

Assessment of

The Likely Urban Development Impact

of *CentrePort*

'HARBOUR QUAYS'

and

Implications for Future Planning of

Wellington's Central City

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Executive Summary

The fundamental problems facing the Wellington Central City are:

- The prospect of a *stagnation in office demand after the current market cycle*
- The potential loss of further *major corporate headquarters to Auckland*
- The failure to create 'world competitive' *business environments*
- The need to create 'world competitive' *employee environments*
- The prospect of *increasing vacancies in the stock of poorer quality office buildings*.

Successfully addressing these issues will inevitably require a balance between new developments and maintaining the quality of the existing built environment.

Wellington is facing a potentially serious problem of increasing vacancies in the stock of poorer quality Central City office buildings.

This is a difficult problem to solve, and there is *no 'one simple solution'*.

This problem is not going to just 'go away' *by simply stopping the Harbour Quays development*.

What Wellington can do best to become a 'World Competitive City' is to:

- Create World Class '*working and business environments*' (that help Wellington to attract and retain businesses and talented people)
- Create World Class '*recreational, entertainment and visitor environments*' (capable of attracting and retaining local, Regional, New Zealand and overseas visitors)
- Support *diverse residential development* in the Central City (including creating quality retail, residential and recreational environments)
- Prevent '*disconnected*' *single purpose office developments* (beyond 'convenient walking distance' of the CBD and Regional 'activity centres')
- Enable *widespread 'small business' development* in 'superior small business settings', with a 'credible business address' (within the Central City, at 'activity nodes' along major arterials and close to major residential areas throughout the Region)
- Only enable major dispersed office development as part of 'master planned', fully integrated *mixed-used business, retail and residential 'activity centres'* (that combine 'superior small business settings', with superior 'public places and spaces', fully integrated community, recreational and entertainment facilities; high quality, high frequency public transport services, and the choice between a variety of high quality living, walking and cycling environments)

Wellington does not have the quality of buildings and the high rentals necessary to easily provide these quality environments.

Urban Development Impact of Harbour Quays

Therefore, attention needs to focus on creating *superior public places and spaces* and *integrating shared community, employee and business facilities* to create World Class business and residential environments.

Assessment of The Urban Development Impact of *Harbour Quays*

1.0 BACKGROUND AND INTRODUCTION

Wellington City Council has commissioned Derek Kemp '*Prosperous Places*' to review the available information and provide an independent view of the likely urban development impact of *Harbour Quays*¹.

The purpose of the study is also to understand more about the Central Wellington property market and the impact future urban development could have on the Wellington CBD and the wider Central City area.

The study also has the wider objectives to:

- Examine in greater detail the capacity of the existing CBD to provide significant redevelopment opportunities that would meet the needs and timing of the market.
- Better understand the specific short, medium and longer-term requirements of the market.
- Examine the urban development and macro urban design implications of a more rapid movement of the core office CBD to the northern end.
- Examine whether there would be any significant impact on the existing retail and related uses on the 'Golden Mile' from *Harbour Quays* and other office-based growth to the north of the central area.
- Facilitate a dialogue between the major stakeholders in the Wellington office development market.

This Report is also intended to contribute to developing the strategic policy context for Wellington City Council's forthcoming '*Central City Framework*'.

1.1 The Study Area, Terms and Definitions

For the purposes of this study the Central City has been defined and broken up into the following areas (Map 1.1):

The Central Business District (CBD) – comprises the 'retail and business heart' concentrated along Lambton Quay (with its southern part nearest Cuba St, its central area and northern parts near the Government precinct.

The remaining parts of the Central City have been broken up into:
The *CentrePort* Lands – which include the *Harbour Quays* development lands

The Northern Central City Area (or Government area) - of Thorndon, the Parliamentary Precinct and Railway Station Precinct

¹ The nature of the brief and the limited time available has necessarily restricted this study to a review of readily available and newly acquired information separately commissioned by Wellington City Council from *Dow* a respected Wellington property expert. There will inevitably be some disagreement about the individual figures in this Report. These differences should not be sufficient to materially alter the conclusions reached in this Report which are also based on Derek Kemp's professional judgment, practised eye and practical experience elsewhere.

Urban Development Impact of Harbour Quays

The Waterfront Area – running from Cable St, past Lambdon Harbour and the Wellington Waterfront to Kumutoto

Te Aro/Courtney Place – the area south and west from Willis St/ Lambdon Quay.

The term Inner City Suburbs - is used to discuss Central City residential development and includes the above areas, Mt Cook and Mt Victoria.



2.0 WHAT IS KNOWN ABOUT WELLINGTON'S 'PROPERTY MARKETS'

There are no mutually agreed figures for the Wellington Central City property markets.

The following is a summary of the information available².

2.1 The Present Wellington Central City 'Office Market'

The Office 'Supply' Side

The Central City office stock peaked in 1,742,960 sq m in June 2003 (Table 2.1).

Total office space has declined since then (largely due to oversupply, resulting in 22% vacancies between 1991 and 1993 and conversions to university and student accommodation and other residential conversions).

The Wellington Central City office stock is now approximately 1.4m. sq m of office space (Dow *Wellington Office Overview* Dec 2005)³.

Only 20% of this (approximately 280,000 sq m) is modern, air-conditioned space with good services (such as 125 The Terrace, Pastoral House, Mobil on the Park).

The balance (approximately 1,120,000 sq m) is older (at least 10 years old), poorer quality space, with modest services, often without air-conditioning and sometimes lacking a strong profile or 'street presence' (such as Vogel House and Mayfair House).

Supply has been reasonably constant at the present figure since June 2001 (Table 2.1). Only three new office buildings were constructed in the ten years to 2005 (Mobil on the Park, The Majestic Centre and the HSBC Tower).

Eight developments are under construction, or have been recently completed, that will add 66,500 sq m to the existing stock of office space (Dow, *Wellington Office Overview, December 2005*)

The Office 'Demand' Side

The 'public sector' occupies 41% of Central City office space (Jones, Lang Lasalle). This would equate to 574,000 sq m.

The 'business services and property' sector occupies 25% (350,000 sq m), the 'finance and insurance' sector 14% (196,000 sq m), 'communications services' 11% (154,000 sq m), leaving 10% (140,000 sq m) occupied by other activities.

² There will inevitably be disagreements about the actual figures, however, a 10 to 15% difference in the accuracy of any figure is not likely to make any major impact on the conclusions reached in this report.

³ Bayleys estimate an occupied floor area of 1,356,000 sq m, 131,073 sq m vacant, giving a total floor space of 1,487,073 (as at December 2004) (Property Economics Report, February 2006)

Office demand has been relatively constant, with occupied floor space being of the order of 1.4m from 1991 to 1998 then declining to be about 1.35m up to 2005 (Table 2.1).

The Changing Balance Between Supply and Demand

It was the loss of office space ‘taken off the market’ (largely due to residential conversions) that has brought the Wellington office market into better balance and has enabled Wellington Central City office rentals to rise by 14% in 2004 and 25% in 2005.

**Table 2.1
Changes In The Supply of Office Space
In Central Wellington 1991 to 2005**

	Occupied					Vacant					Total F/Space	Total Vacant
	Thorndon	Core	Fringe	Te Aro	Total	Thorndon	Core	Fringe	Te Aro	Total		
Dec-91	184,064	714,362	269,243	243,255	1,410,924	10%	25%	24%	19%	305,954	1,716,878	22%
Jun-92	184,850	714,362	267,019	248,441	1,414,672	11%	25%	23%	19%	309,540	1,724,212	22%
Dec-92	186,929	715,911	270,594	250,397	1,423,831	7%	25%	24%	21%	306,765	1,730,596	22%
Jun-93	190,749	720,716	277,238	253,113	1,441,816	8%	23%	26%	19%	301,143	1,742,959	21%
Dec-93	190,749	720,716	276,580	252,578	1,440,623	8%	22%	26%	22%	297,980	1,738,603	21%
Jun-94	206,247	714,010	270,683	250,002	1,440,942	16%	20%	22%	17%	276,434	1,717,376	19%
Dec-94	205,058	711,569	266,259	248,153	1,431,039	15%	17%	19%	16%	242,876	1,673,915	17%
Jun-95	206,681	711,569	266,042	248,287	1,432,579	14%	16%	19%	15%	227,653	1,660,232	16%
Dec-95	206,681	713,620	266,704	248,287	1,435,292	11%	13%	19%	14%	202,470	1,637,762	14%
Jun-96	208,094	707,475	259,753	249,400	1,424,722	4%	12%	15%	15%	170,664	1,595,386	12%
Dec-96	208,499	707,475	264,053	255,864	1,435,891	4%	11%	15%	16%	170,463	1,606,354	12%
Jun-97	208,199	702,840	263,905	256,982	1,431,926	5%	11%	14%	19%	170,767	1,602,693	12%
Dec-97	201,313	695,555	262,805	242,705	1,402,378	6%	8%	14%	15%	143,352	1,545,730	10%
Jun-98	200,861	693,990	262,805	243,596	1,401,252	6%	9%	14%	16%	144,906	1,546,158	10%
Dec-98	197,888	716,634	262,573	238,440	1,415,535	6%	14%	15%	18%	192,325	1,607,860	14%
Jun-99	196,905	708,742	263,897	239,200	1,408,744	5%	12%	15%	17%	177,473	1,586,217	13%
Dec-99	192,444	699,572	257,473	233,284	1,382,773	4%	12%	14%	17%	168,033	1,550,806	12%
Jun-00	191,512	698,147	255,551	225,924	1,371,134	7%	10%	14%	16%	158,004	1,529,138	12%
Dec-00	190,220	693,644	256,569	221,306	1,361,739	11%	9%	12%	15%	143,785	1,505,524	11%
Jun-01	183,187	695,512	254,903	218,324	1,351,926	5%	7%	11%	18%	124,024	1,475,950	9%
Dec-01	183,390	703,348	252,614	215,155	1,354,507	5%	9%	14%	17%	143,415	1,497,922	11%
Jun-02	183,389	710,650	239,820	216,035	1,349,894	6%	9%	17%	14%	144,373	1,494,267	11%
Dec-02	192,177	711,294	252,549	214,989	1,371,009	5%	13%	15%	13%	171,808	1,542,817	13%
Jun-03	192,242	711,291	252,184	213,042	1,368,759	5%	10%	14%	13%	148,123	1,516,882	11%
Dec-03	189,122	711,294	250,762	213,039	1,364,217	5%	9%	12%	15%	134,570	1,498,787	10%
Jun-04	202,404	706,653	249,796	212,915	1,371,768	8%	7%	11%	16%	128,693	1,500,461	9%
Dec-04	204,000	695,000	247,000	210,000	1,356,000	5%	9%	13%	11%	131,073	1,487,073	10%

(Bayleys figures, quoted in Property Economics Report, February 2006).

The Wellington office market has only recently recovered from the past oversupply and the prolonged downturn in demand, driven by the downsizing and relocation of major corporations and reduced demand from the government sector.

This resurgence has largely been engendered by the buoyant government market and residential conversions that have taken significant old office space out of the office market.

Over the last four years (to December 2005), government occupancy has increased by 25% (100,000 sq m), with nearly 28,000 sq m of space taken up in 2005 (Telfer Young, *Wellington Newsletter* May 2006).

The Present Level of 'Office Vacancies'

Bayleys estimated there was 131,073 sq m of vacant office space in the Wellington Central, as at December 2004, and a total floor space of 1,487,073, giving an 11% vacancy rate (Table 2.1).

The lowest vacancy rates were found in Thorndon, (5%, as at December 2004), somewhat higher in the CBD (9%) and highest in the southern Fringe of the CBD (13%) and Te Aro (11%).

Since then, overall office vacancy rates in the Central City have dropped to 8% by December 2005 (Telfer Young, *Wellington Newsletter* May 2006).

Vacancy rates are very low for *Premium* space (less than 1%), and become progressively higher as the quality of space declines (Table 2.2).

Existing office vacancies only exceed the minimum 'market lubrication' vacancy rate necessary for effective operation of the rental market for the *poorest quality* of office space where vacancies were 35% in December 2005.

Table 2.2
Central City Office Vacancies
(Office Market Survey December 2005)

Premium Office Space	1%
Good Quality Space	6%
Average Quality Space	9%
Fair Quality Space	11%
Poor Quality Space	35%
<i>Overall</i>	<i>8%</i>

(Source: Telfer Young, *Wellington Newsletter*. May 2006)

The Location of Recent Demand For Office Space

Table 2.3 shows the recent and proposed moves of large office tenants.

Table 2.3
Recent Moves of
Major Central City Office Tenants

Organisation:	From:	To:	Move:
Environment	Southern CBD	Thorndon	North
Health	Southern CBD	Northern CBD	North
Defence	Core CBD	Thorndon	North
KPMG	Southern CBD	Core CBD	North
Meridian	Courtenay Place	Waterfront	North
Transpower	Terrace	Terrace	-
Min Ag & Forestry	Terrace	Terrace	-
Statistics	Thorndon	Centreport	East
CTSY	Core CBD	Core CBD	-
Conservation	Southern CBD	Southern CBD	-
Justice	Thorndon	Thorndon	-
Deloitte's	Thorndon	Core CBD	South

(Source: *Dow*, July 2006)

The relocation of large tenants (each seeking over 10,000 sq m of space) is 'northward'. With 5 out of 12 moves to the north (4 of these five being to the north of the CBD), and one (the Department of Statistics) moving within the northern area to *Harbour Quays* (Dow July 2006).

