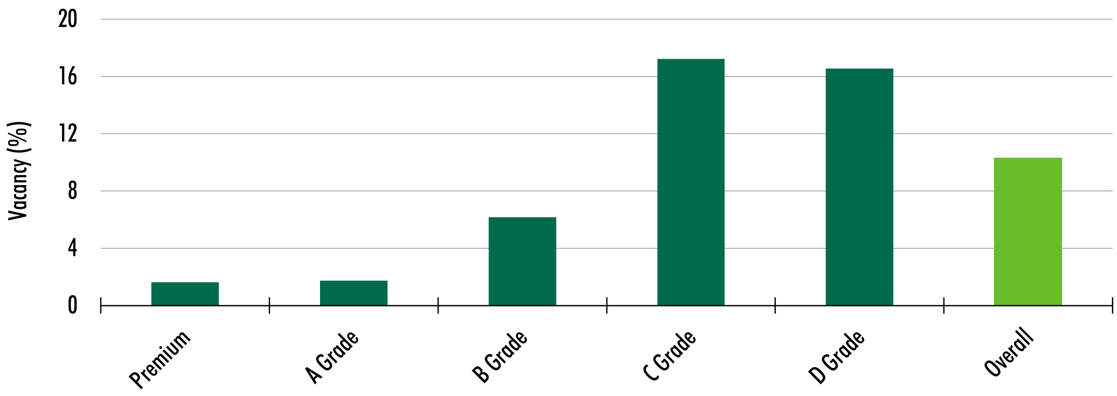
Wellington CBD Office, Q4 2014

# Returning stock causes increased vacancy

| OFFICE STOCK | OFFICE VACANCY | NET ABSORPTION | CORE VACANCY | T'DON VACANCY | TE ARO VACANCY |
|---|---|---|---|---|---|
| ▼ -8,059 SQM | ▲ +0.7% | ▼ -18,005 SQM | ▲ +0.7% | ▲ +0.1% | ▲ +1.2% |

Chart 1: CBD Office Vacancy by Grade




Source: CBRE Research, Q4 2014.

**HOT TOPICS**

- The overall Wellington CBD office vacancy rate increased by 9,946 sqm during the second half of 2014, primarily as a result of 6,227 sqm of vacant space returning to stock following refurbishment and seismic strengthening. Further space rationalisation by several central government agencies also impacted on this increase in vacancy
- Negative net absorption of 18,005 sqm was recorded in the six months to December 2014, as a consequence of a number of buildings being withdrawn from stock for refurbishment, with their previous occupiers downsizing their space requirements following relocation.
- As a result of these withdrawals, which included 56 The Terrace and 133 Molesworth, total stock decreased by 8,059 sqm to 1,474,217 sqm.

Wellington CBD experienced a 9,946 sqm increase in vacancy during the second half of 2014, rising by 0.7% to 10.3% overall. Whilst there was a slight increase in Prime vacancy during this period, the main cause was a more significant increase in vacant Secondary stock during the second half of 2014.

Vacancy was observed in Premium grade office space for the first time since June 2012, as a result of FMG vacating space within the Vodafone on the Quay Building to move to Grant Thornton Tower, whilst Grade A office vacancy increased 0.1% to 1.7% during the second half of 2014. Grade B vacancy increased 0.8% to 6.2% overall, with the major contributing factors to this including Housing New Zealand vacating space within 80 Boulcott Street and ANZ vacating space within the ASB Tower. Grade C vacancy increased by 0.4% to 17.2%, whilst Grade D stock experienced a 1.7% increase in vacancy, primarily as a result of tenants vacating space within 17 Whitmore Street in CBD Core, and Seafood Industry house in Te Aro.

### ALL PRECINCTS SEE INCREASE IN VACANCY

A 1.2% increase in vacancy in the Te Aro precinct came as a result of tenants vacating space, coupled with refurbished space returning to stock unoccupied. Core CBD saw vacancy increase by 0.7% as a result of a number of central government tenants vacating space, while the Thorndon precinct experienced a very slight increase in vacancy, moving 0.1% to 4.0% overall.

### STOCK WITHDRAWALS CAUSE NEGATIVE NET ABSORPTION

The withdrawal of a number of Secondary buildings for refurbishment, including 56 The Terrace and 133 Molesworth Street, coupled with the permanent withdrawal of 175 The Terrace to become student accommodation, were the main drivers behind negative net absorption of 18,005 sqm being observed in Wellington CBD during the second half of 2014.

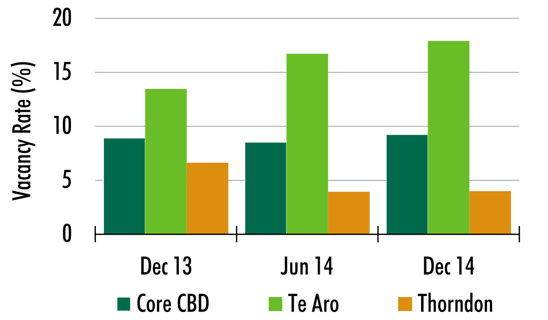
### WITHDRAWALS DECREASE TOTAL CBD STOCK

Total CBD office stock fell by 8,059 sqm to 1.47 million sqm during the second half of 2014, following the withdrawal of a number of Secondary buildings for refurbishment during the second half of the year. Prime CBD stock increased by 1,058 sqm, whilst Secondary stock fell by 9,117 sqm, despite the return of a significant amount of space within the Freyberg Building following refurbishment.

