

# Wellington CBD Office Vacancy

## SUMMARY

- In the first half of 2009, the new BNZ Building and the new Vogel Centre annexe added substantial new office supply to the overall stock. However, due to various reasons, several vacant buildings have also been withdrawn from the surveyed stock.
- Overall CBD office vacancy was 5.8% in June 2009 – a significant jump from 2.8% in December 2008.
- Vacancies deteriorated in all three precincts – the Core CBD, Thorndon and Te Aro.
- An overall negative net absorption of -22,325 sqm was recorded for the Wellington CBD office sector in the first half of 2009.

The six-monthly office occupancy survey monitors changes to stock, vacancy and absorption in the Wellington central precincts, namely the Core CBD, Thorndon and Te Aro. Leasing options available in the current market are also highlighted.

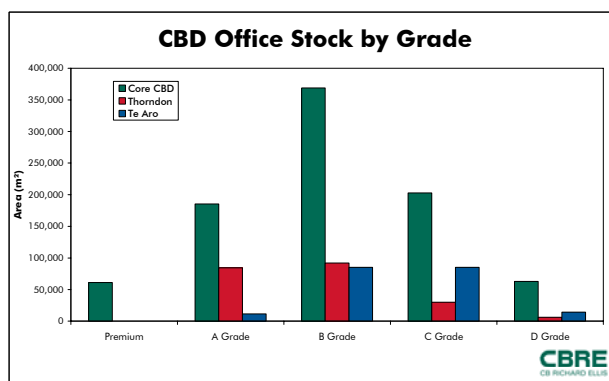
## WELLINGTON CBD OFFICE STOCK

The CBRE monitored CBD office stock was 1.29 million sqm as at June 2009. It has increased by approximately 17,700 sqm or 1.4% since December 2008. Over the course of six months, there were several new office stock additions as well as withdrawals.

The new CentrePort-owned BNZ Building was the most significant addition, with almost 19,000 sqm of office net lettable area. On a similar scale, the new annexe to the Vogel Centre (currently occupied by the Ministry of Justice) also added a sizeable amount of office space, contributing approximately 15,000 sqm of additional A Grade quality stock. There were also other office buildings/floors that have been reinserted into the surveyed stock after undergoing substantial refurbishments. These included 23 Waring Taylor Street (ex Laptop Company Building, 2,300 sqm of ACC occupied space), Levels 7 and 11 in PWC Tower (in excess

of 1,300 sqm) where AMP Capital has taken over and SPARC's new accommodation in 86 Customhouse Quay of just below 1,900 sqm.

On the flipside, several buildings were withdrawn from the surveyed stock. The biggest omission was the partial withdrawal of the old Vogel Building due to current (Stage 1B) and future (Stage 2) refurbishment and extension works, totalling approximately 11,500 sqm. 61 Molesworth Street (ex Deloitte House, almost 5,000 sqm) was also removed from the surveyed stock after it was fully vacated by IRD – it has since been earmarked for a major redevelopment, subject to securing tenant pre-commitment. The other major withdrawal was QV House (in excess of 4,000 sqm) in May 2009 after the Ministry of Education vacated the top two floors. The landlord has plans for an apartment conversion.



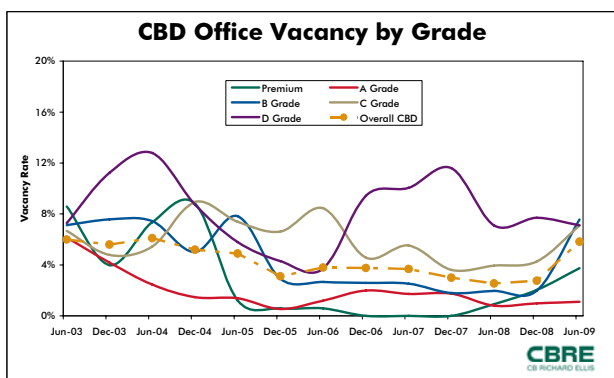
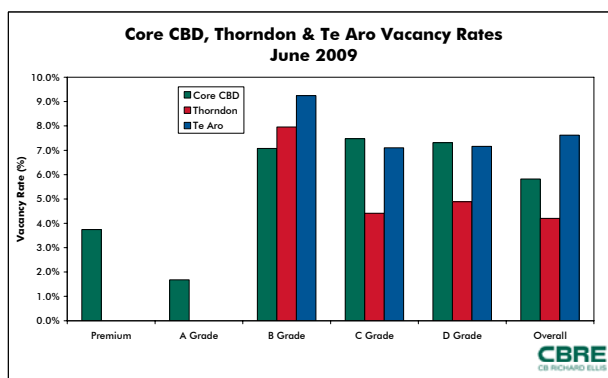
## VACANCY RESULTS

The overall Wellington CBD office vacancy rate has jumped to 5.8% in June 2009 compared to 2.8% December 2008. In CBRE's records, this 3.0% increase (equivalent to 40,000 sqm) was by far the biggest vacancy upsurge within a six-month period over the last five years. Prime (Premium and Grade A) vacancies increased from 1.2% to 1.6% over the first half of 2009 while Secondary (Grades B, C and D) vacancies shot from 3.3% to 7.4%.