Another 5 remained in the same part of the Central City, where they were already located. Whilst one large organisation (Deloitte) moved south (Table 2.2)

2.2 The Immediate Future Wellington Central City 'Office Market'

Again there are no mutually agreed figures for the immediate future of the Wellington's Central City office market. The following is a summary of the information available⁴.

The Level of Likely 'Short Term' Future Demand

There are currently (as at July 2006) 13 large tenants (each seeking over 5,000 sq m of space) requiring 177,500 sq m of office space. Some 83% of this demand is from tenants likely to prefer premises in the northern part of the Central City (Table 2.4).

**Table 2.4
Potential Relocations
of Wellington's Major Office Tenants**

Tenant Status	Number of Organisations	sq.m.	Likely North Preference (sq.m.)
Committed to developments	6	43,500	18,000
Close to committing	3	37,000	37,000
Actively looking	4	97,000	92,000
TOTAL		177,500	147,000

Possible movers	8	126,000	
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(Source: Dow, July 2006)

Six of these tenants have already made commitments to premises, however, there are 7 other major tenants that are close to committing or actively looking. They require over 134,000 sq m of office space, with the vast majority of this demand (129,000 sq m, 96%) likely to prefer the northern part of the Central City.

⁴ There will inevitably be disagreements about the actual figures, however, a 10 to 15% difference in the accuracy of any figure is not likely to make any major impact on the conclusions reached in this report.

There are another 8 major office users that could possibly move, with demand for a further 126,000 sq m of office space.

Thus the prospective demand from large space users is of the order of 180,000 to 300,000 sq m. (between 13% to 21% of existing total supply).

The *Harbour Quays* Master Plan presently makes maximum provision for an additional 51,500 sq m of office space⁵ (equivalent to 17% to 39% at most, of this potential additional demand, assuming no tenants are attracted from outside the Central City).

There is a realistic *minimum* take up of 134,000 sq m of additional space expected beyond existing commitments (about 10% of total existing office supply). Of which 129,000 sq m is from tenants likely to have a strong preference for locating in the north of the Central City.

The *Harbour Quays* could at best provide for 38% of this demand (assuming *all* of the proposed office space is developed, *all* existing negotiations fall through, and *no new tenants* are attracted from beyond Wellington or outside the Central City).

Adding these new vacancies to existing office vacancies is unlikely to cause an overall unacceptable level of vacancy in the Wellington Central City in the immediate future. Even if all of the 'take up' of this space (134,000 sq m in total, 51,500 sq m to *Harbour Quays*) came from existing Central City office buildings (without any other sources of demand filling any of this vacated space)⁶.

However, difficulties may be expected for individual buildings if they are left largely vacant.

Difficulties can be expected for the poorest quality Central City office buildings (where there is already 35% vacancies although this only accounts for a very small proportion of total floorspace) as existing tenants move out, at lease renewal time, to move into newly vacated, better quality, better located premises, that allow a '*drift to better quality premises*'.

The Available 'Land Supply' To Meet This New Demand

There are sufficient undeveloped and underdeveloped sites, with reasonable prospects for redevelopment, in the Central City to more than meet this level of demand.

Land with a realistic potential to accommodate 408,000 sq m of future office (under existing planning provisions) has been identified as 'readily developable sites' in the Central City (Table 3.5).

⁵ The latest reduced site planning proposes only 48,000 additional office space.

⁶ Vacancies may be less because business often take up more space when they move than the space they leave behind and because the existing remaining tenants often expand to take at least some of the space vacated

These are properties where office developments are either already committed, or are in single ownership with some planning or marketing for future office development already underway.

Table 3.5
Available Sites For Future Office Development
And Their Development Potential
 (July 2006)

Zone⁽¹⁾	Capacity - Probable ⁽²⁾	Capacity - Constrained ⁽³⁾	Total
CentrePort	51,500	-	51,500
Railway Station	55,000	30,000	85,000
Thorndon	86,000	38,000	124,000
Parliamentary Precinct	60,000	10,000	70,000
Waterfront	4,500	-	4,500
CBD Core	53,000	92,000	145,000
CBD South	62,000	65,000	127,000
Te Aro/ Courtenay Place	36,000	150,000	186,000
TOTAL	408,000	385,000	793,000

(Source: Dow, July 2006)

Additional properties have been identified capable of accommodating a further 385,000 sq m of office space where early redevelopment is more problematical because of ownership, the ability for efficient redevelopment floor plans and existing tenancy agreements.

Potentially, there is land available to accommodate 793,000 sq m of future office space under existing planning provisions. Some 330,500 sq m of this development potential (42%) is to be found in the north of the Central City.

Considering only the properties relatively easily developed, some 62% of the development potential is in the north of the Central City (252,500 sq m of the 408,000 sq m of the easily developable space).

The Situation Under ‘Reduced Development Potential’

Proposed District Plan building volume restrictions may reduce this potential. The proposed provisions reduce ‘as of right’ total volume to 75%.

Even if the potential was reduced to 75% of the total capacity (which is very unlikely), this is still over twice the demand identified from major space users ‘close to committing’ or ‘actively looking’ for office space in the Central City.

Therefore, there are plenty of opportunities to meet known potential major tenant demand from existing vacant and underdeveloped sites in the Central City, without any need to redevelop existing office buildings.

Considerable opportunities also exist to meet known potential major tenant demand outside the preferred northern area of the Central City. Therefore, making redevelopment of large, poor quality existing office buildings in the CBD areas less likely than otherwise would be the case.

The Potential Impact of The Proposed Harbour Quays Development

The *Harbour Quays* development, as presently proposed on the reduced site, could contribute 51,500 sq m, at most, of additional office space to this 'readily developable site' potential⁷. (Equivalent to 17%, at most, of the *total* Central City, or 27% of the *northern* Central City's, 'readily developable sites' potential).

Without any further office development on the *Harbour Quays* land, there would still be 'readily developable sites' with the potential to provide 247,000 sq m of office space (1.8 times the realistic *minimum* take up of 134,000 sq m of additional space expected beyond existing commitments).

There are other easily developed sites in the north of the Central City with the potential to provide 189,000 sq m of office space under the more restrictive planning provisions⁸ that could still easily meet the realistic *minimum* take up of 134,000 sq m of additional space expected beyond existing commitments.

However, it is unlikely that the northern part of the Central city would capture all of this demand, because there are 'readily developed sites' with the potential to provide 117,000 sq m of new office space elsewhere in the Central City (even under the more restrictive building volume provisions).

Therefore, it is difficult to avoid the conclusion that the redevelopment of existing 'readily developable sites' for office purposes will be far more likely than more costly redevelopment of large, older CBD office buildings (*whether or not the Harbour Quay* development occurs to its full office potential)⁹.

The Situation For 'Large Floor Plate' Development

The strongest argument expressed in favour of fringe CBD office development has been the lack of 'large floor plate' office space.

That is, the need for Wellington to supply buildings with *individual floors* offering over 1,300 sq m of space, that enable the efficient operation and combinations of government and corporate business units on the one floor.

⁷ The latest information from *CentrePort* is the remaining developable office space on the reduced *Harbour Quays* site may only be 48,000 sq m.

⁸ Wellington City Council proposes to reduce the development potential of Central City sites to 75% by new 'site cover' provisions

⁹ Information on viable rentals from the Property Council, Vibrant Wellington, local property owners and developers and the industry suggests development is viable at rentals over \$430/sq m on vacant and readily developable sites, but rentals would have to rise by 25% to over \$530/ sq m to enable the demolition and redevelopment of vacant existing poor quality office buildings (with zero 'book value' land values)

There appears to be general agreement that the poorest performing Central City office buildings cannot meet, or be easily retrofitted, expanded, or combined, to meet this demand.

CentrePort, and other industry sources, argue that the *Harbour Quays* development meets this ‘market failure’.

‘Readily developable sites’ in the Central City are able to provide for 358,500 sq m of ‘large floor plate’ space (Table 3.6).

Table 3.6
The Capacity To Provide
‘Large Floor Plate’
Office Space

Zone	Capacity - Probable ⁽¹⁾ <1,300 sq.m. floorplates	Capacity - Constrained ⁽²⁾ <1,300 sq.m. floorplates	Total Development Capacity <1,300 sq.m. floorplates	Capacity - Probable ⁽¹⁾ >1,300 sq.m. floorplates	Capacity - Constrained ⁽²⁾ >1,300 sq.m. floorplates	Total with >1,300 sq.m. floor plates	Total Development Capacity
CentrePort	15,500	-	15,500	36,000	-	36,000	51,500
Railway Station	11,000	10,000	21,000	44,000	20,000	64,000	85,000
Thorndon	8,000	16,000	24,000	78,000	22,000	100,000	124,000
Parliamentary Precinct	-	-	0	60,000	10,000	70,000	70,000
Waterfront	-	-	0	4,500	-	4,500	4,500
CBD Core	10,000	-	10,000	43,000	92,000	135,000	145,000
CBD South	5,000	65,000	70,000	57,000	-	57,000	127,000
Te Aro/ Courtenay Place	-	150,000	150,000	36,000	-	36,000	186,000
TOTAL	49,500	241,000 ⁽³⁾	290,500	358,500	144,000	502,500	793,000

(Source: *Dow* July 2006)

The *Harbour Quays* land could provide 10% of the ‘large floor plate’ office space able to be provided by ‘readily developable sites’ in the Central City.

The ‘large floor plate’ space able to be provided on ‘readily developable sites’ in the Central City would drop to 268,900 sq m¹⁰ under Council’s proposal for more restrictive building volume controls, whereby development potential would be reduced to 75% (see earlier discussion).

The *Harbour Quays* land could provide 13% of this ‘large floor plate’ office space able to be provided by ‘readily developable sites’ in the Central City under Council’s more restrictive building volume controls.

Other opportunities exist elsewhere in the Central City to provide ‘large floor plate’ office space on ‘readily developable sites’. In particular, the northern part of the Central City (182,000 sq m, without *Harbour Quays*, 136,500 sq m under Council’s proposed reduced ‘building volume’ provisions), and in the

¹⁰ Including the *Harbour Quays* site without any deduction, reflecting its existing lower site cover.

CBD (with 100,000 sq m potential, 75,000 sq m under Council's reduced 'building volume' provisions).

Therefore, the *Harbours Quays* development can not be said to be the only opportunity to meet a 'market failure' in the provision of large 'floor space' buildings, even in the *northern* part of the Central City, where there is a concentration of demand from government departments and agencies likely to require large 'floor space' buildings.

Although the *Harbours Quays* development has arguably proved itself sufficiently responsive to these market needs to supply the required high quality office space sought by 'large floor plate' tenants at prevailing market rentals.

The Potential Impact of Harbour Quays On 'Future Office Vacancies'

Let's begin this part of the analysis by assuming *Harbour Quays* attracted tenants only from the Central City to fill an additional 51,500 sq m of office space, and none of that vacated space is filled by new, or expanding existing, tenants¹¹.

Under these circumstances, *Harbour Quays* development would result in an additional 3.7% of existing office space becoming vacant¹².

This would lift present vacancies to less than 12%, which is quite acceptable in 'efficient functioning' office markets which need around this level of 'market lubricating' vacancies (to provide some choice of space and prevent excessive rent increases).

Significant vacancies could temporarily appear in Wellington's limited stock of 'good quality office space', only if all of *Harbour Quays* new tenants move out from other 'good quality office space'.

At worst, increased vacancies could temporary affect 18%, at most, of Wellington's good quality Central City office space¹³.

However, any vacancies created in 'quality buildings' at desirable locations will provide opportunities for new tenants to enter the market that presently lacks 'good quality' office space.

¹¹ It is arguable that new office tenants will leave slightly more space than they take up, because of the inefficient use of their old office space and efficient, space reducing new office layouts and office and storage space management practices. This view appears to hold sway for the present Wellington market. But there is also the counter argument that some will secure more space when they move into a modern building than they immediately need to allow for planned future expansion and to provide better employee facilities and more reception, meeting, private office, interview and boardroom space.

¹² The effect on vacancies in existing buildings could be somewhat more, because more space may be released in existing buildings than is taken up in new buildings because of inefficient buildings, floors and floor space. It could be somewhat less because businesses tend to occupy more space when they relocate because they provide for future expansion, plan for more storage and back office space, and incorporate better staff, visitor and reception facilities.

¹³ There being 51,500 sq m of space taken, the maximum possible, taken from the 280,000 sq m of quality office space. This is most unlikely as some tenants will come from poorer quality space and some can be expected to come from outside the Central City, outside Wellington and from outside New Zealand.

These vacancies would also enable existing tenants to progressively move up the 'quality ladder' to better quality, better located, premises.

Therefore, The eventual, 'flow-on' impact will be on the poorest quality office stock, where there are already high vacancies, in excess of 35% (as at December 2005), although this only comprises a small proportion of Wellington's total floor office space.

Additional vacancies can be expected at the 'bottom end of the market' if new office tenants are attracted directly from these premises, or because these premises are left vacant due to the 'trickle down effect' as existing tenants relocate to 'newly vacated', better quality, better located premises.

An important point is that this effect will be the same, *no matter whether it is the Harbour Quays development or any other land not presently occupied by offices* that provides the initial increase in better quality space.

The Impact of Office Rentals On 'Refurbishment Prospects'

The refurbishment of older office buildings has been an important feature of the Wellington Office Market and will continue to be important.

One recent example has been Pastoral House on Lambton Quay that is now re-occupied. Other buildings recently refurbished or advertised for refurbishment which are still to be fully let included the *Urbus Tower*, *117 Customhouse Quay*, the *old AMP Head Office* building and the *Public Trust Building*. (Telfer Young, *Wellington Newsletter* May 2006).

