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Government Occupancy Survey Auckland (October 2007)

Government departments are likely to underpin much of the mooted new office development in Wellington according to a detailed occupancy survey undertaken by CB Richard Ellis.

The occupancy survey was undertaken in order to analyse government occupiers' space requirements and the potential impact on new office developments.

CBRE Research Analyst Frank Fa said the analysis highlighted the significant role the government would play in the next office development cycle, as developers prepared to undertake a raft of new projects throughout the CBD.

"The large size and current dynamism of the government sector in the Wellington CBD is arguably providing the greatest opportunities in the New Zealand office market for new developments over the next few years," Mr Fa said.

The government is by far the dominant occupier of Wellington CBD office space. According to the CBRE survey, the government sector occupies just under 500,000sqm of space, or 40 per cent of the total Wellington CBD office stock.

The Government Administration and Defence departments employ 20,930 staff or 22.6 per cent of the CBD workforce and over the past six years, government employment has increased by 4,540 people.

CBRE Director of Global Corporate Services in Wellington, Bob Thompson said growth in the government sector coupled with the current low vacancy rate in the CBD had created a clear window of opportunity for developers.

Over half (51.4 per cent) of government leases analysed by CBRE - accounting for some 180,000sqm of office space - will be expiring between 2007 and the end of 2010. Approximately 80,000sqm of office space will come up for expiry during 2011-14.

"These occupiers have restricted choices of existing premises but plenty of developers courting them with new projects," Mr Thompson said.

"Given the occupancy limitations of some of the existing Grade B and C buildings, government tenants may well be opting for design built premises upon lease expiries in response to the lack of ideal office accommodation in existing premises in a tight vacancy market," Mr Thompson continued.

However, the survey warns that government tenants need to carefully consider their future space requirements.

"Government occupiers considering options for new premises are faced with the obvious choices with regards to location and building specifications, but risk and cost factors are also important," Mr Thompson said.

"Government occupiers have a myriad of possibilities each with its own set of costs, benefits and potential pitfalls and they need to traverse their options carefully," Mr Thompson added.

CBRE's analysis also highlights the potential for new office supply to outweigh demand, even given the significant amount of upcoming government lease expiry.

New office stock under construction, or proposed and likely to be completed by 2010, involves eight buildings totalling over 110,000sqm.

An additional 330,000sqm of office space has been proposed in various projects, creating a theoretical supply pipeline of more than 450,000sqm.

CBRE National Director of Global Corporate Services, Bob Bull said "the potential for new supply to mismatch demand is real, given the size of the development pipeline and the possibility of multiple projects proceeding with partial occupier commitment."

"In addition, the owners of secondary space left behind by upgrading tenants could struggle to secure new occupiers particularly as the non government market is unlikely to backfill all of the vacancy created by government tenants," Mr Bull commented.

Mr Bull said the highest proportion of government lease expiry in 2007-2010 was in B grade properties.

Leases were due to expire on more than 100,000sqm of space or 20 per cent of Wellington's entire B grade market.

In addition, some 31,000sqm of Grade A space could also become vacant as government leases expired.

The CBRE analysis has also highlighted some less expected results regarding the size and distribution of the government sector.

Mr Fa said the oft cited belief that the government occupies low quality space is also somewhat of a myth.

“Government occupiers are concentrated in the better quality secondary building and are increasingly occupying higher quality office stock. A quarter of the space occupied in premium grade buildings is by the government while government occupancy accounts for about half of the space found in Grade A buildings,” Mr Fa commented.

CBRE’s examination of lease terms indicates that government tenants generally sign longer lease commitments and have larger space requirements than non-government occupiers. As such, they can sometimes secure better lease terms.

A comparison of public and private sector leases shows that 64 per cent of non-government leases are shorter than nine years with 27.5 per cent of those being six years or less. Approximately 16 per cent of government leases are between 12 and 15 years while only 6 per cent of non-government leases are within this timeframe.

The large size of government tenancies is readily apparent with 90 per cent of ministries currently occupying office areas greater than 5,000sqm. Seventeen occupiers, or 55 per cent, occupy more than 10,000 sqm.

At the upper end, three ministries lease over 30,000 sqm of office space.

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