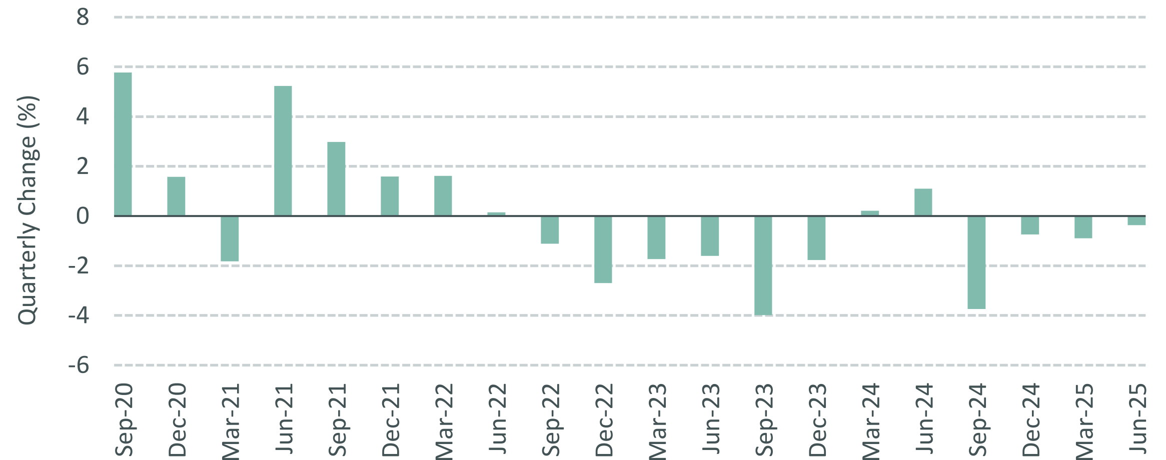
CBRE

Wellington Property Market Overview

KEY MARKET CHANGES

- During H1, the vacancy rate in the Wellington CBD office market increased to 18.0% from 14.3%, mainly due to a rise in vacant stock in Secondary buildings, particularly Grade B assets. However, the Prime CBD office submarket remains a relatively healthy one compared to Auckland and Australian cities.
- Wellington's office vacancy rate is expected to peak in 2027 due to unoccupied space in Secondary buildings, but will gradually decrease by 2028-2029.
- The Wellington investment market remained subdued due to government austerity measures and public sector losses, resulting in limited transactions and stable market yields in Q2.
- In Q2, face rents in both Prime and Secondary CBD office submarkets declined, with some buildings experiencing rent adjustments while others remained stable. Meanwhile, the retail and industrial markets registered stable face rents in Q2.
- After a promising start to the year, economic conditions have softened. A more optimistic outlook for 2026 reflects some of the main economic growth drivers turning positive. The large fall in interest rates, hint of a rise in net migration, a solid rise in export prices and the lower NZD are good reasons to expect a reasonable year-ahead GDP growth.

Average Office, Retail, Industrial Capital Values – q-o-q % change



Market indicators

Market Sector	Stock (sqm)*	Vacancy (%)*	Gross Face Rent ($/sqm/yr)	Incentives (%)	Yield Range (%)
Prime CBD Office	500,475	6.6	583 – 1,075	6 – 13	6.00 – 8.25
Secondary CBD Office	904,451	24.3	220 – 690	12 – 14	7.70 - 11.45
Prime Industrial	499,068	0.4	194 – 269	1 – 2	6.00 - 7.00
Secondary Industrial	1,718,761	4.1	126 – 185	3 – 4	6.50 - 8.50
Prime CBD Retail	22,891	1.1	1,900 - 2,700	10 – 11	6.76 – 7.61
Secondary CBD Retail	165,373	9.2	800 – 1,700	10 – 11	7.00 – 8.35

* CBD office stock and vacancy figures are as of June 2025, while industrial and CBD retail stock and vacancy figures are as of December 2024.

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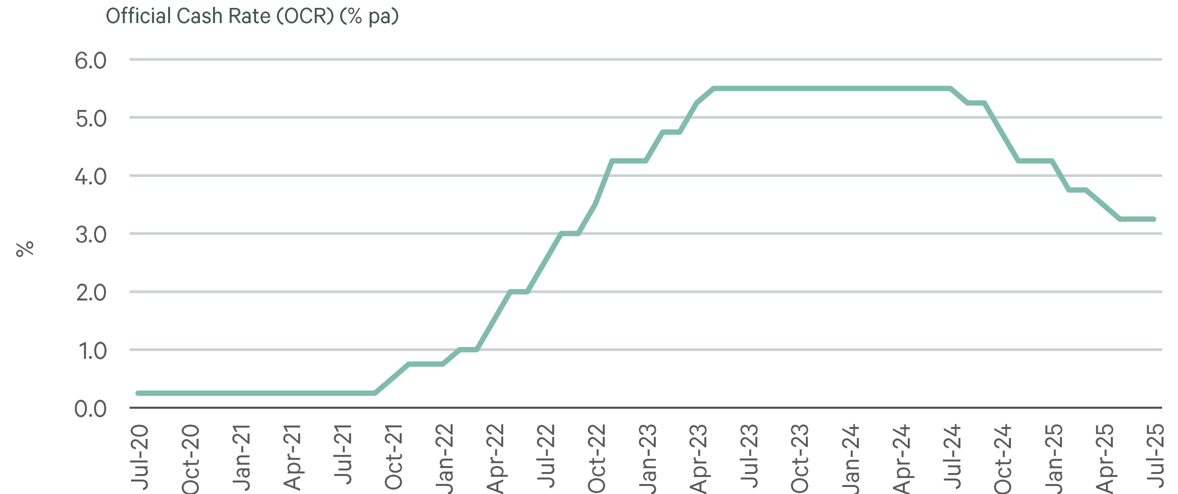
Economy