Information on viable rentals from the Property Council members, Vibrant Wellington, and confirmed by local property owners and developers and others in the industry suggests new office development is viable at rentals over \$430/sq m on vacant and readily developable sites.

However, rentals would have to rise by at least 25% to over \$530/ sq m to enable the demolition and redevelopment of large existing poor quality office buildings (with zero 'book value' land values).

Rentals would need to be even higher for an investor to purchase such a building for redevelopment, or if existing owners expected a reasonable return on the 'land component' of the development.

To put such rises into context, industry sources advise 'prime office space' rentals in Central Wellington rose 25% last year and by 14% the year before.

The Prospects For Economically 'Redeveloping Vacant Buildings'

Industry sources advise prime Central City office rentals are still less than the 'face rentals' actually achieved during the late 1980/early 1990s 'property boom' before the crash in rentals and contraction in demand (that is only now beginning to be restored).

The present pace of large tenancy turnover will slow after the current cycle of moves in 3 to 5 years time, as major corporate and government departments and agencies complete their long-term leasing commitments. There is also the prospect of a future downturn in government office space demand.

There are many other opportunities to viably supply new office buildings at lower rentals throughout the Central City (*even without the Harbours Quays development*), without demolishing and rebuilding large, poor quality CBD office buildings (see previous sub-sections).

Therefore, it appears unlikely that it will be viable to demolish and rebuild large, poor quality, CBD office buildings during this rental cycle, *unless the supply side can be immediately and severely constrained*.

Stopping the Harbours Quays development on its own will not achieve this outcome (because it will contribute no more than 17% of the supply of office space possible from 'readily developable sites').

Put simply, Wellington is facing a potentially serious problem of increasing vacancies in the poorest quality Central City office buildings. Whilst this is currently only a very small proportion of total floor space, there is the potential for this to grow significantly over time. This is a difficult problem to solve, and there is no 'one simple solution'.

This problem is not going to just 'go away' by simply stopping the Harbour Quays development.

3.0 CONCERNS EXPRESSED BY VIBRANT WELLINGTON

The following concerns relating to *CentrePort's 'Harbour Quays'* development, have been recently expressed by members of Vibrant Wellington¹⁴:

1. *The 'Northern Drift' in the location of office demand and space is a myth*
2. *Harm to vibrancy in CBD resulting from the lack of compactness of the City Centre*
3. *Impact of loss of worker expenditure on CBD retail turn-over (large numbers of workers will relocate to CentrePort's 'Harbour Quays' development and they will not walk back to the CBD)*
4. *Loss of tourist appeal of Central City because of loss of vibrancy and pedestrian activity*
5. *The sub-standard environment for workers at CentrePort's 'Harbour Quays' development*
6. *Rentals will not reach levels for economic redevelopment of jaded CBD and other Central City office buildings*
7. *Existing CBD and other Central City office buildings will be left vacant*
8. *Existing sites will remain undeveloped (leaving holes in the City fabric)*
9. *The benefit of proximity to rail is overstated (It is not a major concern because few Central City workers travel by rail)*
10. *Lower rentals will mean lower property values (for existing office owners) and lower rate income for Council to spend on civic improvements*
11. *Renewal of existing older office buildings in Wellington as office buildings is critical (the owners and buildings do not respond well to refurbishment and alternative uses)*
12. *It is vitally important to maintain the vibrant 'Wellington Experience'*

Members of Vibrant Wellington strongly advocated taking firm steps to stop CentrePort's *Harbour Quays* development, on this basis.

They also recommended placing a restriction on office development outside the Wellington CBD, until such time that office rentals are sufficiently high to enable the viable demolition and reconstruction of existing large poorer quality CBD office buildings for office purposes¹⁵. After which the area could be progressively 'expanded' to enable new office development elsewhere.

¹⁴ These views were expressed to the author at two meetings with members of Vibrant Wellington in July 2006. Members of the Council were given the opportunity to add to or amend this list, they have not done so, but individual members have indicated that these fairly represent their issues.

¹⁵ These views were strongly and vocally presented at two meetings with this author in early July 2006

3.1 Is Local Government 'Market Intervention' Appropriate or Warranted?

Some insights from basic economic theory and planning theory are helpful.

The 'land use principle' most frequently invoked is that land should be used for its 'highest and best use'.

Economic theory holds that the 'pricing' system created by the operation of 'free markets' is the best means of achieving 'economic efficiency'.

To be fully effective 'free markets' need to operate under conditions of 'perfect competition' which requires there to be large numbers of buyers and sellers of products, that the supply of these products is readily increased to match demand and that 'perfect knowledge' exists about these products, the available buyers and sellers and prevailing supply and demand conditions.

Then no 'extraordinary profits' are made (that economists call 'economic rent'), only the minimum profit margin required for suppliers to remain in the market.

However, the very foundations of urban planning stem from the existence of 'market failures'.

Planning interventions are warranted because property markets are imperfect and because activities have 'spill over effects' so that 'externalities' exist resulting in not all social, economic and environmental costs and benefits being addressed, measured, internalised and compensated for within the operation of property markets.

These 'market failures' mean that the 'highest and best use' of land from a property market, individual landowner's and developer's perspective can have unacceptable community, social, environmental and economic consequences.

Urban planning interventions are therefore often justified to:

- Overcome significant, enduring, long-term 'market failures'
- Protect the greater good of the public and community at large
- Ensure the health and safety of those living, working and recreating in our cities
- Protect the economic health, effectiveness and efficiency of our cities
- Enable the efficient provision and operation of infrastructure and services
- Protect the interests of the disadvantaged and those without sufficient, effective 'market power'
- Ensure the desired level of social equality, social equity and social justice
- Protect the natural environment, and places of cultural or heritage value

Implications

Planning interventions should not be invoked merely *to protect particular properties and interest groups from competition or other 'market forces'*.

Planning interventions should not be invoked merely *to create or protect 'spatial monopolies' that reduce where competition takes place.*

Reducing the supply of land or properties merely *to force up rentals* is essentially *'anti-competitive behaviour'*. It will increase the overall 'cost of doing business in Wellington' and thereby reduce Wellington's overall economic efficiency and 'world competitiveness'.

There are clearly *direct community costs* if government departments and agencies are forced to pay higher rentals than they otherwise would.

Therefore, there has to be other wider community and economic efficiency reasons to oppose office development on the fringe of the City Centre, such as the *Harbour Quays* development.

The most important considerations that could warrant local government intervention in the Wellington Central City property market would be:

- *Market failures in the supply of different qualities and types of space or the creation of 'world competitive' working environments*
- *High retail vacancies leading to the loss of convenience and reduction in the range and variety of services and facilities available to residents, businesses, visitors and workers*
- *Significant office or retail vacancies resulting in loss of investment, tourism and visitor attractiveness for Wellington or its Central City*
- *Reduced economic efficiency from the reduced opportunities for 'face to face' and 'casual contact' between government people, business people and workers*
- *The lack of access to basic facilities and services expected by the local workforce forced to work in fringe locations.*
- *Reduced regional economic efficiency and increased commuting from fewer activities and employment located outside the Central City*
- *Reduction in the use of public transport, unacceptable Central City parking demand and increased costs of fuel imports, transport infrastructure provision, pollution and congestion*
- *The loss of diversity and vitality resulting in a 'dead heart' in the Central City (during the day, evenings, at night or weekends)*
- *Failure to maintain existing properties and a deteriorating public realm (resulting in dilapidation, physical blight; increased anti-social behaviour, fears for public safety; 'no-go areas', increased crime against property and people and even the abandonment of areas)*

These are quite high 'public good tests' that need to apply to justify more restrictive planning and development interventions in Wellington's Central City property markets.

3.2 Are Potential Impacts Important Enough To Warrant Intervention?

The question arises of whether the *Harbour Quays* development realistically constitutes any of these threats to Wellington City?

In my considered professional opinion the answer is *no the Harbour Quays development does not constitute any of these threats, sufficiently to warrant major government intervention, given the nature and scale of development presently proposed.*

However, this does not mean that the Wellington City Council, the Regional Council and the private sector could not work collaboratively with *CentrePort* to achieve better business, Central City and Regional outcomes from the development of the *Harbour Quays* lands.

The questions raised by Harbour Quays also raises the further question, of whether action is needed to prevent incremental fringe developments that cumulatively could create any of these threats, when no one development can be stopped because it can be singled out to blame?

My considered professional opinion is that significant office developments, at *dispersed* or *disconnected* locations, more than 800m from the retail, or business hearts and public transport, *could constitute sufficient threat to warrant government planning, development and design intervention.*

Does The 'Harbour Quays' Development Pose Such A Serious Threat?

Examining each potential threat, in turn:

Market failure – in the *supply of different qualities and types of space* or the creation of *'world competitive' working environments.*

It is clear that the existing property market has not been very responsive in meeting the demand for new, good quality, large floor plate office space at current rentals.

Without the *Harbour Quays* development it is at least arguable that Council could by now be under considerable pressure to address the 'market failure' in the supply of such space in the Central City.

However, the *Harbour Quays* development has not yet risen to the standards needed to create a *'world competitive' working environment* in terms of worker services and facilities, public space making, and a quality pedestrian environment and quality pedestrian connections on site and to the site.

This will not eventuate if the development stalls, leaving just a few scattered office buildings, in limited landscaped surrounds, without adequate pedestrian connections, few opportunities for business hospitality and a limited range of modest worker facilities and services.

There is a significant risk that sufficient early office development may not eventuate to create a successful cluster of private or government office activities and a highly interactive and mutually supportive office community.

There is also a significant risk that there may not be sufficient early office development to complete a high quality working environment, with the range of quality services and facilities and the quality places and settings that will result in casual and accidental meetings and social interaction that will help attract and lock talented people, business visitors, contracted specialist and other short term workers into wanting to stay, live and work in Wellington.

The *Harbour Quays* development also brings into sharp focus the need to create the highest quality of safe, sheltered, landscaped connections to the rail station, bus stops, the retail, cultural and entertainment hearts of Wellington, the government precinct and other CBD business areas.

This will inevitably require additional public investment. This would include, for instance, in providing better, sheltered connections and the creation of 'outdoor rooms' in the 'station precinct' and for ensuring continuous, attractive waterside connections for visitors and workers seamlessly connecting the *Harbour Quays* area with Kumutoto and the Lambton Harbour/Wellington Waterfront public lands.

If the *Harbour Quays* development does not quickly proceed to the full extent envisaged in the present Master Plan, then this public investment may need to extend to pedestrian and traffic improvements along Waterloo Quay and providing quality public places within the Harbour Quays lands to create '*superior business settings*' and more quality recreational settings and places to sit, meet and enjoy.

The 'induced' public investment required for quality pedestrian connections, creating 'superior business settings', providing quality public places and spaces and providing access to quality public transport should be considered *in advance* whenever significant developments are proposed away from the high amenity heart of the Central City.

High retail vacancies – leading to the *loss of convenience and reduction in the range and variety of services and facilities* available for residents, visitors, businesses and workers.

The *Harbour Quays* development is within walking distance of Lambton Quay and the northern (government) end of the Wellington retail heart. However, the present pedestrian environment is not conducive to this walk. The northern end of the Lambton Quay also has relatively few retail, recreation, cafes, restaurants and hospitality opportunities.

Workers from the *Harbour Quays* development are unlikely to penetrate further into the retail heart during their lunch breaks and are unlikely to venture as far as the Cuba St retail and entertainment precinct.

Therefore, office development closer to the retail heart would be preferable.

However, even the loss of all of 2,700 employees projected to work in the *Harbour Quays* precinct (or 4,500 jobs if the property is fully developed) would not undermine the economic viability of the retail heart of the Central City.

Any loss in office employees visiting the retail heart of the Central City, will be far more than offset by the increase in 11,290 residents planned to be living within walking distance of Wellington's retail heart by 2021 (Statistics NZ projections).

Most residential growth is projected to be in the southern end of the Central City. Some 3,967 additional residents, 46% of the CBD residential population growth, is expected to be in the southern, Willis St/Cambridge St locality and an additional 2,600 residents are expected to live in the surrounding southern inner residential suburbs (Aro St/Naira St, Mt Cook/Wallace St and Mt Victoria West).

This will provide increased retail demand concentrated towards the 'southern end' of the retail heart. Much of this additional residential retail demand will *not* be within 'convenient walking' distance of the northern, government end, of the Lambton Quay retail area.

Therefore, increased office development is preferable to the north, rather than the south to maintain a 'better balanced' retail precinct with all parts growing.

Significant vacancies – resulting in *loss of investment, tourism and visitor attractiveness* for Wellington or its Central City.

The *Harbour Quays* development would provide less than 6% of total office space in the Central City if it supplied 81,100 sq m of office space¹⁶. So far it has only provided 22,000 sq m of office space.

The supply of an additional 51,500 sq m of office space, taken entirely from the existing office market would only lift existing vacancies by 3.7%, raising the level of vacancy to less than 12%. Vacancies could temporarily rise, at worst, to 18% in Wellington's present stock of good quality Central City office space¹⁷.

The level of long-term vacancies is unlikely to result in *loss of investment, tourism and visitor attractiveness* for Wellington or its Central City.

Increased opportunities for residential conversions, 'boutique' small office conversions, and increased demand from retailing, entertainment and personal services could be expected to quickly absorb any vacancies.

¹⁶ 5.7% assuming a maximum of 81,100 sq m of net office space is eventually built, as originally proposed, the more likely figure is 48,000 to 51,500 sq m of additional space.