Vacancies deteriorated across all three precincts. The vacancy rates for both the Core CBD and Te Aro increased by 3.3% to 5.8% and 7.6% respectively, while Thorndon's vacancy rate rose from 2.3% to 4.2%.

Over the first six months of June 2009, vacancies have increased in every single quality grade with the exception of Grade D, whose vacancy rate dropped from 7.7% to 7.1% – this was predominantly due to the removal of the fully vacant QV House from the surveyed stock. B Grade stock recorded the biggest vacancy increase to 7.6% – a stark contrast compared to the 2.0% low noted in 2008. Some of the main contributors included 80 Boulcott Street (over 9,800 sqm vacated by BNZ), the fully vacant 11 – 17 Bolton

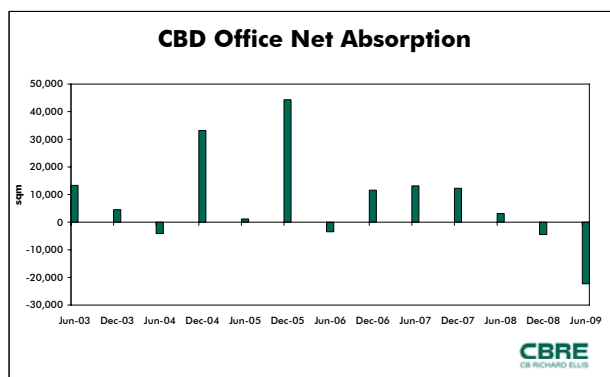
vacancies came from the Core CBD with the Todd Building recording the largest vacancy, over 1,000 sqm. Five other A Grade buildings had vacancies ranging between 250 sqm and 550 sqm.



Street (more than 2,600 sqm vacant), the top floors of Charles Fergusson Building (in excess of 4,500 sqm) which the Ministry of Justice vacated for the Vogel Centre annexe, plus a handful of B Grade buildings with vacancies above 2,000 sqm. C Grade was not immune from this upward trend either, increasing from 4.3% to 7.1%. Vacancies of 5,000 sqm plus in Gen-i Tower was the main contributing factor to the deterioration of C Grade vacancies. Two other C Grade buildings with substantial vacancies were Manpower House and Feltex House, of just below 2,000 sqm respectively. Additional vacancies in HP Tower and the Majestic Centre resulted in the Premium vacancy rate increasing from 2.0% to 3.7%. The vacancy rate for Grade A increased by a marginal 0.1% to 1.1% and was the best performing grade over the first six months of 2009. All A Grade

## ABSORPTION RESULTS

In the first half of 2009, the Wellington CBD office sector was subject to an overall negative net absorption of 22,325 sqm. This was the biggest negative net absorption figure ever recorded by CBRE. Although Thorndon recorded a positive net absorption of over 6,500 sqm, this was easily eclipsed by the combined negative net absorption from both the Core CBD and Te Aro. Every quality grade registered negative net absorption, ranging from -1,000 sqm to -45,000 sqm, with the only exception coming from Grade A, which recorded a positive net absorption greater than 36,000 sqm. Grades B and C suffered the largest contraction in



demand and this was reflected in their combined negative net absorption of above 54,000 sqm. Some of the buildings that experienced substantial negative net

absorption included the likes of 80 Boulcott Street, Gen-i Tower and Ministry of Economic Development Building (in the Core CBD); Charles Fergusson Building, the old Vogel Building and 61 Molesworth Street (in Thorndon) and Gillies Group House and Saatchi Building (in Te Aro).

On the other hand, the new BNZ Building and the new Vogel Centre annexe were two A Grade buildings in Thorndon that recorded significant positive uptake of some 35,000 sqm.

The following leasing options are present or will come on stream within the existing stock in the CBD during the next six months. It should be noted that some of the leasing options cover currently occupied space and therefore do not represent actual vacancies.

stock in particular, will still be subject to negative rental growth for the remainder of 2009 and well into 2010.

GRADE	<500	500 - 1000	1000 - 1500	1500+
Premium	6	2	1	0
A	10	3	1	3
B	26	14	5	9
C	38	13	4	7
D	42	11	4	4
Total	122	43	15	23



- Note: 1. Leasing options are the spaces available for occupancy during next 6 months  
 2. Each available area is counted only once as a leasing option  
 3. Contiguous floors are summed into one vacant area and counted as one leasing option  
 4. Table includes space for sublease.

## CONCLUSION

The combined effects of the prolonged economic downturn coupled with the major relocations and contractions of some tenants to their new/refurbished or existing office accommodation, have resulted in an adverse situation within the Wellington CBD office occupier market. Although the Wellington office market has proved to be resilient relative to the Auckland market, there are clear signs that vacancies will further increase and that net absorption will continue to deteriorate as the lagged effects of the recession and the demand-supply imbalance have yet to be fully realised. The momentum of the sublease market since the beginning of 2009 has further strengthened, and with increasing vacancies over the next two years (due to some major tenants moving to their new accommodation that are currently being constructed), we forecast that the office sector, secondary

## FOR MORE INFORMATION PLEASE CONTACT

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