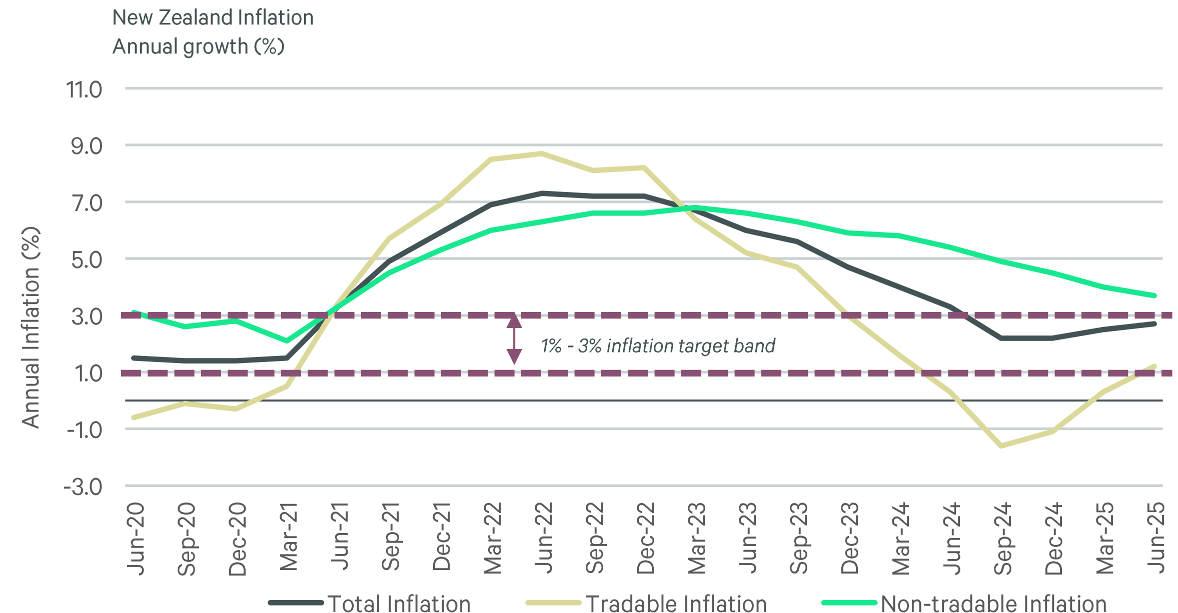
New Zealand's economy grew by 0.8% in Q1 2025 compared to the previous quarter, registering a stronger than expected growth. After this promising start to the year, conditions in Q2 have worsened and forward indicators have increasingly been pointing to a Q2 GDP contraction in recent weeks. A more positive outlook for 2026 reflects some of the main economic growth drivers turning positive. These main drivers of growth in order of importance are interest rates, net migration, export prices, and the NZD. The large fall in interest rates, hint of a rise in net migration, a solid rise in export prices and the lower NZD are good reasons to expect a reasonable year-ahead GDP growth.

Between August 2024 and May 2025, the RBNZ reduced the OCR by 225 basis points through a firm monetary easing policy. However, in its latest Monetary Policy Review in early July, the RBNZ's Monetary Policy Committee (MPC) agreed to pause the OCR at 3.25%. The main reason behind this decision was the expectation that headline inflation could reach the top of the target band in Q2 and Q3. The MPC also signalled during their latest meeting that before considering another OCR cut, it would wait until August to assess inflation risks and expectations once the latest inflation figures become available, and also to analyse potential external shocks due to current global events. In Q2, annual inflation climbed to 2.7%, driven by higher local authority rates, housing rents and electricity. As predicted, the latest inflation figure sat slightly below the upper level of the RBNZ's target band (1% - 3%).

Despite the breather to the OCR in July, the RBNZ did not rule out more OCR cuts in the future decision meetings. The RBNZ expects headline inflation to decrease in Q4 2025 and to sit around the mid-point of the target band early next year. If medium-term inflation pressures were to ease as expected, the RBNZ will continue to lower the OCR, even at the August MPS meeting, eventually holding the OCR at around 2.50% - 2.75%.



Source: : Reserve Bank of New Zealand



Source: Statistics New Zealand

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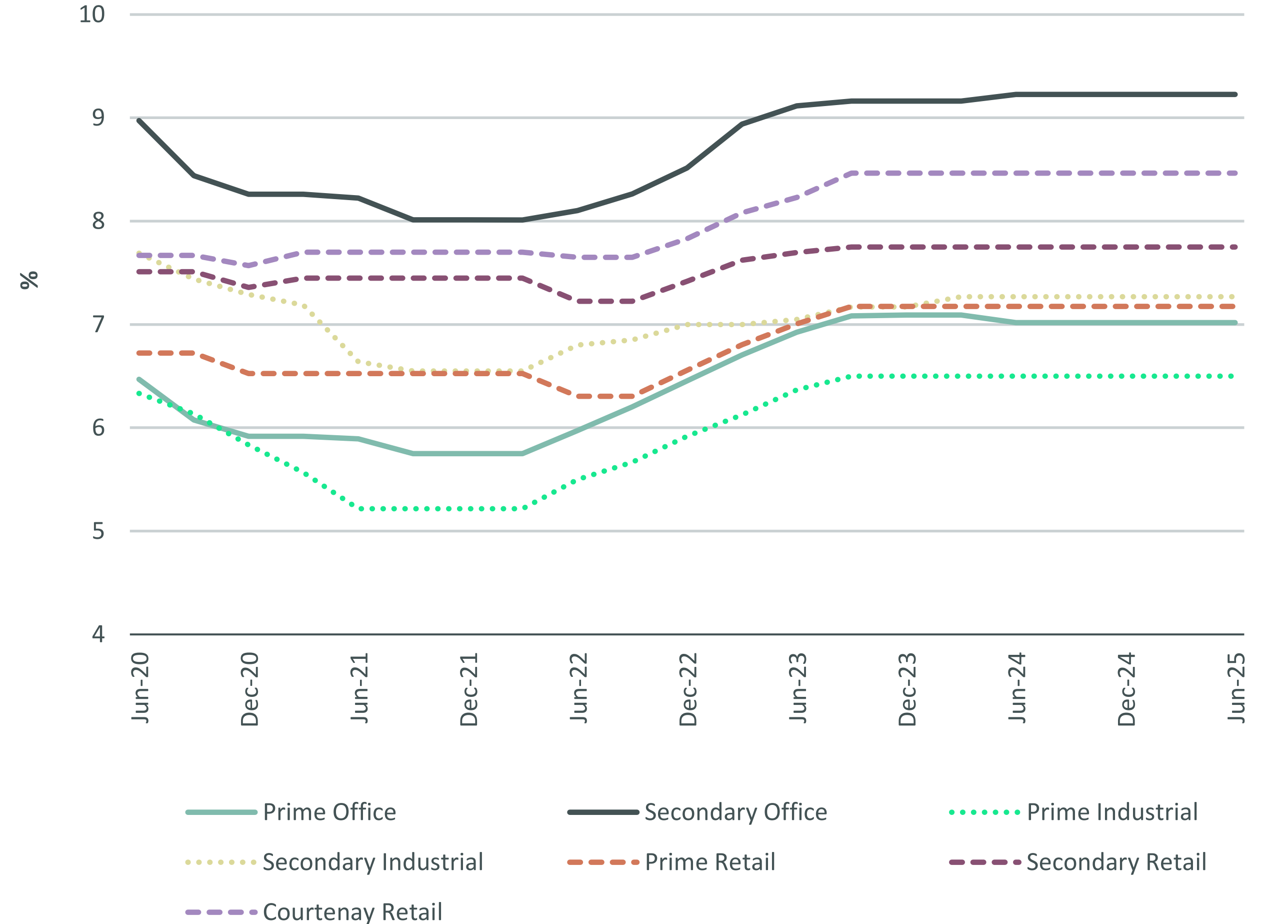
Investment market

The RBNZ's monetary easing policy of the last eleven months, currently paused, drove short-term interest rates on a downturn. The 90-day bank bill yield, which correlates positively with the OCR, went down by 200 bps during this period (currently sitting close to 3.25%). Also, the two-year swap rate, which showed more fluctuations due to global events, decreased by almost 70 bps, reaching almost 3.20% by the end of June.