¹⁷ There being 51,500 sq m of space taken from the 280,00 sq m of quality office space. This is most unlikely as some tenants will come from poorer quality space and from outside the Central City.

Buildings unsuited for such conversions are unlikely to attract other types of office activities.

However, any unviable, vacant buildings, unsuited for conversion or adapted re-use for other purposes, could reasonably expect to be re-developed for residential or visitor accommodation purposes, for 'boutique' small office space, retailing, entertainment and personal services (or for combinations of these in new, mixed-use developments).

Reduced economic efficiency – from the *reduced opportunities for 'face to face' and 'casual contact'* between government people, business people and workers.

The *Harbour Quays* development is within walking distance of the northern government end of the Wellington CBD and the northern end of Lambton Quay and the retail heart.

However, the present pedestrian environment is not pleasant and not conducive to this walk. There are few public places where business people and government people will linger or spend time during breaks, before and after work, during lunch breaks and between meetings.

Therefore, there are relatively few *opportunities for 'face to face' and 'casual contact'* between government people, business people and workers.

However, there are opportunities to provide such an environment and improve such opportunities both on the *Harbour Quays site*, along the walkway to the rail station, along the Waterloo Quay and along the pedestrian links to the Lambton Quay and the government precinct.

The same opportunities are less likely to be available through the piecemeal refurbishment and development of existing buildings.

Nor are they likely to occur as office people get hidden in the mix of visitors, shoppers and workers when moving through the retail heart of the CBD.

Therefore, *opportunities for 'face to face' and 'casual contact'* between government people, business people and workers are better able to be created with office development in the northern government and business end of the CBD than in the southern and retail areas of the CBD.

The lack of access to basic facilities and services – reasonably expected by the local workforce forced to work in fringe locations.

The *Harbour Quays* development is unlikely to generate enough demand to provide a broad range of employee services. This makes it more likely that buildings and major tenants will provide their own limited facilities that will be restricted, or appear to be restricted, to their own tenants.

Fortunately *Harbour Quays* is within convenient walking distance of the northern end of the CBD, (although the walk is not currently very pleasant and the opportunity unlikely to be availed in inclement weather).

This presents both opportunities and difficulties.

The difficulty it is that any significant worker amenities and attractions, cafes and restaurants, at *Harbour Quays* could attract workers away from the CBD, this makes it difficult to provide a 'world competitive employee environment'.

Likewise any significant retailing would be attractive at this end of the Central City, but this could compete with the southern end of the CBD, and this retailing would be beyond convenient walking distance of the main existing, and expected future inner City residential growth areas.

One opportunity is for *Harbour Quays* to compensate by providing world class, 'all weather' public places and spaces to create an exceptional working environment and exceptional settings for business and employee networking, entertainment, and relaxation.

The second opportunity is to provide important shared business and quality employee facilities that will strengthen, rather than compete, with the rest of the Central City. For instance, boutique conference and workshop facilities, community and executive health and fitness and indoor sports facilities, corporate function and display space, video conferencing and 'time shared' boardrooms, meeting rooms and multi-media facilities, 'one stop' government services.

The third opportunity is to provide exceptional visitor attractions and sporting facilities that will strengthen, rather than compete, with the rest of the Central City. For instance, robust 'community art' and 'sculpture garden' to play and climb on, exceptional 'adventure playgrounds' for pre-school and school aged children and for teenagers; an ice skating rink, squash, indoor sports and fitness centre; an all weather events and City markets venue (which people will know will be the alternative venue for outdoor City events in inclement weather); a world class skate park with skate board trails; band rehearsal, multi-media, computer aided music and recording studios, computer games and games creation software centre (that will attract visitors, including grand parents minding young children; provide non-mainstream youth with 'diversion activities' and help them learn potentially marketable 'new age' skills).

This will enable Wellington to both broaden and deepen its employee and visitor offer and help bring visitors to the Central City (keeping them longer, so that they spend more); provide a northern 'waterfront magnet attraction' and help energise the northern part of the CBD (especially on weekday evenings, at night and weekends).

The important point is these opportunities need to be of 'exceptional quality' and 'remarkable in design', to provide significant 'points of difference'; to

attract workers and visitors from afar, and to help underpin Wellington's image as a remarkable creative and innovative, '*world class city*'.

The broader point is that developments further from the CBD need to be far more self-contained in what they offer.

They need to be of sufficient scale, with a significant mix of residential and business uses, to be able to support their own set of facilities and services, without creating a significant threat to the Central City.

Reduced regional economic efficiency and increased commuting - from fewer activities and employment located outside the Central City.

The SGS Report argues that activities and employment attracted by *Harbour Quays* will be those that otherwise, and would best be, located in Regional centres away from the Central City.

This should be an important consideration in the types and scale of activities the Central City should attract.

It is a major argument for creating a future orientated economic 'vision' and being very clear about the 'role' that each part of the Central City and other 'activity and employment areas' are expected to play in the Region

However, it is not clear that *Harbour Quays* itself will constitute a major threat to employment and activities locating elsewhere in the Region.

Certainly the approach outlined in the earlier point should ensure this does not happen with *Harbour Quays* or any future development in the vicinity of the Central City.

Reduction in the use of public transport - producing unacceptable Central City parking demand, increased costs of fuel imports, transport infrastructure provision, pollution and congestion.

This is clearly not the case with the *Harbour Quays* development which is located within convenient walking distance of the rail station, and bus public transport hubs in the north of the Central City.

Proximity to the rail station is important (even though the proportion of Central City workers commuting by rail is only a small proportion of total journeys to work) because of the long distance travelled, and the reduction in car kilometres travelled and consequent less congestion, and lower environmental impacts and fuel use.

However, it is equally important to improve the quality of pedestrian connections and provide, direct, convenient 'all weather' pedestrian connects for all major new developments to the nearest public transport hubs, including those from *Harbour Quays*.

The broader point is that care should be taken in avoiding providing copious additional commuter car parking in the Central City.

This is clearly important when considering whether additional car parking is provided for any indoor sports, visitor attractions, conference or entertainment venues located at *Harbour Quays* or elsewhere in the Central City.

The loss of diversity and vitality resulting in a 'dead heart' - in the Central City during the day, on weekend evenings, at night or weekends.

It is clear that the scale presently proposed for *Harbour Quays* development will not be sufficient to create these problems elsewhere in the Central City.

However, the presently proposed uses at *Harbour Quays* will produce an additional area relatively devoid of activities on weekday evenings, at night and weekends.

Harbour Quays is also located close to Thorndon, the Parliamentary Precinct and the northern end of the CBD that also suffer from a general lack of vitality and activity on weekday evenings, at night and weekends.

It is arguable, that the *CentrePort* land provides an exceptional opportunity to 'liven up' this northern end of the Central City and create a more viable, vibrant and balanced Central City. Perhaps by incorporating some of the activities and attractions previously discussed.

Failure to maintain existing properties and a deteriorating public realm - resulting in dilapidation, physical blight; increased anti-social behaviour, fears for public safety; 'no-go areas', increased crime against property and people and even the abandonment of areas.

It is clear that the scale presently proposed for *Harbour Quays* development will not be sufficient to create these problems elsewhere in the Central City.

However, the presently proposed uses at *Harbour Quays* will produce an additional area relatively devoid of activities on weekday evenings, at night and weekends.

The present pedestrian environment and pedestrian connections from *Harbour Quays* to the rail station and CBD are patently unsafe and in urgent need of improvement. However, stopping the development at this stage could mean that these pedestrian safety issues and the opportunity to create a world class 'working environment' with exceptional, quality, public out-door spaces and places is never achieved.

Safety could be increased for employees (especially those walking and working outside normal business hours, at night and weekends), and for visitors and the general public by incorporating venues and activities that will attract people and provide increased 'passive surveillance' at these times.

Perhaps by incorporating some of the activities and attractions discussed previously.

The broader point is that creating good quality, direct, safe pedestrian connections to the main activity areas and public transport should be an early priority for any major development.

Growing new employment opportunities from such facilities, is clearly far more desirable, than developing 'isolated nodes of activity' that then require connecting, possibly at high public expense.

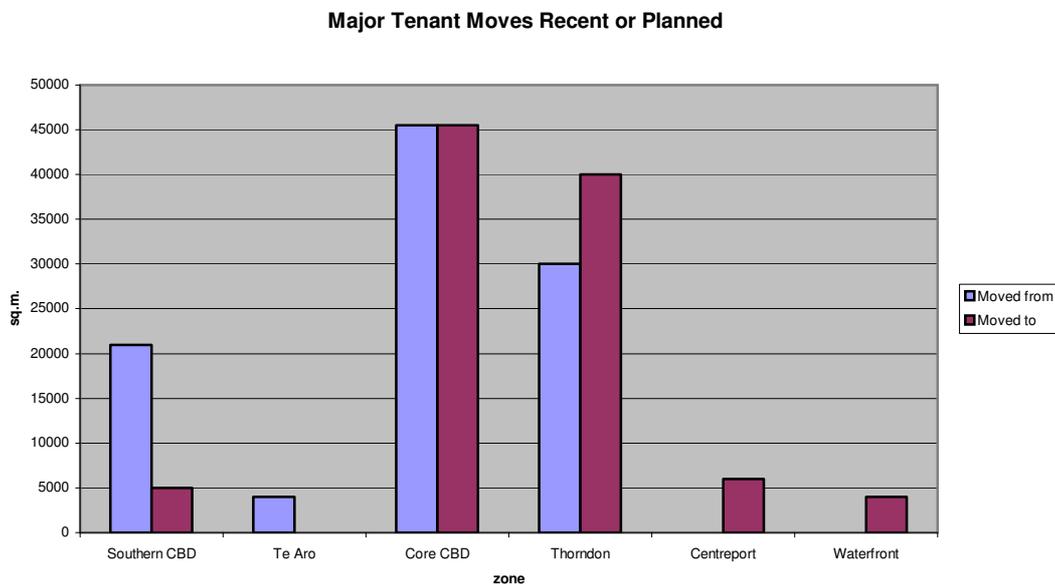
3.3 Some Direct Answers To The Property Council's Main Concerns

It is appropriate to give some direct answers to the *Property Council's* specific issues and concerns about the 'Harbour Quays' development.

1. The 'Northern Drift' in the location of office demand and space is a myth

A review of recent and proposed moves of large tenants (requiring over 5,000 sq m of space) shows that that the net effect will be an increase in office space to the north and a net loss of office space in the south (Figure 3.1).

Figure 3.1
The Balance of Floor Space Required
As A Result of Major Tenant Moves



(Source: Dow July 2006)

A summary of tenants committed or likely to move shows 83% of space could come from tenants with a northern preference.

Of those already committed but still to move, those occupying 47% of space will locate in the north. Of the remaining space 96% is likely to be sought in the north.

Table 3.1 shows the major tenants, likely to relocate within the next three years, strength of preference for the northern, government part of the Central City.

**Table 3.1
Location Preference of
Major Office Tenants
Likely To Relocate In The Next 5 Years**

Tenants	Total Floor Space	Large Floor Preference (1,300 sq.m. +)	North Preference (Parliamentary Precinct, Thorndon, Railway Station)
Gov	30,000	Yes	Strong
Gov	50,000	Yes	Medium
Gov	12,000	Yes	Strong
Gov	5,000	Neutral	Neutral
Gov	18,000	Yes	Strong
Gov	10,000	Yes	Strong
Gov	12,000	Yes	Medium
Private	10,000	Yes	Neutral
Private	5,000	Neutral	Neutral
Private	37,000	Yes	Neutral
Private	30,000	Yes	Neutral
Gov	15,000	Yes	Medium

(Source: Dow, pers. com. July 2006 – names of tenants have not been included for commercial-in-confidence reasons)

2. Harm to the continued vibrancy of the CBD resulting from the lack of compactness of the City Centre

The vibrancy and vitality of the CBD is clearly very important. (This issue is covered further in the response to Issue 12).

There is only a certain amount of 'energy' that that can be created in any part of the City and this energy should not be spread too thinly in any area, especially in the Central City.

It is not possible to 'energise' all the frontages throughout the Central City. Keeping a compact City Centre will help. But a compact City Centre will not be able to energise the whole of streets in a Central City with the size of Wellington Central City.

Therefore, attention needs to be given to energising key pedestrian routes into and through the Wellington CBD.

The location of attractions and creating attractive, high amenity and safe pedestrian routes to and through the CBD and to its public transport hubs is most important.

The location of major office developments on major pedestrian routes as close to the CBD as possible will help this outcome.

The location of the Harbour Quays development away from these major pedestrian routes does not improve these outcomes. But nor does it substantially destroy the existing compactness of the Central City.

However, it is important to create pleasant safe pedestrian links from Harbour Quays to the CBD, the rail station and bus hub.

It will be difficult to activate the additional length of frontages to these pedestrian links, with just office uses.

**3. Impact of loss of worker expenditure on CBD retail turn-over
(Because large numbers of workers will relocate to CentrePort's
'Harbour Quays' development and they will not walk to the CBD)**

Informed sources close to the retail sector advise most retail spending between 12 and 2 pm and between 5 and 6 pm would be done by office workers. However inner city spending outside these hours is also influenced by the fact that many business meetings are now held in coffee bars in the downtown area.

It is likely that most food and beverage purchases, fashion and convenience purchasing is presently being mainly done by office workers.

However, any loss in office employees frequenting the retail heart of the Central City, will be more than offset by the increase in 11,290 residents planned to be living within walking distance of Wellington's retail heart by 2021.