### WITHDRAWALS DOMINATED BY GRADES B, C

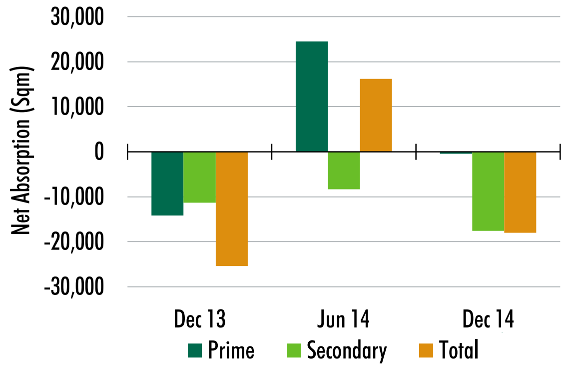
Total Grade A increased slightly, as a result of the completion of the final refurbished floors in Grant Thornton Tower. Total Grade B supply fell by 5,402 sqm, with the withdrawal of 56 The Terrace and the MOED Building on Bowen Street being offset by the return of 15-21 Stout Street. Grade C experienced an 11,508 sqm decrease in supply, following the withdrawal of 133 Molesworth Street and 175 the Terrace. Grade D experienced a 7,793 sqm increase in supply during the second half of 2014.

Chart 2: CBD Office Vacancy by Suburb (H2 2014)



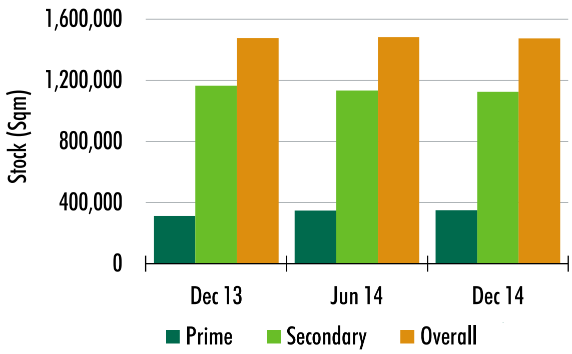

Source: CBRE Research, Q4 2014.

Chart 3: CBD Office Absorption by Quality



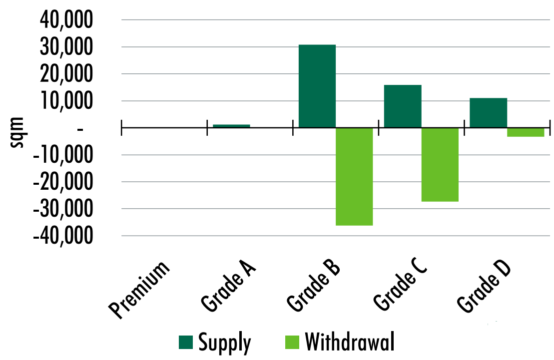

Source: CBRE Research, Q4 2014.

Chart 4: CBD Office Stock by Quality




Source: CBRE Research, Q4 2014.

Chart 5: CBD Office Stock Changes by Grade




Source: CBRE Research, Q4 2014.

## OFFICE LEASING OPTIONS

The following leasing options are available or will come online within the existing stock in the CBD during the next six months. Some of the leasing options cover currently occupied space and therefore may not represent actual vacancies. Please contact our agency team for more information about leasing options available.

| | GRADE | <500 | 500-1000 | 1000-1500 | 1500+ | Total |
|---|---|---|---|---|---|---|
| Prime | Premium: | 4 | 3 | 3 | 2 | 12 |
| Prime | A: | 19 | 7 | 1 | 1 | 28 |
| Secondary | B: | 28 | 12 | 9 | 7 | 56 |
| Secondary | C: | 118 | 38 | 6 | 13 | 175 |
| Secondary | D: | 65 | 9 | 1 | 3 | 78 |
| | Total: | 234 | 69 | 20 | 26 | **349** |

Note:
1. Leasing options are the spaces available for occupancy within the next six months.
2. Each available space is only counted once as a leasing option.
3. Contiguous floors are summed into one vacant area and counted as one leasing option.

## OUTLOOK

Supply of CBD office stock will remain fluid over the medium term, as buildings continue to be withdrawn from stock and then returned following seismic strengthening and refurbishment, with a number of these larger buildings due to be completed from 2016 onwards. As a consequence, we forecast a slight increase in vacancy during 2015, which will then become more pronounced from 2016 onwards, and will be particularly apparent within Secondary grade stock, with a number of central government tenants slated to vacate C and D grade stock in order to relocate to these refurbished buildings. Whilst larger secondary buildings such as the Freyberg Building are likely to be withdrawn for refurbishment following these movements, smaller pockets of vacancy are likely to spring up in poorer quality Secondary buildings, which will push up the overall vacancy as a result.

Whilst we have forecast a slight increase in the Prime vacancy rate during 2015, primarily as a result of a number of lease expiries during the second half of the year, good quality stock will remain in strong demand from corporate and tenants, which should result in Prime vacancy remaining low by historical standards.

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