



# OFFICE SPACE conundrum

**THE WELLINGTON CBD OFFICE MARKET HAS BEEN INCREDIBLY RESILIENT EVEN IN THE FACE OF A GLOBAL PANDEMIC, STRINGENT SEISMIC THRESHOLDS AND CHANGING WORK MODELS.**

DESPITE WHAT SOME COMMENTATORS have said in recent years, the Wellington CBD is not dying – far from it, if the squeezed office leasing sector is any gauge.

Overall vacancy in the Wellington CBD is currently sitting at 5.89 percent, there are occupiers quite fervently looking for suitable space, the city has seen minimal sub-leasing activity on the back of any COVID-19 induced reshuffling and there has been no wholesale exiting of the market by any tenant sectors.

Luke Frecklington, Bayleys Wellington Commercial office leasing specialist says the office leasing market is as tight as he has seen it in his 14 years in the industry.

“Vacancy is at an historic low and any landlord incentives have been pared right back,” he says.

“While landlords are still coming to the party with fit-for-purpose base builds, and an element of flexibility around lease structures, those capital contributions and free months’ rent ‘carrots’ are no longer standard practice.

“The market is pretty chokka and the quite dire shortage of office stock for lease in the capital has agents genuinely urging occupiers to make quick decisions when they do see space that suits their needs as a fast game is a good game today.”

As the seat of government, Crown-occupied space continues to dominate and underpin activity in the capital’s office leasing sector, and it is estimated that government agencies are currently in the market for circa-17,000 square metres of additional office space city-wide.

“They’re seeking centrally-located expansion space with an overarching brief for quality premises with sound seismic credentials and with the potential to be adapted to include operational efficiencies,” he explains.

“IRD was displaced from the Asteron Centre after a detailed and routine seismic assessment at the time of lease review found the building needed strengthening work, with IRD then needing to find 8,000 square metres of office space for 1,000 workers in the city.

“The Bayleys team has found temporary solutions for them across four buildings and this fragmented scenario is something we are witnessing across the office sector when larger corporates need to relocate – often unexpectedly.”

Seismic integrity is an on-going issue since the 2016 Kaikoura earthquake, when many Wellington CBD buildings were ruled unsafe, and landlords are needing to be proactive to protect the value of their assets.

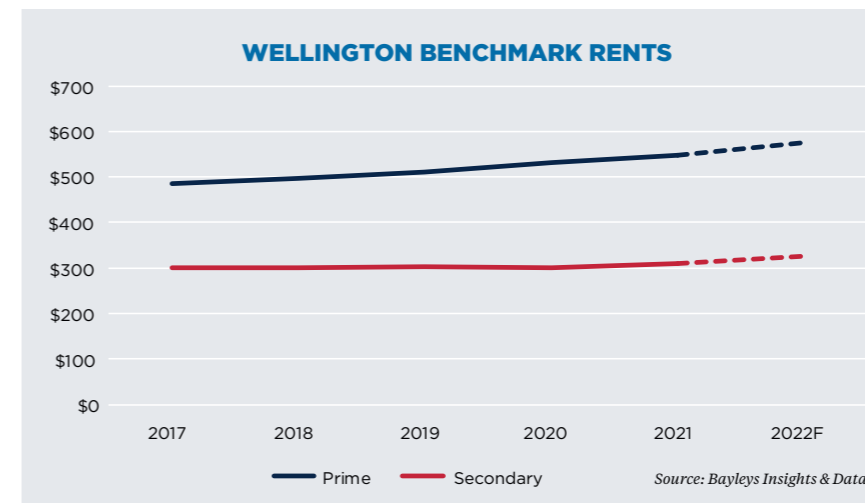
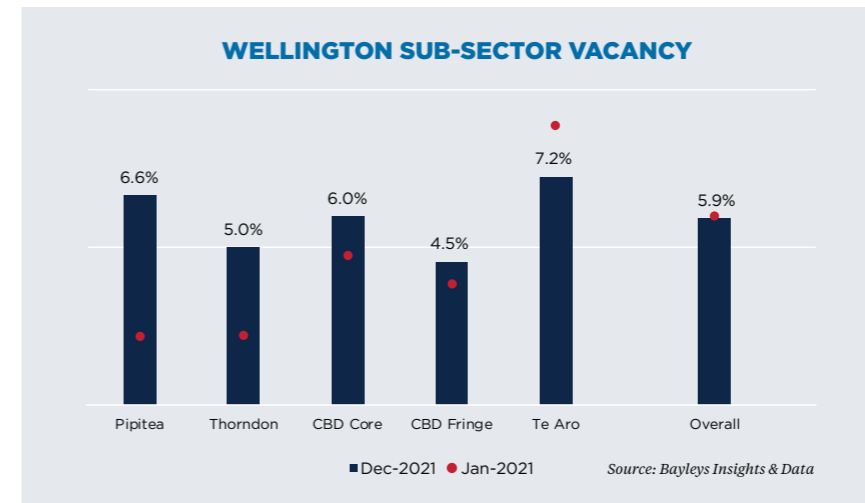
Subsequent code changes have forced owners to strengthen their buildings against changing seismic thresholds – creating a costly and logistically-difficult situation for building owners and occupiers.

“It seems like every day we are learning of another building that has been identified as earthquake prone and we’re being called on to help in the search for replacement office premises for displaced occupiers,” says Frecklington.

“Some of the buildings that are being vacated could take up to five years to remediate and that’s contributing to the widespread shortage of available office space throughout the CBD.”

As a clear flight-to-quality endures, there’s a scarcity of A-grade space in the city, the pipeline of new-build stock is nearly exhausted with most of what is under construction being pre-committed, and there’s minimal forward stock planned for the market.

At the time of print, the new Precinct Properties-driven Bowen Campus had just one and a half floors vacant; the BNZ’s new purpose-built hub near the Railway Station will be for their sole occupation while the buildings they will vacate are largely spoken for, Willis Bond’s Site 9 development had just one



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OFFICE LEASING SPECIALIST,  
BAYLEYS WELLINGTON COMMERCIAL

“While some office space has come onto the sub-lease market as occupiers sought to minimise their base outgoings, most have now backtracked and concluded that to maintain staff culture and productivity, an office has a significant part to play and are now actively wanting their staff back in the office.

“Business owners are looking at optimal ways to use the space they have, with a hybrid mix of WFH and office seemingly here to stay in some shape or form.”

Coworking space is also thriving in Wellington with Digital Nomad, Urban Hub, Servcorp, Regus and Generator among the providers operating from central locations across the city.

Precinct’s Bowen Campus also features Generator-operated coworking space as corporates within those buildings also require some flexi-space.

vacant floor and the flagship PwC Centre, owned by Arthur Investment Group Limited, was full.

Meanwhile, Willis Bond has secured the former Michael Fowler Centre car park in the Te Ngākau Civic Precinct and is understood to be planning a circa-15,000 square metre mixed-use building, while Precinct Properties has purchased the Freyberg Building near parliament and will take on short-term tenants while it plans a redevelopment.

The iconic David Jones-occupied building on Lambton Quay will become vacant mid-2022, and Bayleys understands that the top floor of around 2,000 square metres will be converted to office space by owners Robt. Jones Holdings Limited.

Some pockets of older secondary grade office stock in the city have been removed from the office leasing pool and destined for residential conversion with a mix of affordable housing and apartments, adding to the city’s office supply woes.

Bayleys data shows rents have been stable and are rising, and due to spikes in the consumer price index (CPI), landlords are favouring CPI rent review mechanisms, rather than the fixed increases which had become prevalent in recent years.