Most residential growth is projected to be in the southern end of the Central City. Some 3,967 additional residents (46% of the Central City's residential population growth) are expected to be in the southern, Willis St/Cambridge St locality and an additional 2,600 residents are expected to live in the surrounding southern inner residential suburbs (Aro St/Naira St, Mt Cook/Wallace St and Mt Victoria West).

This will provide increased 'resident driven' retail demand concentrated towards the 'southern end' of the retail heart. Much of this additional 'resident driven' retail demand will be located beyond 'convenient walking distance' from the northern government end of the Lambton Quay retail area.

The southern part of the CBD already attracts the greatest passing pedestrian traffic (Figure 3.2). Consequently, it is important to also lift potential trade in the northern part of the CBD to support more balanced retail growth.

Therefore, increased office development is preferable to the north, rather than the south to maintain a 'better balanced' retail precinct with all parts growing.

Attracting residential development close to the CBD; attracting more visitors to both ends of the CBD, and getting office workers and visitors to spend longer in the Central City will become increasingly important because of the likely impact of Queensgate and Porirua on CBD shopping.

This impact may be more at the weekend than during the week as families may opt to spend time at a mall as a weekend 'outing'.

But there could also be increased support for mall, rather than CBD, visits during the week from Wellington residents who are unwilling to pay the \$4 per hour inner city parking charge that applies on weekdays.

4. Loss of tourist appeal of the Central City because of loss of vibrancy and pedestrian activity

This would be an important point, if there were a loss of vibrancy. But this is unlikely given the expected increase of 11,200 in Inner City residents by 2021.

Over three quarters of this Inner City residential population growth (about 8,690 additional residents) can be expected in the Central City between 2001 and 2021(Statistics NZ). This is almost double the increase of 4,590 residents that actually occurred in the Central City between 1991 and 2001 (Statistics NZ, Census figures).

Residential development already favours the south. Most residential population increase has been in the Willis/Cambridge St area - with 2,598 additional residents between 991 and 2001, 57% of the total residential population growth.

This southern based residential growth is likely to continue, with most residential population growth up to 2021 expected in the southern part of the CBD and other southern Inner City suburbs (Table 3.2)

**Table 3.2
Recent and Projected
Residential Growth in The Wellington Inner City**

<i>Location</i>	<i>Residents 1991</i>	<i>Residents 2001</i>	<i>Change 1991 - 2001</i>	<i>Residents 2021</i>	<i>Change 2001 - 2021</i>	<i>Increase in Households 2001 - 2021</i>
<i>Thorndon/Tinakori</i>	2,568	3,144	576	5,300	2,156	1,200
<i>Lambton</i>	2,289	3,702	1,413	6,270	2,568	1,450
<i>Willis/Cambridge</i>	435	3,033	2,598	7,000	3,967	2,300
Total Central City	5,292	9,879	4,587	18,570	8,691	4,950
<i>Aro St/Naira St</i>					550	
<i>Mt Cook/Wallace St</i>					1,340	
<i>Mt Victoria</i>					710	
Rest of Inner City					2,600	
TOTAL INNER CITY					11,291	

(Source: Wellington City Council, Statistics New Zealand census figures and projections)

Therefore, pedestrian activity will increase in the south of the CBD provided predominant residential development in the south is located within 'convenient walking distance' of the CBD.

It is the north of the CBD that needs to increase its pedestrian activity and the north of Central City that needs to increase its tourist and visitor appeal.

The Harbour Quays development will help a little by increasing the workforce in the north, but it will contribute little to attracting visitors and tourists to the northern part of the City Centre.

The key point is whether it is reasonable to require Harbour Quays to provide some significant 'magnet' tourist or visitor attraction/s. (It is certainly desirable that it does so, provided these attractions are complementary and add to Wellington's 'visitor offer' rather than competing with other waterfront and southern CBD visitor attractions).

5. The sub-standard environment for workers at CentrePort's 'Harbour Quays' development

There is a real opportunity to create something special in terms of modern buildings and a high amenity working environment at Harbour Quays that will help Wellington compete for creative and new economy businesses and attract and retain talented people.

However, this will require careful consideration of building and waterfront use and quality, all weather public space and place making, as well as providing a range of quality employee facilities (beyond just a café or two).

Providing visitor and shared facilities may enable these spaces and business opportunities to be provided in an economically viable way.

The worst of all circumstances would result from stalling the development as it is and leave existing workers stranded in an otherwise uninviting, and potentially unsafe working environment.

6. Rentals will not reach levels needed for economic redevelopment of jaded CBD and other Central City office buildings

This may be true, at this stage in the property cycle, but the Harbour Quays development should not be held responsible.

This situation can not be rectified merely by stopping office development at Harbour Quays, because there are other properties able to compete for tenants at lower re-development costs and lower rentals, than those needed to enable the economically viable re-development of large, jaded CBD buildings for office purposes at this stage in the property cycle.

Harbour Quays will contribute no more than 17% to the supply of office space possible from 'readily developable sites'.

The necessary far wider restrictions on office development around the CBD cannot be justified (They would and should be opposed by other Central City property owners).

7. Existing CBD office buildings will be left vacant

Major tenant moves are likely to balance supply and demand for good quality office space in the 'core CBD', even allowing for the demand for new office space in Thorndon, CentrePort and the Waterfront (Figure 3.1).

The 'southern CBD' and Te Aro are at risk of losing space leased to major tenants (the greatest projected net loss being less than 15,000 sq m in the southern CBD).

It is probable that good quality, efficient office space will be 'back filled' by the expansion of existing tenants, smaller tenants, and relocating taking up the opportunity to move to better premises at a better location.

Therefore, the poor quality, poorly located office buildings and those with least 'street presence' are most at risk.

Innovative solutions may be needed for the adaptive reuse of these buildings (possibilities may include boutique offices, affordable serviced office space, creative industries and residential conversions).

It is likely that residential conversions may take place for better quality office buildings. This would take these buildings out of the office market in the same way as it has in the past.

Informed industry sources advise that many residential apartment residents, purchasers and investors are indifferent to whether the building is purpose built or a converted building, its location, internal finishes and internal spaces are more important to their decision making (Quinovic, pers. com. July 2006).

Any vacant building, unsuited for conversion or adapted re-use for other purposes, could reasonably be considered to be beyond its 'economic life'.

The bottom line is that some buildings do exist beyond their 'economic life', resulting in low, or even negative, land values until they are pulled down and replaced by some other buildings.

In some cases the extent of vacancies, abandonment or decay is sufficient to warrant government supported 'urban renewal' projects.

The Wellington CBD is far from this state, and most unlikely to reach this state. If any part of the Wellington CBD eventually reaches such a condition there are well 'tried and tested' approaches to 'urban renewal'. These are far more appropriate and 'much more direct', than 'heavy handed', indirect, market interventions designed to inappropriately prevent development elsewhere.

8. Existing sites will remain undeveloped (leaving holes in the City fabric)

The net reduction in major tenant demand is unlikely to be more than 20,000 sq m in the southern part of the City Centre, which faces the greatest net loss of space from major tenants (Table 3.1).

Some of this loss of space will be taken up by the expansion of existing tenants, relocating and new smaller tenants and conversion to other uses.

The prospect of new office developments may be temporarily curtailed, in the southern part of the CBD, if at all.

However, the Harbour Quays development cannot be held responsible for this (because it will contribute no more than 17% of the possible supply of office space from 'readily developable sites').

Opportunities exist for other types of development throughout the Central City (resulting from increased demand for visitor, temporary and long-term resident accommodation, population and visitor driven retailing, clubs, hospitality and entertainment venues).

There is the need to accommodate 4,950 more households in the Central City between 2001 and 2021. Three quarters of this demand (75%) is available to be met in the Lambton Quay (1,450 apartments) and the Willis/Cambridge St (2,300 new apartments) areas (Wellington City Council, unpublished projections).

Therefore, there should be no major new holes left in the City's 'urban fabric' unless groups of existing property owners are unwilling to develop their properties, are speculatively holding on to their properties, or are only interested in office development and are unwilling to meeting other needs.

9. The benefit of proximity to rail is overstated (It is not a major concern because few Central City workers travel by rail)

The 2001 Census figures show that rail presently accounts for 15% of Wellington CBD 'journey to work' trips (13,300 trips to work each day).

This is planned to increase to 15,800 trips by 2016 (with the percentage of CBD 'journey to work' trips remaining the same).

Car trips accounted for 47,100 Wellington CBD journey to work trips (55% of all CBD 'journey to work trips' (only 3.5 times those travelling by rail).

In comparison buses accounted for 19,200 Wellington CBD journey to work trips (22% of total CBD 'journey to work' trips, 44% more than rail).

The important point is that the average length of Wellington rail trips is around 25 km, compared with 7 km for bus, consequently, rail accounts for a smaller

proportion of trip numbers, but accounts for approximately 70% of 'passenger kilometres' in peak periods.

Rail provides important long distance commuter services to the Wellington CBD along two highly congested arterial corridors. From as far as Palmerston North and Masterton, with frequent electrified services from Paraparaumu, Upper Hutt, Johnstonville and Melling, carrying large numbers of commuters at peak times, when the roads along these routes are heavily congested. (Wellington City Council, June 2006).

Rail therefore provides an important commuter option, provided homes and work places are within convenient walking distance of rail stations. This is particularly important if the quality and frequency of services can be improved. Especially as kilometre distances travelled are increasing faster than the number of commuters and the number of trips in the Wellington Region.

For this reason, it is better to concentrate employment closer, rather than beyond, 'convenient walking distance' of Central Station, especially, given the difficulties of adding further bus services to already congested Central City bus routes and passenger set down hubs.

The Harbour Quays development is clearly within convenient walking distance of Wellington's Central Station, although the pedestrian links need substantial 'all weather' improvements.

10. Lower rentals will mean lower property values (for existing office owners) and lower rate income (for Council to spend on civic improvements).

Lower rentals will certainly mean lower property values for individual property owners.

However, it is not clear that office rentals and therefore property values will actually fall, unless there is a widespread reduction in demand for office space.

Rentals may just not increase as fast as they would if there were increasing demand and no new office supply.

The Harbour Quays development itself is only likely to produce temporary 'market lubricating' levels of vacancies in the market for better quality office space, presently in short supply.

Many other office development opportunities would have to be curtailed throughout the Central City and beyond, in order to constrain supply sufficiently to force up market rentals.

Restricting the Harbour Quays development will not be sufficient to curtail the supply of new office space at rentals less than those needed to enable renewal of large CBD office buildings.

All office tenants (including tax payer funded government departments and agencies) would have to pay the price of creating artificial office supply shortages to force up rentals and increase property values.

It is very difficult to accurately estimate the impact Harbour Quays will have on overall City property values and overall Council rate and levy incomes¹⁸.

The difficulty lies in understanding the 'spread effect' on increased property values induced by developments such as Harbour Quays, as undervalued and unattractive part of the CBD frame are made more valuable by these developments and improvements in the built environment and the setting.

These may be less in the case of the Harbour Quays development than they would be for a similar development elsewhere because of the relative isolation of the land from the rest of the CBD frame. But then, amalgamating of an equivalent sized site and developing it with such low site cover and low-rise buildings could be almost impossible within walking distance of the CBD.

It would be perverse for government to create 'spatial monopolies' with the main intention of artificially forcing up land values to generate greater 'rate incomes' to be spent on civic improvements.

This is quite different to levying rates or civic improvement levies based on the value the market places on properties, based on development potential and rentals created by the interplay of far broader market forces.

What is clear is that it is important that rentals and property valuations reflect full market prices.

Also, that the best civic and area improvements are achieved from the Harbour Quays development, especially because of its 'gateway location'.

11. Renewal of existing older office buildings in Wellington as office buildings is critical (The owners and buildings do not respond well to refurbishment and alternative uses)

It is clearly important to prevent urban blight and the appearance of poorly maintained buildings and urban decay in the City.

It is also clearly desirable to have only 'market lubricating' levels of office vacancies in the CBD. High vacancies will make the Central City less attractive to future tenants and less desirable to other businesses.

¹⁸ One estimate has been a 5% reduction in the value of CBD office building values. (But this does not consider the countervailing increase in land values and rental income that will flow on from increased land values created by Harbour Quays on its site and any 'flow on' effects to the value of other business land in the vicinity).

However, it cannot be legitimately argued that the Harbour Quays development constitutes such a serious risk, in itself, for the CBD.

Nor that preventing its development would permanently remove such a risk, when there are many other sites that could be developed, possibly further away from the CBD.

Informed industry sources advise that approximately 15% of the existing stock of office buildings have been backfilled with alternative uses. 'Adaptive reuse' activities are largely residential apartments, transient accommodation (like short stay apartments, hotels) and education facilities.

Office buildings along the Terrace with smaller floor plates (300 to 500 sq m) are being converted into residential apartments (e.g. the former Manchester Unity building, now Lambton Apartments and Stafford House (now adapted for Victoria University student accommodation). The Old Government Buildings were converted into Victoria University's Law School and Rutherford House by the Railway Station has been converted into Victoria University's Continuing Education facility.

Generally, the remainder of the existing stock has continued to be used as offices, with many having been upgraded/extended (Dow pers com July 2006).

This is not to argue that it will be easy to find alternative uses for large, poor quality, older buildings, or that their 'adaptive re-use' will not be difficult.

The point is that these difficulties are likely to exist either 'with' or 'without' the Harbour Quays development. (Not just as a consequence of the Harbour Quays development).