The RBNZ's rate cutting cycle has delivered a more positive context for the investment market. However, the flow on benefits evident in the Auckland and Christchurch markets through lifting transaction volumes and some selective yield firming has yet to make a similar impact in Wellington. This reflects a city characterised by subdued sentiment from the significant losses in the public sector and the government's austerity measures. Backed by limited transactions during Q2, CBRE assesses market yields remaining stable across all commercial and industrial property sectors.

Nonetheless, the low sentiment is to some extent overplayed as, in an absolute sense, some sectors of the Wellington property market remain relatively resilient. For instance, its Prime office vacancy remains one of the lowest in Australasia and industrial vacancy is minimal. However, these market features appear to be trumped by the softness currently evident in occupier demand and an expectation that the demand contraction is yet to fully play out.



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CBD Office Vacancy

Following the trend of previous periods, vacancy in the Wellington CBD office market increased during H1 2025, moving to 18.0% from 14.3%. This was mainly driven due to a rise in vacant stock in the Secondary CBD office submarket, particularly in the Grade B and Grade D submarkets in the Core CBD, and in the Grade C submarket in Te Aro. As a result, Prime (Premium and Grade A) office vacancy went up from 6.0% to 6.6%, while Secondary (Grade B to D) vacancy increased from 18.9% to 24.3%.

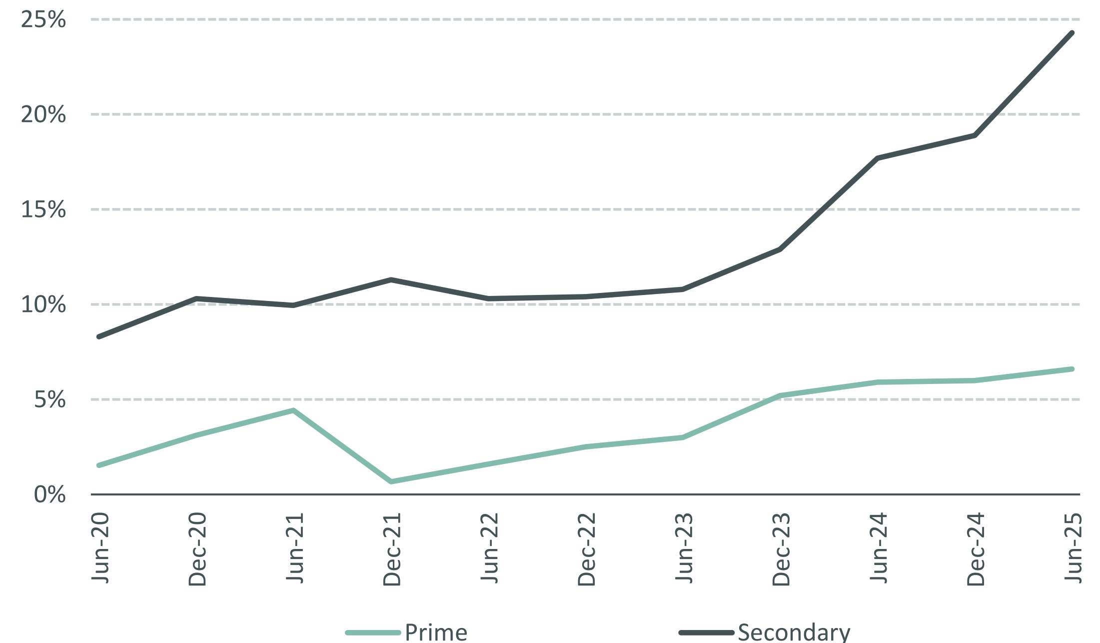
Backfill vacancy and downsizing were the culprits behind the steep rise in Secondary vacancy. CBRE's definition of vacancy encompasses space that is both physically vacant and available for lease. As part of the government's initiative to consolidate their space across Wellington CBD, during H1 several Crown entities moved to 1 Bowen Street (now known as Te Iho), a Grade A building that had been fully leased by MBIE last year. This triggered a significant amount of backfill vacancy across many buildings, such as Te Puni Kōkiri and Te Māngai Pāho leaving behind their Grade B office footprint at 143 Lambton Quay (4,976 sqm and 622 sqm, respectively), the Ministry of Pacific Peoples vacating 811 sqm at 44 The Terrace and 483 sqm of Grade C space at 200-204 Lambton Quay, the Ministry for Women leaving behind 518 sqm at 22 The Terrace, among others. All these new tenants at Te Iho downsized considerable their office footprint in the city. Another example of downsizing included the Ministry of Social Development, vacating almost 5,200 sqm at 87-89 The Terrace, a Grade B building in the Core CBD, while maintaining close to 29,000 sqm of office footprint across three buildings in Core CBD and Te Aro. Meanwhile, the Grade B office space (8,378 sqm) at 96-102 The Terrace that BNZ vacated to move to One Whitmore became available for lease.

During the first half of this year, the total office stock in Wellington's CBD increased to 1,404,926 sqm, an increase of 2,816 sqm compared to the second half of 2024. This increase occurred only in the Secondary CBD office submarket. This increase was driven by the re-introduction of 2,126 sqm of Grade C office space in Featherston Tower, located in the Core CBD area, after it underwent strengthening works, as well as the conversion of 690 sqm of retail space to office space at 100 Taranaki Street, a Grade D building in Te Aro.

CBD Office Vacancy Change by Grade

		PREMIUM	GRADE A	GRADE B	GRADE C	GRADE D	TOTAL
Vacancy – June 2025	%	6.2%	6.7%	22.8%	22.4%	31.5%	**18.0%**
	sqm	5,914	27,250	100,220	64,652	55,325	**253,360**
Vacancy - December 2024	%	3.7%	6.6%	15.7%	18.5%	27.7%	**14.3%**
	sqm	3,578	26,600	69,359	52,993	48,417	**200,946**

