Strategy, Dean is responsible for key strategy assignments and major transactions.



**Gail Calder** heads up our Auckland business following a successful career working for large occupiers/tenants like BNZ, ANZ, NZ Post and, most recently, Z Energy as Asset Manager. Gail brings an inside perspective on how we can add real value to property planning, workplace planning and transaction/leasing decisions. In 2012, Gail was recognised by CoreNet Global as the Corporate Real Estate Executive of the Year.



**Duncan Mitchell** leads our Wellington team and has been our Technical Leader: Workplace Planning since 2003. His focus on linking workplace design with clients' strategic objectives and his background as a fitout architect, result in a strategic and practical perspective to helping various clients develop more effective and future-proofed workplaces.



**Chris Ware** has worked across tenant and landlord representative roles and consultancy and client-side roles since 2008, most recently for the Ministry of Health. Since joining TwentyTwo in early 2014, Chris has specialised in tenant representation, leasing/premises procurement, negotiation and project leadership. He holds a Bachelor of Business Studies in Management.

## Sample clients across all workstreams

 <p><b>PHARMAC</b> Pharmaceutical Management Agency</p>	 <p><b>ENERGY</b></p>	 <p>Tertiary Education Commission Te Amorangi Mātauranga Matua</p>	 <p><b>Pitney Bowes</b></p>	 <p>Te Kaunihera Tapuhi o Aotearoa Nursing Council of New Zealand</p>
 <p><b>SPORT NEW ZEALAND</b></p>	 <p><b>BAYCORP</b></p>	 <p><b>Rabobank</b></p>	 <p><b>CAA</b> CIVIL AVIATION AUTHORITY OF NEW ZEALAND</p>	 <p>Government Property Group</p>
 <p><b>Callaghan Innovation</b></p>	 <p><b>Deloitte.</b></p>	 <p><b>iag</b></p>	 <p><b>intergen</b> AN EMPLOYED COMPANY</p>	 <p>New Zealand <b>DEFENCE FORCE</b> Te Ope Kātua O Aotearoa</p>
 <p><b>MASSEY UNIVERSITY</b> TE KUNENGA KI PŪREHUROA UNIVERSITY OF NEW ZEALAND</p>	 <p><b>KPMG</b> cutting through complexity</p>	 <p><b>COMMERCE COMMISSION</b> NEW ZEALAND</p>	 <p><b>WeITec</b> Wellington Institute of Technology Te Whare Wānanga o te Awakairangi</p>	 <p><b>Whitireia</b> NEW ZEALAND</p>

Got a premises decision to make?  
We'd love to help you get a better outcome

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