The important point is that artificially constraining office development is unlikely to force up rentals sufficiently in the short-term to enable redevelopment of large, poor quality office buildings for office uses in the CBD.

12. It is vitally important to maintain the vibrant 'Wellington Experience'

This is clearly vitally important in market positioning Wellington in the business, tourism and visitor market, and for Wellington to attract and retain creative and talented people.

Vitality will increase if office workers have to pass through the CBD on their way to and from work, and they can conveniently walk to the CBD during their lunch hour and breaks. But vitality will be increased by office workers mainly at these times (they have less impact on vitality at other times during the day, later on weekday evenings, at night, or weekend).

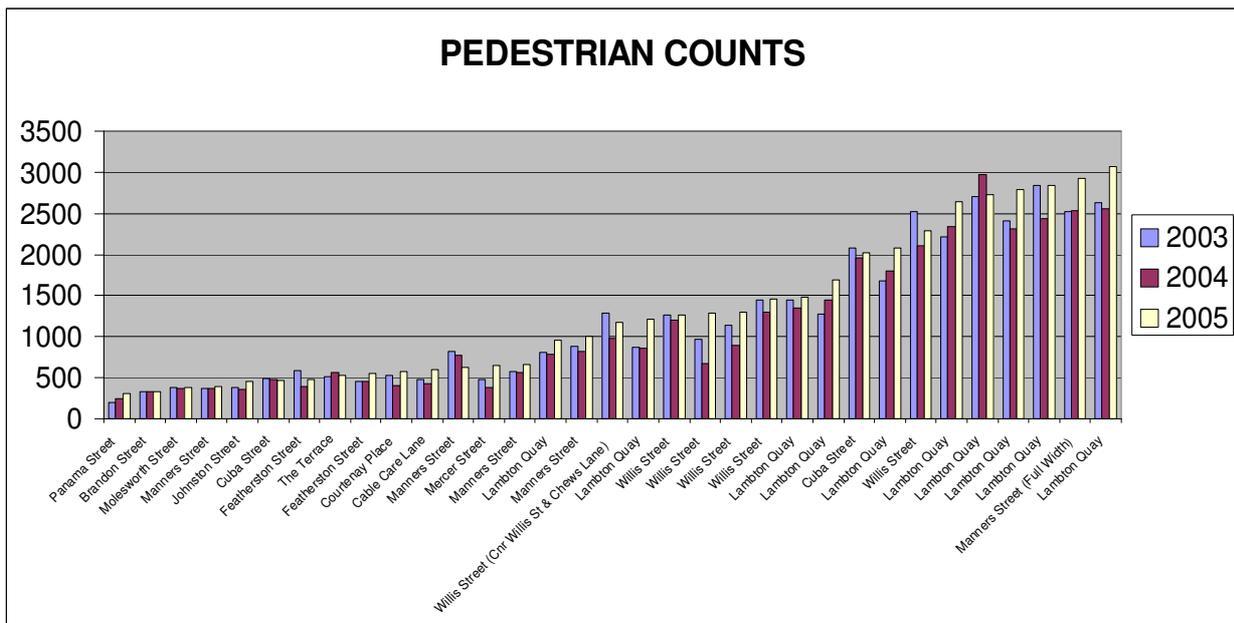
Even so, it is better that as many office workers as possible are located within a convenient, pleasant walk of the CBD.

The Harbour Quays workers will be able to walk to at least the northern end of the CBD, although this may not be as pleasant, nor an interesting a walk than for those working elsewhere. Government workers may sometimes be walking closer because of other government precinct related work trips.

The southern CBD and Cuba St entertainment precinct is more than a 'convenient walking distance' from the northern government area (even allowing for the more interesting CBD walk) so that any office developments located in the northern government area (as an alternative to Harbour Quays) will not be of any great benefit to vibrancy in this part of the Central City.

The location of residents, student and visitor accommodation close to CBD, and the attraction and retention of visitors to the CBD and nearby waterfront areas, will be far more important than the location of Central City office workers to 'underpin' and 'future proofing' the 'vibrant Wellington experience'.

Figure 3.2
Recent 'Pedestrian Counts' at
Different Points in the Retail Heart of the Wellington CBD



3.4 Could 'Incremental Fringe Development' Constitute Such A Threat?

The following dot points set out some of the likely benefits and costs from either restricting, or allowing, unconstrained fringe office development.

Benefits and Costs From 'Restricting' Fringe Office Development

Some Benefits:

- Image created by a City Centre address
- Image the City has for the clustering of particular activities
- Clustering of similar and related businesses
- Nearby business and support services
- Nearby employee services and facilities
- Increased opportunity to supply and enjoy a broader range of higher order, and more expensive employee and personal services and facilities
- Greater attraction to globally mobile, talented and experienced people (the increasingly scarce resource in the 'new economy')
- Convenient access to personal and business services
- Opportunities for easy face-to-face contact
- Increased prospects for accidental and casual meetings
- Increased opportunities for business networking
- Increased opportunities for government and government/business networking
- Increased retail trade (including convenience, casual, impulse, deliberative and comparison shopping)
- Increased prospects of employees coming before work and staying on after work
- Increased prospect of employees socialising (with each other, within firms and with other workers)
- Increased prospects of workers bringing family, colleagues and friends to meet at lunch-time and after work
- Safer after hours and weekend working environment (although possibly not at night)
- Increased buzz and vitality in existing 'activity centres'
- Increased Council rate income for civic purposes.

Some Costs:

- More expensive office rentals (especially for the quality of space)
- Higher land values
- Higher rates (for tenants, because of lower land value and rents)
- Less opportunity for purpose built office space
- Difficulties and expense in provide adequate car parking (for business and employees)
- Disincentives for employees of congestion and forced reliance on public transport
- Disincentives for business owners and key employees of congestion (the time taken, and mental effort required driving to work)
- Requirement to occupy large buildings (less attractive to small office businesses, especially those wanting naming rights or to own their own buildings)
- Fewer opportunities for 'outdoor' recreation for workers to enjoy.

Benefits and Costs From 'Allowing' Fringe Office Development

Some Benefits:

- Lower land values (translating into lower development costs)
- Cheaper office rentals (for the quality of space)
- Lower rates (for tenants, because of lower land value and rents)
- New, or purpose built office space
- Attraction of businesses favouring or seeking an 'office park' or 'business park' setting
- Opportunities for smaller office activities to occupy their own purpose-built buildings (gain 'bragging rights', image and greater presence from 'naming rights' or owning their own building)
- Image created by other modern office buildings nearby
- Easier to provide car parking (for business and employees)
- Possibility of free surface car parking
- Possibility of large landscaped setting
- Possibility of large, low-scale buildings
- Possibility of outdoor facilities for workers to enjoy.

Some Costs:

- Increased use of private cars (for all workers)
- Reduced use of public transport
- Increased congestion
- Lack of employee services and facilities
- Need to travel elsewhere for everything except a cafe
- Less prospect of accidental and casual meetings
- Less opportunities for business and employee networking
- Loss of casual and impulse shopping in retail areas
- Reduced buzz and vitality in existing 'activity centres'
- Less Council rate income for civic purposes
- Dead at night and weekends (increasing opportunities for property crime)
- Possibility of high vacancies, lack of maintenance, increased dilapidation and urban decay in older urban areas (not attracting this demand, renewal and investment)
- Possibility of increased anti-social behaviour, crime against persons and property crime in older urban areas (not attracting this demand, renewal and investment).

Implications

Planning interventions should not be invoked merely *to protect particular properties and property owners*.

However, they are justified when 'disconnected', single purpose fringe office developments could incrementally, result in:

- High retail vacancies leading to the *loss of convenience and reduction in the range and variety of services and facilities* available to residents, businesses, visitors and workers
- Significant office or retail vacancies resulting in *loss of investment, tourism and visitor attractiveness* for Wellington's Central City

Urban Development Impact of Harbour Quays

- Reduced economic efficiency from the *reduced opportunities for 'face to face' and 'casual contact'* between government people, business people and workers
- The *lack of access to basic facilities and services* expected by the local workforce forced to work in fringe locations.
- Reduced regional economic efficiency and increased commuting by car because *activities and employment are located away from the Central City*
- *Reduction in the use of public transport*, unacceptable Central City parking demand and increased costs of fuel imports, transport infrastructure provision, pollution and congestion
- The *loss of diversity and vitality resulting in a 'dead heart'* in the Central City (during the day, evenings, at night or weekends)
- *Failure to maintain existing properties and a deteriorating public realm* (resulting in dilapidation, physical blight; increased anti-social behaviour, fears for public safety; 'no-go areas', increased crime against property and people and even the abandonment of areas)

The likelihood of these adverse impacts depends on the scale, location and mixture of uses proposed.

Multiple opportunities for the clustering of small business and creative industries are good, large single purpose developments, located away from the retail and business heart and public transport, are dysfunctional.

However, large new mixed-use developments with a large office component can be of very positive benefit provided they are part of an integrated mixed-use 'activity centre' which provides high amenity, high quality business and residential and recreational opportunities and are efficiently provided with high frequency, quality public transport, linking to many other destinations.

4.0 WHAT CAN BE DONE TO ACHIEVE BETTER FUTURE OUTCOMES

This Section reviews what can be learnt from this review of likely impacts of the *Harbour Quays* development.

4.1 The 'Scale of Development' and 'Associated Land Uses' Matters

The best 'business', 'employment', 'business clustering', 'employee services' and 'regional competitiveness' outcomes are achieved if:

1. The largest, and most prestigious, office developments are located within *convenient walking distance* of:
 - The Central City's *existing office areas*
 - Government *departments and agencies* and *public institutions*
 - The Central City's *retail heart* and *hospitality areas*
 - Public transport (bus and rail) servicing *the Metropolitan Area*
2. Any dispersed office concentrations are sufficiently large to provide a *full range* of affordable office space, with a '*credible business address*' and a range of *business, hospitality and employee services* located:
 - As part of fully integrated *mixed-use 'activity centres'*
 - At *nodes* along major '*transit arterials*'
 - Integrated with *residential uses*
 - Supported by *retail and recreational opportunities*
3. Opportunities are available for the local clustering of small-scale offices at '*superior business locations*' located:
 - Close to the Central City's *existing office areas*
 - In the '*Frame Area*' of the Central City
 - At *nodes* along major '*transit arterials*'
 - Attached to *local 'business centres'*
 - Within *5km* of every major residential area.

Poor outcomes can be expected if dispersed office areas are developed, that are:

- Entirely car orientated
- Located at dispersed locations
- Without convenient business and personal services, and
- Unable to be efficiently serviced by public transport.

Significant, large-scale office developments should not be supported if they are *more than 800 metres* from the Central City, retail heart, business areas and public transport hubs.

Unless they are developed as part of an '*Integrated, Mixed-use, Activity Centre*' that incorporates residential, office, business, retail, recreational and community activities (capable of being efficiently serviced by public transport).

Except if they are located within 800 metres (preferably within 400 metres) of an existing major 'activity centre' that provides a broad range of retail,

personal, community and business services and convenient access to frequent public transport services.

Even then, careful consideration should be given to the 'induced' public investment required for pedestrian connections, creating 'superior business settings', providing quality public places and spaces and the provision of quality high frequency public transport whenever significant developments are proposed away from the high amenity heart of the Central City or other existing 'activity centre'.

The 800 metres is consistent with the distances people are willing to walk (without slopes) to town centres, rail stations and to a public transport terminus.

It also provides realistic opportunities to do things elsewhere in the Central City in lunch hours. (Allowing for 20 minutes for walking and at least 40 minutes to meet people, shop, bank, recreate, relax, visit doctors, dentists, swimming pool or a gym in lunch hour).

It also provides realistic opportunities to socialise and do these and other things elsewhere in the Central City in the hour before work and after work (Allowing for 10 minutes walking and at least 50 minutes to people to meet, have a coffee, or drink, visit doctors, dentists, swimming pool or a gym and drop off and pick up children from childcare).

Multiple Opportunities Are Required For Small Scale Businesses

It is very important to sustainable economic development and employment creation in the '*new economy*' to create as many opportunities as possible to establish and grow small, new, high value office based activities and creative industries (including opportunities to locally incubate and then 'grow out' home based businesses).

This suggests a strategy to enable the adaptive re-use of existing buildings and enabling the development of flexible small business premises at as many locations as possible. Including close to the Central City and at 'activity nodes' located along major arterials where it is possible to provide business and personal services, business hospitality and to provide efficient public transport.

However, individual small businesses are unable to provide their own '*superior business setting*', develop their own '*icon buildings*', or alter the character of an area to create a '*credible business address*'. Therefore attention needs to be given to '*business place making*' and supporting the clustering of *affordable, good quality*, small office developments at prominent locations.

Opportunities should also be provided within 5 km of every residential area to establish small office based businesses and to 'grow out' local home based businesses.

This suggests a policy of allowing small-scale office developments (with small scale premises, and small footprint buildings) and supporting the adaptive reuse of existing buildings *where 'superior business settings'* can be created:

- Throughout the Central City
- In the Central City 'Frame Area'
- At nodes along major 'transit arterials', and
- Attached to local 'business centres'.

Large Scale Dispersed Developments Should Be Self-sufficient

It is important that dispersed, larger-scale office developments provide for the broadest possible range of premises and personal and business services.

They should be of sufficient scale to provide a variety of office premises, to meet different market, rental and owner-occupancy needs.

They should provide a variety of business and personal facilities and services.

There should be the opportunity to accommodate and host and entertain clients.

There should be sufficient community, recreational and personal services for employees (including retail, medical, health and fitness, child care and personal, banking and insurance services) and realistic opportunities to use public transport.