Wellington CBD Office Vacancy



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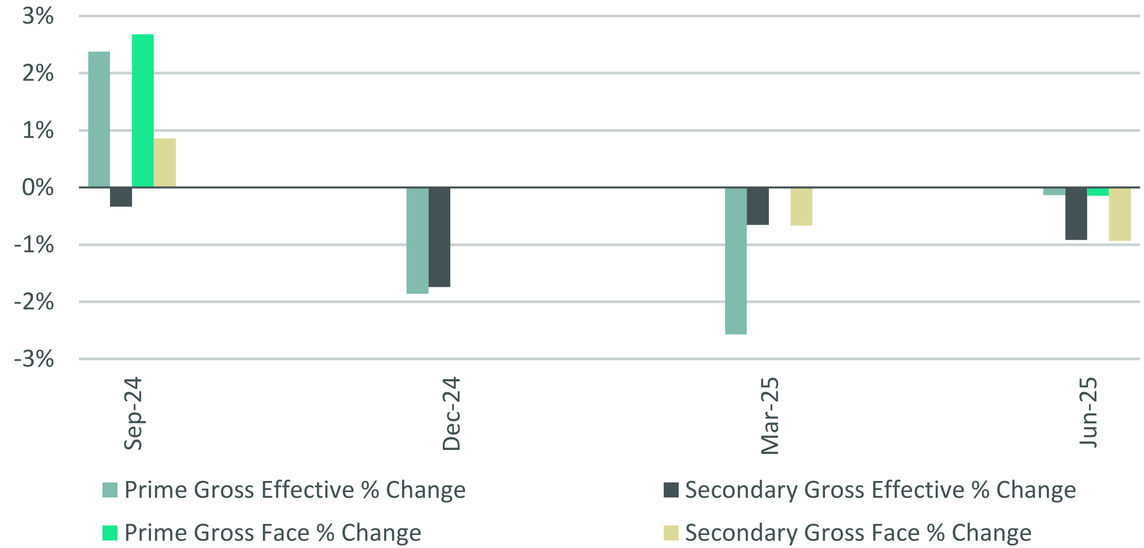
CBD Office Rents

During Q2 2025, both private sector and Crown entity office occupiers continued to consolidate. The lack of tractions in the leasing market flowed through to a greater willingness by landlords to compromise on rental expectations. These have resulted in higher incentives reducing effective rents. While higher incentives were partially offset by some face rent growth in past quarters, this was not the case in Q2.

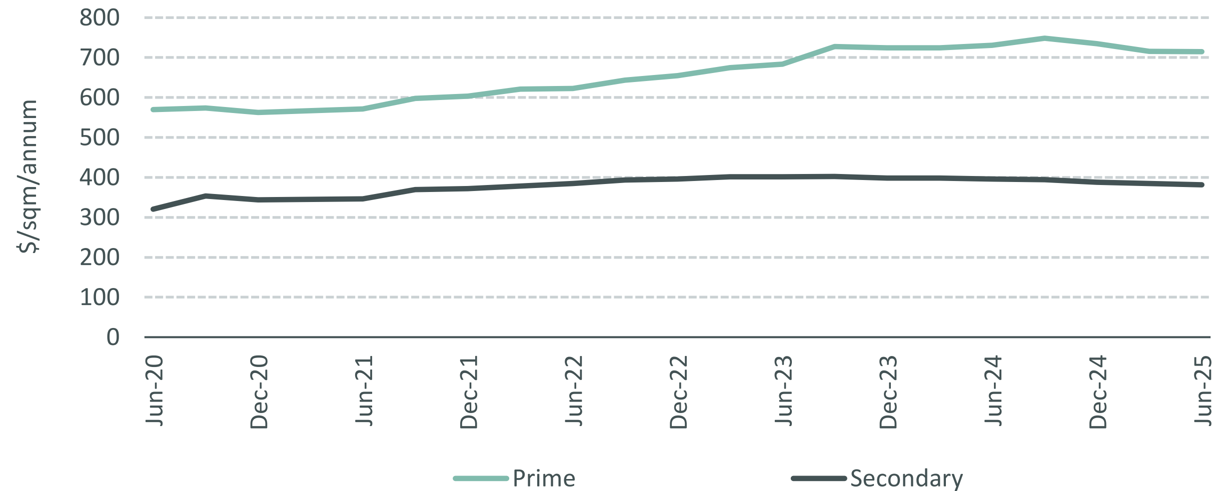
Face rents in both the Prime (Premium and Grade A) and Secondary submarkets declined during Q2. Premium face rents decreased, on average, by 0.3% in Q2 compared to the previous quarter. Secondary face rents went down due to a decline in Grade B face rents, which decreased by 1.5% compared to Q1. Notably, these adjustments were specific to landlord and asset circumstances. For instance, in Q2, of the 26 CBD office buildings that we base our rental assessments on, three showed a downward adjustment to face market rents, whilst the remaining 23 buildings were kept stable.

Incentives remained stable during Q2 2025. According to CBRE's assessment, Premium and Grade A indicative market incentives remained unchanged at 8.8% and 13.0% of face rents, respectively. Meanwhile, Secondary indicative market incentives also remained steady in Q2 at 13.3% of face rents.

Office Gross Effective Rents - Quarterly Change



Office Gross Effective Rents



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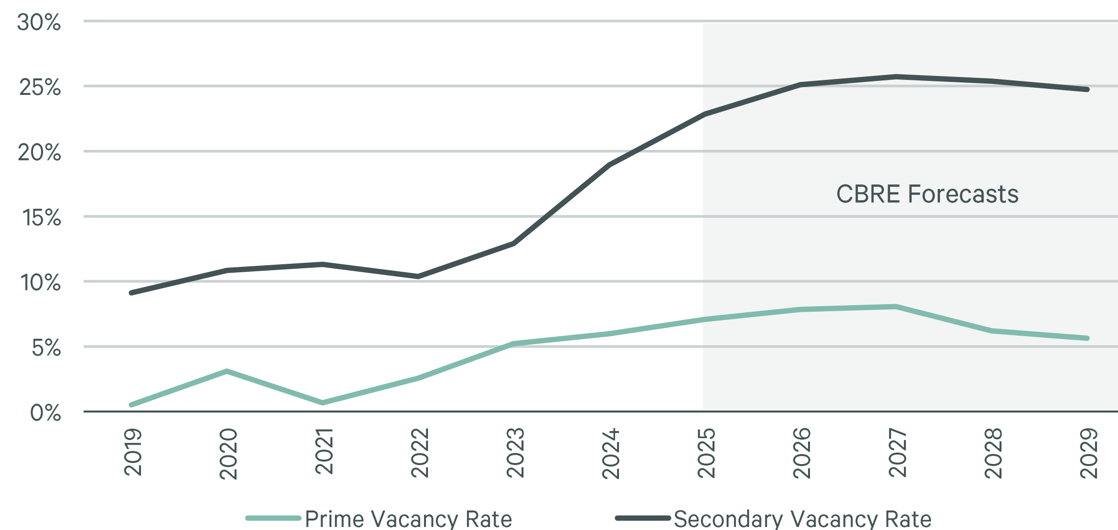
CBD Office Market Outlook

Last year, the Wellington CBD office market recorded the highest negative net absorption on record, at around -43,000 sqm. The main reasons for the significant absorption losses were multifaceted: occupiers reducing their space due to economic challenges, losses in the public sector, and the current government's austerity measures. Net absorption will remain in negative territory in 2025, although not at the high negative levels of 2024.

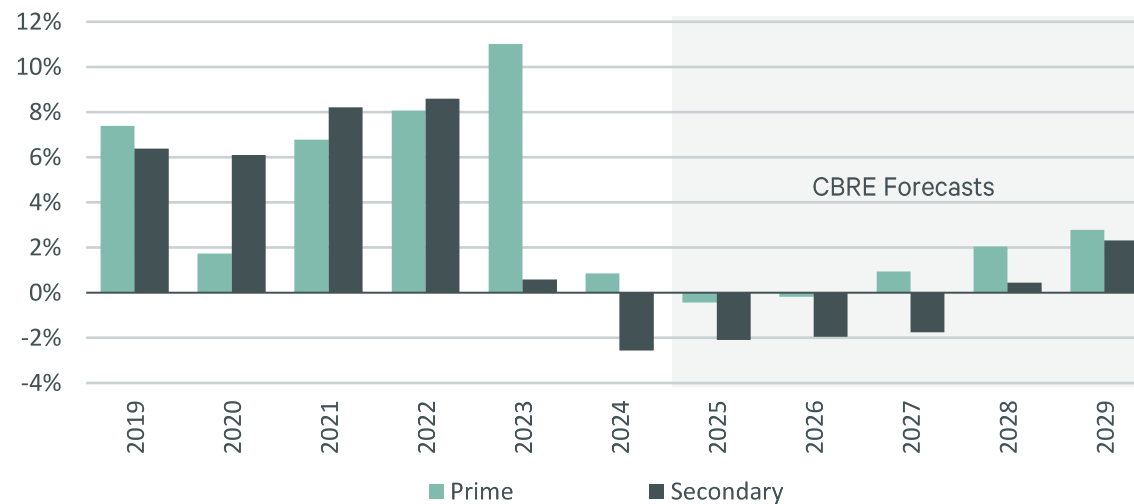
One new building and three refurbished ones are expected to be added to stock in 2025, adding almost 31,000 sqm of space to the Wellington office market. The one with the highest NLA is 61 Molesworth Street, located in Thorndon's parliamentary precinct, a new 19,215 sqm Grade A building developed by Precinct Properties. Additionally, we expect the start of a new conversion phase in the Wellington office market this year, primarily for Secondary buildings. While conditions have not supported new apartment development in the last three years, we expect some nascent conversion activity to begin this year and increase in the next two years. Overall, the 2025-2029 period average net supply will be slightly over 16,000 sqm.

Vacant space is expected to increase in 2025, primarily due to a rise in unoccupied space in Secondary buildings, driven by backfill vacancy in Secondary assets due to relocations to high-quality buildings. Additionally, the return of refurbished office space that has not yet been pre-committed, as well as a lack of employment growth, are contributing factors. The combination of the demand and supply cycles suggests vacancy peaking in 2027 (19.0%) and gradually decreasing during 2028-2029. However, CBRE's research shows the market is actually relatively healthy compared with Auckland and Australian cities. When looking at prime grade office space only, Wellington has one of the lowest vacancy rate among all major cities in both countries.

CBD Office Actual and Forecast Vacancy



CBD Office Actual and Forecast Annual Gross Effective Rental Change



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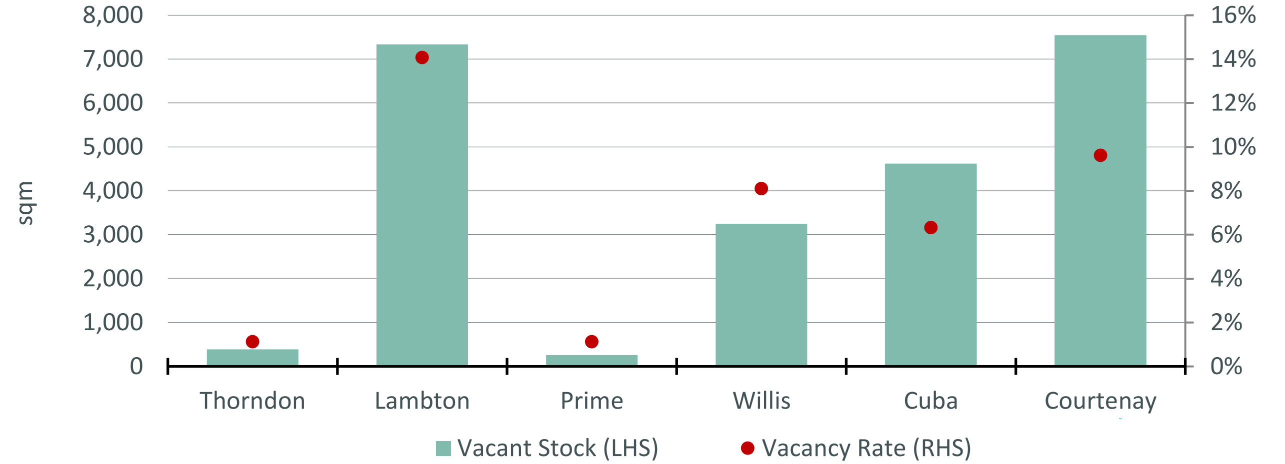
Retail Vacancy

The overall vacancy rate in the Wellington CBD retail market increased in December 2024 compared to December 2023, rising from 6.9% to 8.5%. This uptick represents an additional 4,000 sqm of vacant retail space. A significant factor in this increase was the noticeable rise in Courtenay, which jumped from 7.5% to 12.1%, equating to around 3,000 sqm of retail space becoming vacant during this time. This was followed by an increase of vacancy in Willis Street, rising to 8.4% from 6.4%.

The industry that saw the largest decrease in occupancy between December 2023 and December 2024 was the one categorised as 'other', reducing by almost 16,000 sqm. This industry includes specialised food retailing, travel agency services, clubs, allied health services, among others. This was followed by 'cafes, restaurants and takeaways food services', 'electrical and electronic goods retailing', and 'hardware, building and garden supplies retailing'.