There should be opportunities for business people and workers to casually and informally meet, to engage in 'life-long interests' and to socialise and engage in recreational opportunities during breaks and before and after work.

Thereby also forming enduring friendships that will help 'lock' talented people into wanting to continue to live and work in Wellington.

'Stand alone' office areas and 'business parks' find it difficult to provide these opportunities and often lack vitality, activity and interest.

They can be devoid of activity on weekday evenings, at night and weekends and can be considered unsafe by those working outside normal business hours.

This suggests a policy of restricting dispersed 'stand alone' office areas and 'business parks' and favouring larger-scale office development that is either:

- Within '*convenient walking distance*' of the Central City, or other major 'activity centre' (that is within 800 metres, preferably within 400 metres, of the retail heart, business areas and public transport hubs).
- Developed as part of an '*Integrated, Mixed-use, Activity Centre*' that incorporates residential, office, business, retail, recreational and community activities (capable of being efficiently serviced by public transport).

4.2 Recommendations For 'Doing It Better In The Future'

The following recommendations could be considered:

- a. Restrict substantial new office developments to 800m from the retail heart, rail station and business hearts of the CBD (and other major activity centres, elsewhere in the Region)
- b. Require developments above a particular size to be Master Planned and identify:
 - ✓ Staging that will grow the development *from the nearest point* to existing business areas and public transport
 - ✓ How the development will provide high amenity, *all weather public spaces and places* (that will support business networking and social interaction by providing the best opportunities for business people and workers to spend time there, supporting and encouraging accidental and casual meetings)
 - ✓ How *at each stage* the development will provide good quality, safe and convenient all weather pedestrian connections to existing business areas and public transport
 - ✓ Any induced *public investment* (including public place making, or providing good quality, safe and convenient all weather pedestrian connections and public transport routes, layovers and quality passenger facilities)
- c. Require 'first stage' investment (bank guarantees/contributions), that will also be a disincentive for '*disconnected development*' due to additional 'upfront costs', in:
 - ✓ High amenity, all weather public spaces and places (that will provide the best opportunities for business people and workers to spend time there and encourage accidental and casual meetings)
 - ✓ Providing good quality, safe and convenient all weather pedestrian connections to existing business areas and public transport opportunities
 - ✓ Worker facilities and services (not internalised to any one tenancy or building)
 - ✓ Contributing to any induced *public investment* (including public place making, or providing good quality, safe and convenient all weather pedestrian connections and public transport routes, layovers and quality passenger facilities)
- d. Support the development of small, affordable office space, 'office conversions' and clusters of high quality small office spaces:
 - ✓ Close to the Central City
 - ✓ At 'activity nodes' located along major arterials (where it is possible to provide business and personal services, business hospitality and to provide efficient public transport)
 - ✓ As part of any integrated mixed-use development within or beyond the Central City and any major mixed business/industry (MIBA) area
 - ✓ Integrated into existing and proposed major new 'activity centres'
 - ✓ Integrated into existing and proposed new 'business centres' (within 5 km of every major residential area).

5.0 WAYS THROUGH THE PRESENT ‘ CONFRONTATIONAL SITUATION’

The following could be considered as possible ‘win/win’ ways for moving forward:

1. Review the *Master Plan, staging and timing of provision of facilities* to quickly:
 - ✓ Complete the public place making, and provide ‘all weather’ connections to the rail station and the rest of the City Centre
 - ✓ Create safe, sheltered, accessible, ‘all weather’ public places and spaces (eg through large public atriums and ‘outdoor rooms’)
 - ✓ Locate and stage the next developments to improve local worker amenity and connectivity to the rest of the Central City
 - ✓ Design, locate and stage the next developments to provide a quality ‘gateway’ to the Central City (paying particular attention to the southern part of the site and its presentation to the Waterloo Quay and the Railway Precinct)
 - ✓ Provide additional community benefits – with attractions that will not dilute or compete with other parts of the City Centre (e.g. climbable, ‘play on’ Community Art, multi-functional all weather spaces for outdoor events to move indoors if inclement weather, program for cultural, community and special interest groups to regularly take responsibility for space or stage events, all weather outdoor/indoor classrooms, display and promotion space and visitor meet and greet places, ‘time share’ band rehearsal and recording studio, an all weather adventure play ground, solar and wind powered community art)
 - ✓ Improve employee and Central City business and employee facilities – with attractions that will not dilute or compete with other parts of the City Centre (e.g. a demonstration high tech small office and video conference centre, public childcare centre and crèche; collocated, integrated business advisory services; Downtown corporate and executive health centre; Downtown community disease prevention and health management centre; health and fitness centre with health monitoring, lap pool, saunas, gym; additional downtown campus with small public meeting and workshop and ‘time share’ multi-media conference and theatre space)
2. Run a series of high profile *Competitions* (in association with local schools, business, architectural, town planning and development groups and the local media) to:
 - ✓ Identify and design local *community benefit features* for possible incorporation on the site (that will not dilute or compete with other parts of the City Centre)
 - ✓ Recommend *worker, recreational and visitor facilities* for possible incorporation on the site (that will not dilute or compete with other parts of the City Centre)

- ✓ Recommend *business, government and central worker facilities* for possible incorporation on the site (that will not dilute or compete with other parts of the City Centre)
 - ✓ *Design innovative new all weather indoor/outdoor spaces and 'outdoor rooms'* for possible incorporation on the site, railway forecourt and pedestrian connections to the rest of the Central City (that will demonstrate and 'showcase' *Wellington's inventiveness, innovative design, innovative use of materials, innovative use of existing, low cost, energy efficient, appropriate technologies, sustainable passive energy and low energy technology solutions* such as internal and external use of solar and wind responsive louvers and blinds)
3. Agree and promote a '*Clear Vision*' for the *future business roles for different parts of the Central City* (working in collaboration with business and property groups):
- ✓ Hold a *workshop* to discuss the findings about the property market and opportunities
 - ✓ Work at *creating a clear vision* for the *business roles* for different parts of the Central City (equivalent to that developed and widely promoted for the four retail precincts of the Wellington CBD).
 - ✓ Work at *creating a clear vision* for the *employee, community, visitor, and recreational roles* for different parts of the Central City (equivalent to that developed and widely promoted for the four retail precincts of the Wellington CBD).
 - ✓ Promote residential conversions and new apartment buildings within 800m of the CBD (identifying opportunities for public and private 'place making', and sheltered 'pocket parks' to improve residential amenity, including purchases for these purposes)
 - ✓ Promote small office and creative industry business conversions within 800m of the CBD (identifying opportunities for public and private 'place making', and sheltered 'pocket parks' to create 'superior business settings, provide a 'credible business address' and improve employee amenity, including purchases for these purposes)
 - ✓ Agree to a joint program of '*Business Marketing and Investment Promotion*' based on these visions (collaborate in developing appropriate multi-media materials, and *proactive* media and investment campaigns).
 - ✓ Advance the necessary '*demonstration projects*' in different parts of the City (for instance, a CBD refurbishment of a quality boutique, small office conversion with very trendy, high quality shared worker facilities, wireless empowered serviced office suites and wireless empowered café; the first public atrium/'outdoor room' c/f to the street corner wind shelters, a landscaped, sheltered 'land bridge' between Harbour Quays and the Rail Station)

6.0 KEY FINDINGS AND RECOMMENDATIONS

The fundamental problems facing the Wellington Central City are:

- The prospect of continuing *stagnation in office demand*
- The loss of *major corporate headquarters*
- The failure to create 'world competitive' *business environments*
- The failure to create 'world competitive' *employee environments*
- The prospect of *increasing vacancies in poor quality office buildings*.

Successfully addressing these issues will inevitably require a balance between new developments and maintaining the quality of the existing built environment.

Wellington is facing a potentially serious problem of increasing vacancies in poor quality Central City office buildings.

This is a difficult problem to solve, and there is *no 'one simple solution'*.

This problem is not going to just 'go away' *by simply stopping the Harbour Quays development*.

Some key questions and answers follow:

a. Would it be better if office development is close to the CBD?

Yes.

(Provided opportunities exist to develop new, 'large floor plate' buildings at reasonable rentals and 'world competitive' business environments)

b. Would the CBD be more vibrant if more office workers are located in, or immediately adjacent to, the CBD?

Yes. *(But the benefit will mainly be at lunch times and early evening).*

Residential development is far more important to underpin Central City vibrancy and support CBD retailing, and extending this vibrancy through the day, at night and at weekends.

c. Is it possible to artificially restrict office redevelopment sites, to force up office rentals to levels that will result in the redevelopment of existing large, poor quality CBD office buildings?

This may 'just be' possible.

(But this is only because many Wellington office tenants are government agencies or captive to the Parliamentary Precinct and the Wellington Central City).

But this is not likely to be achievable within the next few years. Therefore to be effective the policy would need to be continued beyond the next cycle of major lease renegotiations, and possibly beyond the next 15 years.

d. Is this a good solution?

No. (This would be an unwarranted intrusion and intervention in the Wellington property market).

There is a risk that office tenants will forsake the Central City, even government departments may move away.

Rentals will be higher than otherwise for all office tenants.

There are many other sites available for new development, within convenient walking distance of the CBD and public transport.

The area where office development is permitted would need to be very constrained. There would be many sites and other poor quality offices outside the tightly constrained 'allowable office development area' that would have no prospect of office development or office renewal until well beyond the next cycle of rental renewals.

If it takes longer than the next few years to create the pressures to rebuild, then there will be a new crop of poor, older buildings wanting protection so that they are redeveloped for offices. So the boundary may never extend.

Then the policy would leave a much larger area of potential office abandonment and decay outside the boundary.

e. Could the Harbour Quays land deliver better outcomes?

Yes (for office workers, and attracting and retaining talented people)

Yes (for other purposes, including visitor and recreational opportunities)

f. Could these better outcomes be delivered on the Harbour Quays land leaving the same office building 'footprint'?

Probably not (Although it may be possible to provide the same floor space with higher buildings)

However, the land taken to deliver these superior outcomes may not be very much more than that presently proposed as roads and public/open space.

A design study and reconfiguring the open space in the existing master plan would be necessary to definitely answer this question.

g. Will the Harbour Quays development destroy the CBD or the Wellington office market?

No. (The 'worst probable scenario' would only result in a modest impact).

Any economic difficulties preventing redevelopment of existing large, poor quality CBD office buildings, for office purposes will still persist because many other alternative vacant and under-developed sites are available.

h. Can more be done to create world competitive business environments?

Yes:

- *Create and promote a 'coherent vision' for the 'business role' of different parts of the Central City (comparable to the 'retail quarter' visions)*
- *Identify and educate office owners to possible alternative office uses of their buildings*
- *Identify and introduce to Wellington experienced operators and new investors interested in alternatives to office uses of buildings*
- *Complete high quality conversions to demonstrate these uses and prove any new markets*
- *Minimise the difficulties of conversion (including requiring no additional parking, and maintaining affordability of residential conversion)*
- *'Grow the pie' by attracting more visitors*
- *Create superior business settings and residential settings and world class worker facilities and amenity*
- *Focus on attracting most residential development within 800 metres of the CBD*
- *Focus on attracting more workers within 800 metres of the CBD (especially to the northern areas, because of less prospect of residential based retail stimulus in this part of the Central City)*
- *Introduce appropriate controls and requirements for disconnected developments (master planning, staging, early provision of connections and public places and spaces in very first stage, more self-contained mixed-use development if over 800m from CBD and public transport)*

i. Is it desirable to stop further development at Harbour Quays?

No (Not unless other, high amenity, 'gateway use' is made of the land)

The worst outcome would be to leave the existing office buildings and office workers stranded in a low amenity setting in the middle of a largely undeveloped, or port operations site.

It is possible that worker dissatisfaction with poor pedestrian connectivity and poor surroundings could result in existing Harbour Quays office activities pulling out of the Central City entirely at the end of their existing leases.

Wellington would also lose the opportunity to showcase its modern new office buildings, and create a 'World Class asset' for Wellington from the land.

j. Other suggestions for unblocking the present confrontational situation?