Wellington Retail Vacancy by Precinct - Q4 2024



Wellington Retail Occupancy by Industry

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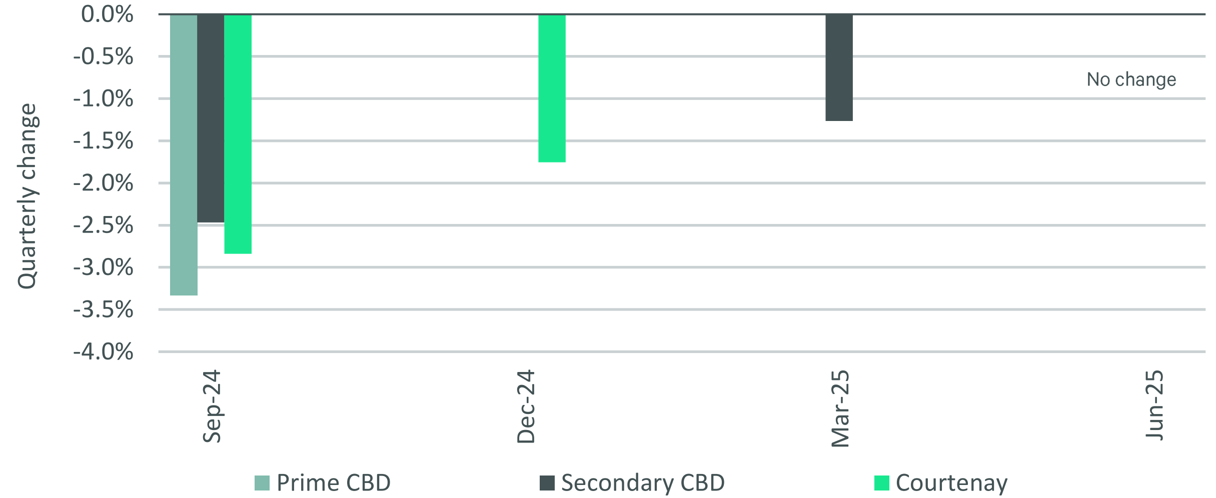
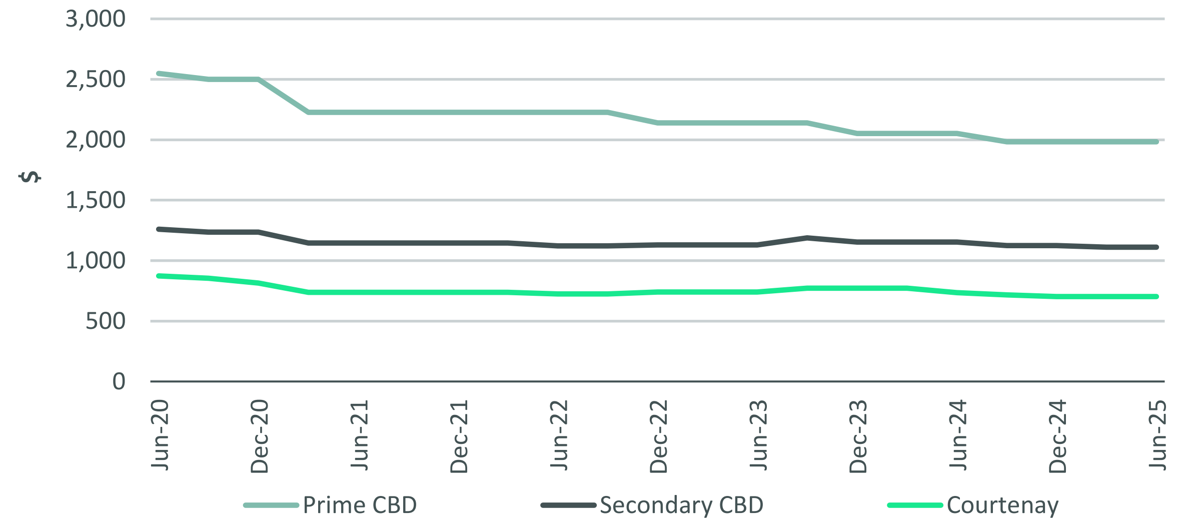
Retail Rents

The CBD retail leasing market has been active in Wellington CBD. Prime CBD retail locations experienced good demand, but Secondary CBD precincts showed more variation, with interest picking up for upper Willis Street locations and sluggish demand for Featherston Street. Meanwhile, Courtenay continued to have high vacancy levels and subdued retail activity. Despite this, face rents remained stable in Q2 across all submarkets after previous declines.

According to CBRE's assessment, incentives remained unchanged in Q2, at 11.1% of face rents for Prime and Secondary CBD retail locations, and 12.5% for Courtenay sites. Incentives for Prime and Secondary CBD retail locations have been consistent since Q4 2023, whilst incentives for Courtenay locations have remained constant since Q2 2024.





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Industrial Vacancy

Industrial vacancy increased during the twelve months to December 2024, rising from 2.5% to 3.2%. Total vacant space went up by around 17,000 sqm during this period, marking the highest annual increase in unoccupied space in the last decade. On average, industrial vacant space had decreased by circa 9,500 sqm per annum since 2014, which is quite dissimilar to the latest figure. This increase was mainly driven by a rise in vacancy in low-quality industrial assets: 9,872 sqm in Grade C/D buildings and 5,344 sqm in Grade B assets. In contrast to the lack of vacant space in high-quality industrial buildings over the last three years, Grade A vacancy also increased during 2024 (by 1,930 sqm), solely due to a retailer (The Body Shop) vacating a warehouse in Kaiwharawhara after going into liquidation.

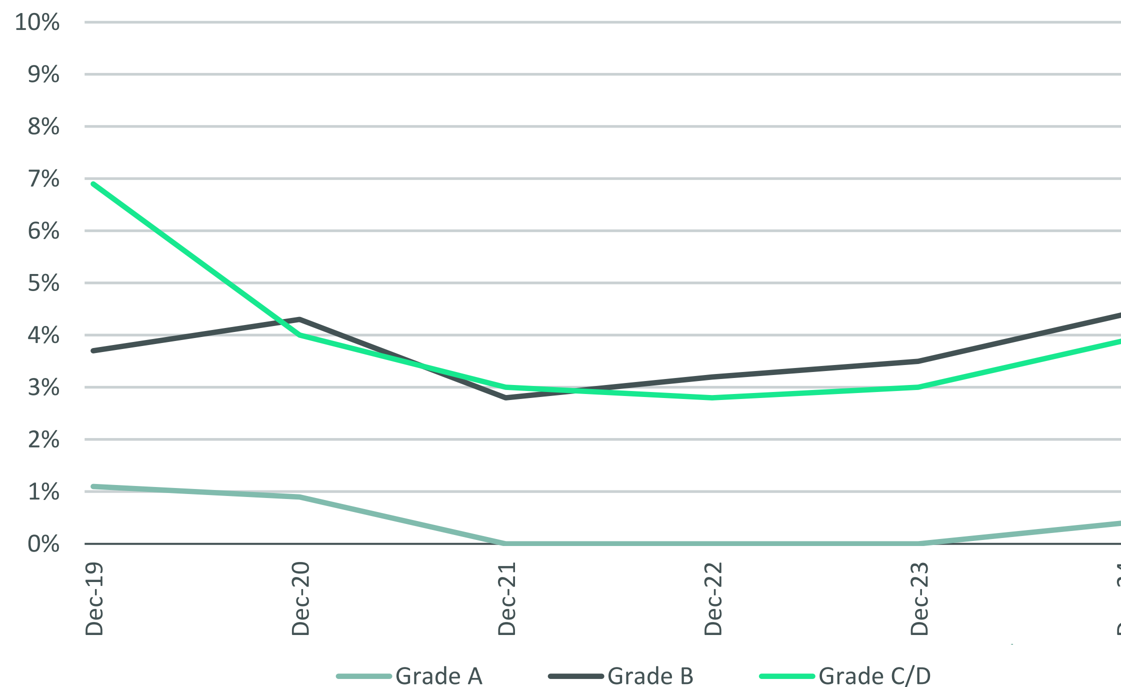
In terms of new industrial stock, around 8,400 sqm entered the market during 2024. The largest new facility was a showroom in Ngauranga (3,550 sqm), followed by a 2,182 sqm warehouse on Peterkin Street in Taitā and a 1,720 sqm prime owner-occupied warehouse in Porirua. However, the considerable number of demolished buildings in 2024 offset the amount of new stock. Last year, close to 14,000 sqm of secondary industrial stock were withdrawn from the market due to the demolition of 11 buildings on Marsden Street and Pharazyn Street (in Melling) as part of the ongoing Riverlink project, which includes flood protection measures on the banks of the Hutt River. Additionally, the removal of industrial stock on Tirangi Road (in Rongotai) continued during 2024, with over 3,300 sqm of Grade D industrial stock demolished.

Seaview registered the largest increase in vacant space in 2024 (by 12,405 sqm), mainly due to several tenants vacating large assets on Gracefield Road and Port Road. This was followed by Porirua (increasing by 2,300 sqm), due to a towing company leaving behind a Grade D building in Porirua, and by Taitā (growing by over 2,000 sqm), due to a vacant new building entering the market.

Wellington Industrial Vacancy Change by Grade

		GRADE A	GRADE B	GRADE C/D	TOTAL
Vacancy - December 2024	%	0.4%	4.4%	3.9%	3.2%
	sqm	1,930	25,542	44,226	71,698
Vacancy - December 2023	%	0.0%	3.5%	3.0%	2.5%
	sqm	0	20,198	34,354	54,552

Wellington Industrial Vacancy



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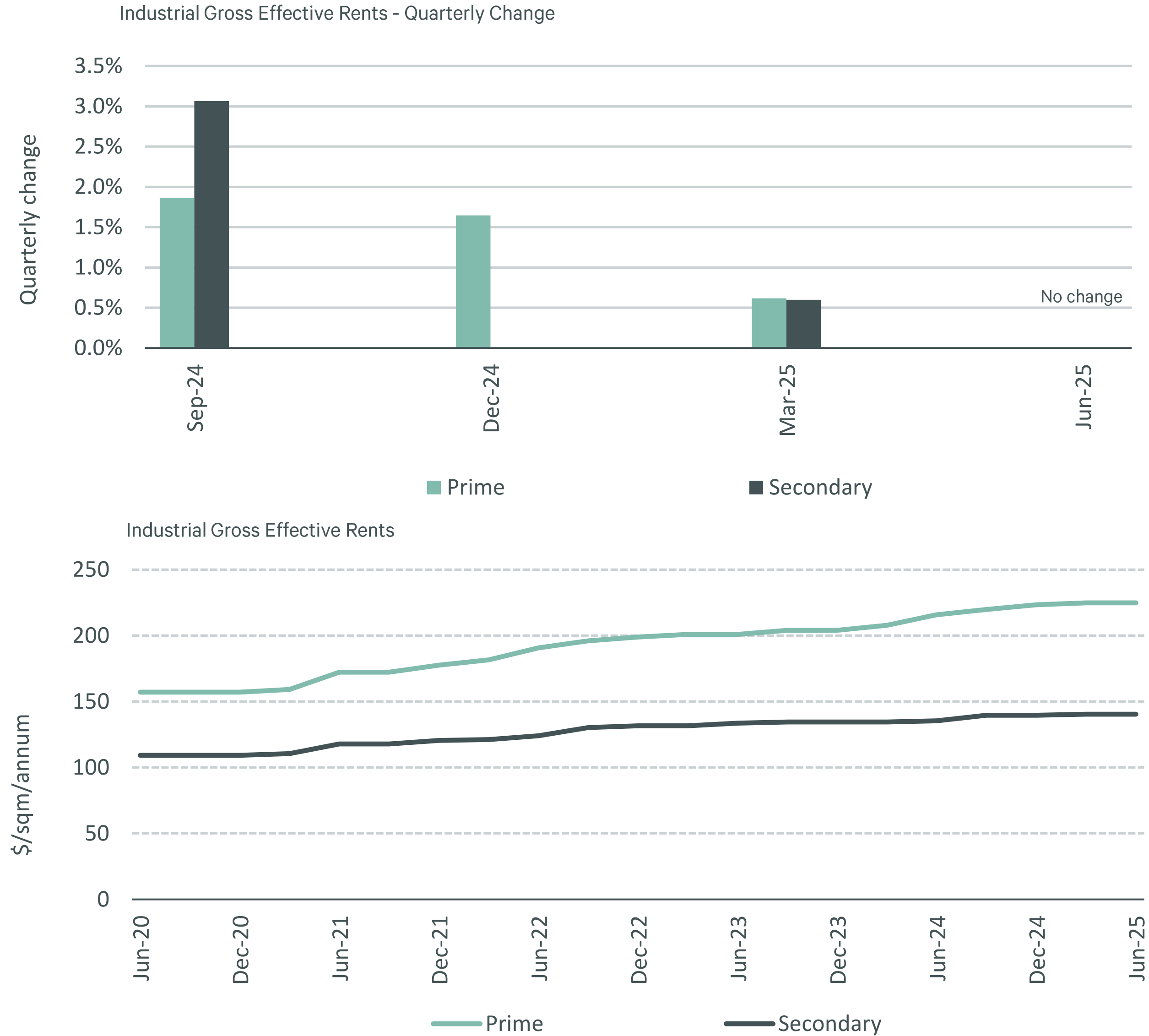
Industrial Rents

Rents in both the Prime and Secondary Wellington industrial submarkets remained unchanged in Q2. This contrasts with the previous quarter, in which both industrial submarkets experienced rental growth. Occupier demand was subdued in Q2, while deals taking longer to come to fruition. Rents are currently at their peak and the lack of movement can be attributed to the mismatch between asking rents and rental levels that the potential tenants are willing to pay.

According to CBRE, indicative market incentives remained steady in Q2 2025. Prime incentives are currently 1.9% of face rents, while Secondary incentives are 4.2%.