1. *Hold workshops with 'key stakeholders' and 'people of influence' to:*

- ✓ *Examine the implications of the market information contained in this report (and other background reports)*

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- ✓ *Explore the creation of an agreed vision for the business role of different parts of the Central City (compared to widely promoted retail quarters, see point 4)*
 - ✓ *Identify potential re-uses and how best to facilitate different types of adaptive re-use of poor quality, older, large Central City office buildings unlikely to be quickly redeveloped*
 - ✓ *Identify how best to overcome any constraints on economically viable adaptive re-use of these buildings (including impact of planning provisions, no additional parking requirements, demonstration projects and introducing new operators and investors to these opportunities)*
2. *Review the Harbour Quays Master Plan, staging and timing of provision of facilities in the Harbour Quays development to quickly:*
- ✓ *Complete the public place making, and provide 'all weather' connections to the rail station and the rest of the City Centre*
 - ✓ *Create safe, sheltered, accessible, 'all weather' public places and spaces (eg through large public atriums and 'outdoor rooms')*
 - ✓ *Locate and stage the next developments to improve local worker amenity and connectivity to the rest of the Central City*
 - ✓ *Design, locate and stage the next developments to provide a quality 'gateway' to the Central City (paying particular attention to the southern part of the site and its presentation to the Waterloo Quay and the Railway Precinct)*
 - ✓ *Provide additional community benefits - with attractions that will not dilute or compete with other parts of the City Centre (e.g. 'climb on', Community Art, multi-functional all weather spaces, atriums/outdoor rooms, visitor meet and greet places, 'time share' band rehearsal and recording studio, an all weather adventure play ground, solar and wind powered community art)*
 - ✓ *Improve employee and Central City business and employee facilities - with attractions that will not dilute or compete with other parts of the City Centre (e.g. a demonstration high tech small office and video conference centre, public childcare centre and crèche; collocated, integrated business advisory services; Downtown corporate and executive health centre; Downtown community disease prevention and health management centre; health and fitness centre with health monitoring, lap pool, saunas, gym; additional downtown campus with small public meeting and workshop and 'time share' multi-media conference and theatre space)*
3. *Run a series of high profile 'Competitions' (in association with local schools, business and development groups and the local media) to:*

- ✓ *Identify and design local community benefit features for possible incorporation on the site (that will not dilute or compete with other parts of the City Centre)*
 - ✓ *Identify worker, recreational and visitor facilities for possible incorporation on the site (that will not dilute or compete with other parts of the City Centre)*
 - ✓ *Identify business, government and central worker facilities for possible incorporation on the site (that will not dilute or compete with other parts of the City Centre)*
 - ✓ *Design innovative, new 'all weather' indoor/outdoor spaces and 'outdoor rooms' for possible incorporation on the site, railway forecourt and pedestrian connections to the rest of the Central City (that will demonstrate and 'showcase' Wellington's inventiveness, innovative design, innovative use of new materials and sustainability principles)*
4. *Agree and promote a 'Clear Vision' for the future roles for different parts of the Central City (in collaboration with business and property groups):*
- ✓ *Work at creating a clear vision for the 'business roles' for different parts of the Central City (the business role equivalent to the widely promoted four retail quarters of the Wellington CBD).*
 - ✓ *Work at creating a clear vision for the 'visitor and worker, recreational, sporting and cultural roles' for different parts of the Central City*
 - ✓ *Promote 'residential conversions and new apartment buildings' within 800m of the CBD (identifying opportunities for public and private 'place making', and sheltered 'pocket parks' to improve residential amenity, including purchases for these purposes)*
 - ✓ *Promote 'small office and creative industry business conversions' within 800m of the CBD (identifying opportunities for public and private 'place making', and sheltered 'pocket parks' to create 'superior business settings, provide a 'credible business address' and improve employee amenity, including purchases for these purposes)*
 - ✓ *Agree to a joint program of 'Business Marketing and Investment Promotion' based on these visions (collaborate in developing appropriate multi-media materials, and proactive media and investment campaigns).*
 - ✓ *Advance the necessary 'demonstration projects' in different parts of the City (for instance, a CBD refurbishment as a quality boutique, small office conversion with very trendy, high quality shared worker facilities, wireless empowered serviced office suites and wireless empowered café; the first public atrium/'outdoor room' c/f to the street corner wind*

shelters, a landscaped, sheltered 'land bridge' between Harbour Quays and the Rail Station)

k. Desirable changes to existing Central City planning policies?

1. *Only support substantial new 'stand alone' office developments at locations that are within 800m 'convenient walking distance' of the Central City retail heart, rail station and business hearts (Apply similar provisions to other major 'activity centres', elsewhere in the Wellington City Council Area)*
2. *Require developments above a particular size to be Master Planned and to identify and have binding commitments for:*
 - ✓ *Staging that will grow the development from the nearest point to existing business areas and public transport*
 - ✓ *How the development will provide high amenity, all weather public spaces and places (that will support business networking and social interaction by providing the best opportunities for business people and workers to spend time there, supporting and encouraging accidental and casual meetings)*
 - ✓ *How each stage of the development will provide good quality, safe and convenient 'all weather' pedestrian connections to existing business areas and public transport*
 - ✓ *Any 'induced public investment' (including public place making, or providing good quality, safe and convenient all weather pedestrian connections and public transport routes, layovers and quality passenger facilities)*
3. *Require early 'first stage' investment (alternatively accepting bank guarantees or financial contributions) that will also be a disincentive for 'disconnected development' due to additional 'upfront costs', in:*
 - ✓ *High amenity, all weather public spaces and places (that will provide the best opportunities for business people and workers to spend time there and encourage accidental and casual meetings)*
 - ✓ *Providing good quality, safe and convenient all weather pedestrian connections to existing business areas and public transport opportunities*
 - ✓ *Worker facilities and services (not internalised to any one tenancy or building)*
 - ✓ *Contributing to any induced public investment (including public place making, or providing good quality, safe and convenient all weather pedestrian connections and public transport routes, layovers and quality passenger facilities)*
4. *Support the development of small, affordable office space, small 'office conversions' and clusters of high quality small office spaces:*
 - ✓ *Anywhere Close to the Central City*
 - ✓ *At 'activity nodes' located along major arterials (where it is possible to provide business and personal services, business hospitality and to provide efficient public transport)*
 - ✓ *As part of any integrated mixed-use development within or beyond the Central City and any major mixed business/industry (MIBA) area*

- ✓ *Integrated into existing and proposed major new 'activity centres'*
 - ✓ *Integrated into existing and proposed new 'business centres' (within 5 km of every major residential area).*
5. *Require any large-scale office development more than 800m from the Central City retail heart, business areas and public transport hubs to:*
- ✓ *Be 'Master Planned' and developed only as part of an 'Integrated, Mixed-use, Activity Centre' (that incorporates residential, office, business, retail, recreational and community activities and is capable of being efficiently serviced by public transport).*
 - ✓ *Contribution to any 'induced public investment' costs (including public place making, providing good quality, safe and convenient all weather pedestrian connections, public transport routes, layovers and the provision of convenient, high quality passenger facilities)*
6. *Strongly support and encourage residential development within 800m of the Wellington CBD, including:*
- ✓ *Very strong 'Promotional Planning' initiatives*
 - ✓ *Investment in 'place making' and creating superior residential settings (including use of Council properties for these purposes, encouraging provision of high quality public areas in private developments, special purchase of properties for use as public place and spaces)*
 - ✓ *Targeted promotional and investor attraction campaigns (possibly in collaboration with the 'Property Council')*
 - ✓ *Existing office and other building owner awareness raising and educational campaigns (possibly in collaboration with the 'Property Council')*
 - ✓ *Seeking to introduce and attract new developers, investors and property operators to different types of downtown Wellington residential markets*
 - ✓ *Use of Council property assets for new residential developments*
 - ✓ *Demonstration projects for the innovative adaptive re-use of existing buildings*
 - ✓ *Seeking developers, investors, property operators and agents to meet the short to long term visiting contractors, visiting academics and professional and globally mobile talent singles and couples market.*
7. *Review existing and proposed planning provisions that may affect the viability of residential development, building conversions and the amenity of down town residential areas (especially for building conversions), including:*
- ✓ *Enabling ready conversion between residential and business use as demand changes (enabling easy 'changes in use' of individual units converting between office, residential, retail and creative industry uses)*
 - ✓ *Reductions in parking requirements and loading bays (including no new provision required for conversions and adaptive re-use of existing buildings within 800m of the CBD)*
 - ✓ *Reviewing any requirements for lifts in converted buildings*
 - ✓ *Variations in the extent of external sound proofing requirements for residential conversions according to location in the Central City*

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- ✓ *Consider restricting the location and noise controls for clubs and late night music venues in certain parts of the Central City to preserve a pleasant, safe, high amenity residential environment (e.g. Thornton, and the southern most part of Te Aro. But Not applying them to or the Cuba St entertainment precinct or the retail heart and southern end of Lambton Quay)*

Key Concerns of Executives and Employees

Set out below is a bullet point summary of the key business drivers/ high level specification of large government and corporate tenants.

- Getting the right working environment to support effective business operations is the fundamental issue for many large tenants.
- Property is required to help organisations with:
 - Spaces that promote better collaboration and communication
 - Bringing the organisation into the one building
 - Proximity to related agencies or organisations
 - Character and quality of space that current and prospective staff will want to work in
 - Flexibility for future changes and growth or contraction
- A typical outline specification for a large tenant is likely to be:
 - A northern CBD location close to related agencies (primarily government tenants)
 - Ability to accommodate the whole organisation in one building on contiguous floors
 - Large floor plates. 15 years ago 800-1,000 sq.m. floor plates were regarded as acceptable, now tenants seek floor plates of 1,500-2,500 sq.m.
 - Efficient floor plates with minimal columns or other intrusions
 - Natural light and outlook from most of the external faces of the building
 - Proximity to public transport and retailing desirable but not a major driver



- Historically, the core part of the Wellington Central Business District (Whitmore Street to Willeston Street) was dominated by corporate head offices, banks, insurance companies and legal practices. This pattern is becoming less dominant.
- Many of these major organisations are now relaxing their historical requirements in order to satisfy the need for contiguous space and the preference for larger floor sizes.
- The only group of tenants with a clear preference for being located close to one another are the head offices of government departments. Frequent interaction with organisations such as Minister offices, Treasury, State Services Commission and agencies with a similar focus mean that the organisations achieve better results from being close together. Public sector agencies tend to have a preference for the northern part of Featherston Street, Lambton Quay and The Terrace, on or around the Parliamentary precinct or in Thorndon.
- Transport and proximity to the Railway Station has not been high on Tenant search criteria. This is surprising but is assumed to arise from the fact that most search locations for Tenants are within a short walk of the Railway Station and bus services. The desire to be near the Railway Station may drive a drift north, in combination with other factors.



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- The main driver in terms of timing is, not surprisingly, lease expiry date. A typical high level programme for a major tenant and in particular a government tenant, looking for space in a new development is as follows:

Review of Business Drivers/ Working Environment Strategy	3 to 6 months
Market Search/ Options Evaluation/ Business Case/ Approvals	6 to 12 months
Resource Consents/ Building Design/ Building Consents	6 to 12 months
Main Building Construction and Fitout Period	<u>18 to 30 months</u>
Summary	33 to 60 months

- The shorter timeframe would generally apply to smaller developments (up to 10,000 sq.m.). The longer timeframes are likely to apply to the larger developments (20,000+ sq.m.) where there is likely to be a more complex and rigorous enquiry process before approval is obtained.



- The process of establishing a rental for leasing space is influenced by a wide range of factors. These include:
 - Location
 - Quality pitch of the building
 - Whether the space exists or is in a new building
 - The extent of the modifications to the standard specification to suit tenant requirements
 - The terms and conditions of the lease
 - The motivations and investment criteria of the investor/ developer
 - The skill of the negotiators for the respective parties
 - Availability of other, similar options
- Rentals in Wellington city are generally quoted on a gross basis i.e. net rental plus operating expenses. Sometimes rentals are quoted as 'face rentals' i.e. gross rental divided by the net lettable area. Generally an inducement is paid either by way of a cash sum, an extended rent free period or the landlord undertaking either tenant-specific modifications to the base building or tenant-specific fitout works. Valuers will generally refer to market rentals on what is known as 'effective total occupancy cost'. This is effectively the face rental adjusted for the value of any inducement items.
- To say there is a particular threshold rental that must be achieved before a development is viable would be misleading. Each developer will have different motivations and different skill levels in terms of securing tenants, managing the balance between design, quality and cost, and securing an end investor to buy the completed development.



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- The level of development return required is largely governed by the extent of risk. Wellington has a number of investors that undertake development as a means of obtaining long term investment stock. These investor-type developers tend to be risk averse. They will generally not undertake new developments unless they have close to 100% tenant pre-commitment, have a confirmed construction price and have achieved an initial and/or projected yield which meets their long-term investment threshold requirements.
- Wellington developers have not commenced new office developments without substantial (80% plus) commitment from tenants to lease the space. This cautious approach is likely to continue.
- As you would expect, there is generally a differential in rental between new and existing buildings. There is also a differential for location. New developments at CentrePort are likely to be at a lower rental than in Thorndon, and in turn, Thorndon rentals are likely to be at lower rentals than in the core CBD. This largely reflects the increased inconvenience of being dislocated from the core areas of the city.
- A very general overview of rentals for 2008-2009 delivery dates for new or substantially new developments is as follows:

CentrePort/ Railway Station	\$380-400 per sq.m. per annum effective gross rental
Thorndon/ Government Centre	\$400-420 per sq.m. per annum effective gross rental
Core CBD (Whitmore to Willeston)	\$420-450 per sq.m. per annum effective gross rental

- Developers/ investors and tenants often have different perceptions of what “quality” means in the context of office buildings. Developers are more focussed on issues such as aesthetics, durability/ maintenance costs for major elements of central plant, likely adaptability/ attractiveness to subsequent tenants. In short, landlords are more concerned with the outside. Tenants are more focussed on issues such as floor shape and size, the quality of the natural light and outlook, quality of the building services and in particular lighting, air quality and temperature control and the likely flexibility/ cost of modifying the main base building elements to suit the tenant fitout. In short, tenants have an inside out perspective.
- Other significant differences between the landlord and tenant perspective in development economics are:
 - Developers generally focus on rental, terms and conditions of lease, and investment yields.
 - Tenants are generally focussed on how the environment will support the organisation, the efficiency of the space in terms of how many staff can be accommodated and the quality of the environment in terms of making the premises attractive to staff.
 - Creating environments that allow people to be productive and avoiding the cost of staff turnover are significant factors to tenants. These factors, if satisfied, could easily justify and increase in rent of perhaps \$10-20 per sq.m.
 - As tenants become more sophisticated in terms of understanding of the nature of premises required to support high performance activity, they become more demanding in the way they specify their requirements. Landlords that are prepared to listen and act collaboratively to meet these requirements will be preferred to those who wish to dominate the design/development process.