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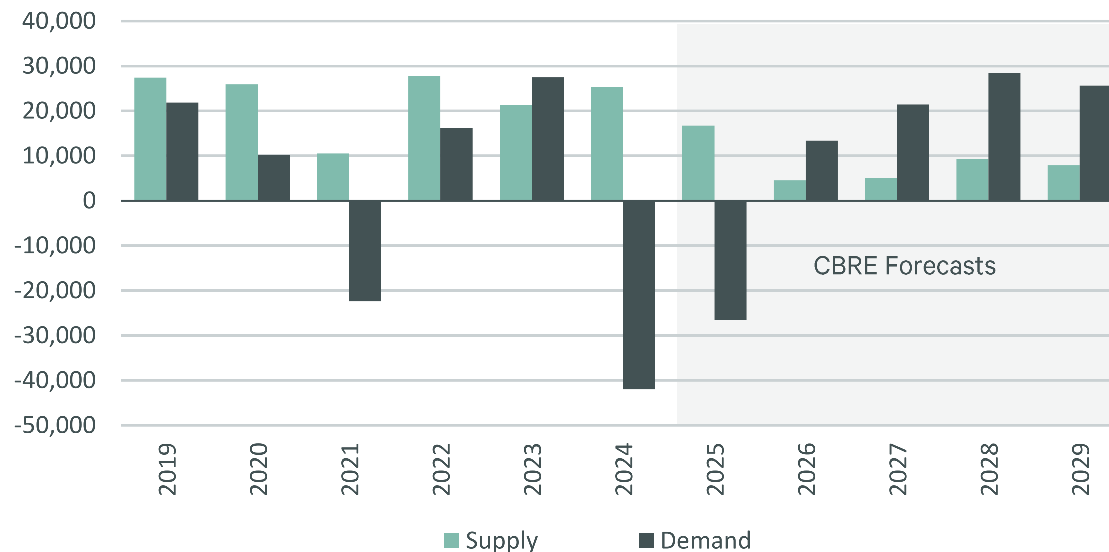
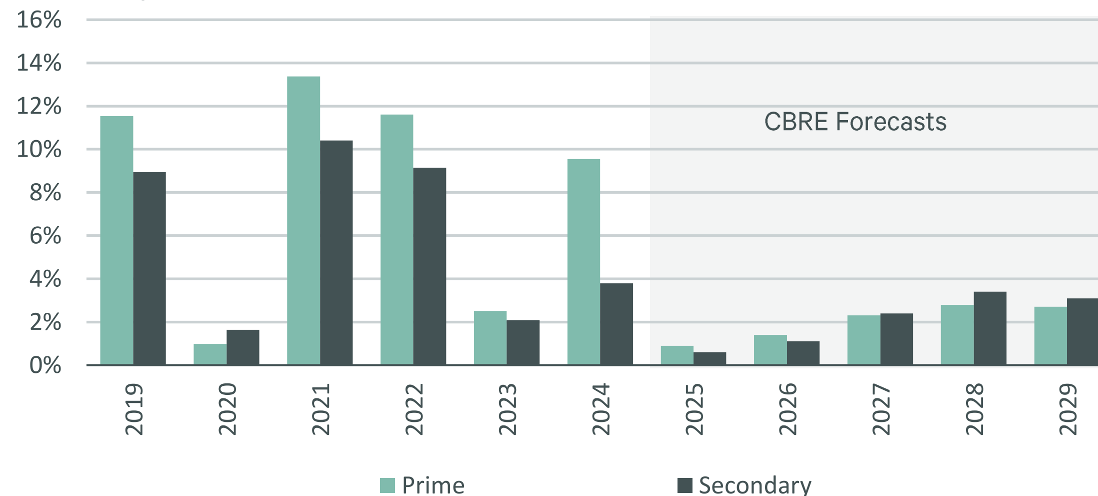
Industrial Market Outlook

The development pipeline is falling from over 25,000 sqm per annum during much of the past 6 years to 16,000 sqm this year. The active development pipeline in 2026 and beyond comprises a small handful of projects and new supply will be well below 10,000 sqm in the next couple of years. Bidfood's recently completed 6,000 sqm Grenada North premises is the largest new warehouse for 2025. Another four buildings are being added to stock this year. LT McGuinness is looking to build a 3,036 sqm warehouse. It is currently in design mode, and it already has a resource consent. It will likely be the largest new industrial building completed in 2026. Beyond this we only expect a pick up in development activity from 2028 onwards.

As for demand, we have also downgraded our short-term rental forecasts. The broad underlying drivers remain unchanged and a more subdued occupancy market, combined with diminished development cost pressures to drive new construction cost related rent increases, will have a negative impact on rental growth in the next few years. The nature of the Prime vs Secondary market in terms of gross versus net leases is favouring Prime net effective rent growth where increases driven by new benchmark rents have not been eroded by higher Opex in the same way as for Secondary properties. With Opex escalations set to moderate, when growth resumes for the Secondary sector we expect it to exceed Prime rent growth towards the end of the forecast period.





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Definitions

Office building grades

Premium: Top quality landmark space which is generally the pacesetter in establishing rents and includes the following general attributes: prestige lobby; high architectural merit; prominent location; prestigious occupiers; the latest or recent generation of building services; ample natural lighting; good views and outlook; quality access to and from an attractive street environment; large size - +20,000 sqm. **Grade A**: High-quality modern space including many but not all Premium features. **Grade B**: Good quality modern space with some but not all Grade A features and to a lower standard. **Grade C**: Average quality air-conditioned space. **Grade D**: Older style poor quality space. **Prime**: Combination of Premium and Grade A. **Secondary**: Combination of Grade B and C.

Industrial building grades

Prime: Industrial space used for general warehousing or logistics with stud heights of 9 metres or more, largely column free. Lettable area will exceed 1,500 sqm. The property will be of a high specification and well maintained. The grade encompasses properties from the current generation of design build premises to buildings built over the previous cycle. **Secondary**: Industrial space generally built prior to the mid 1990s, inferior to Prime space in terms of building quality and specifications being lower stud (generally between 6 and 9 metres) and in some cases lacking Capex and having deferred maintenance issues although still providing functional industrial accommodation. Lettable area will exceed 500 sqm.

Rents and yields

CBRE uses the "basket of buildings" methodology to determine market yields and rents. For each property sector covered, a group of representative buildings are nominated and a panel containing senior members of appropriate departments within CBRE convenes to assess the market level of yields and rents for these buildings. Based on this, CBRE's indicative average rental and yield figures reflect our view of the market after considering available appropriate evidence. Yields represent initial yields based on market rents. Rents are net effective. The industrial rents presented are a combined warehouse and office figure.

Contacts

Zoltan Moricz
Executive Director, Head of Research
New Zealand
zoltan.moricz@cbre.co.nz

Matthew St Amand
Managing Director, Wellington
t: +64 27 562 2244
e: matt.stamand@cbre.co.nz

Graeme Lundie
National Director, Property Management
t: +64 21 586343
e: graeme.lundie@cbre.co.nz

Hamish Merriman
Director, Valuation & Advisory Services
t: +64 27 872 0391
e: hamish.merriman@cbre.co.nz

Jorge Chang Urrea
Research Manager
New Zealand Research
jorge.changurrea@cbre.com

Matt Hince
Director, Office Leasing
t: +64 21 333 005
e: matt.hince@cbre.co.nz

Martin Veale
Senior Director, Valuation & Advisory Services
t: +64 27 448 6825
e: martin.veale@cbre.com

David Cook
Director, Valuation & Advisory Services
t: +64 22 677 0681
e: david.cook@cbre.com

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