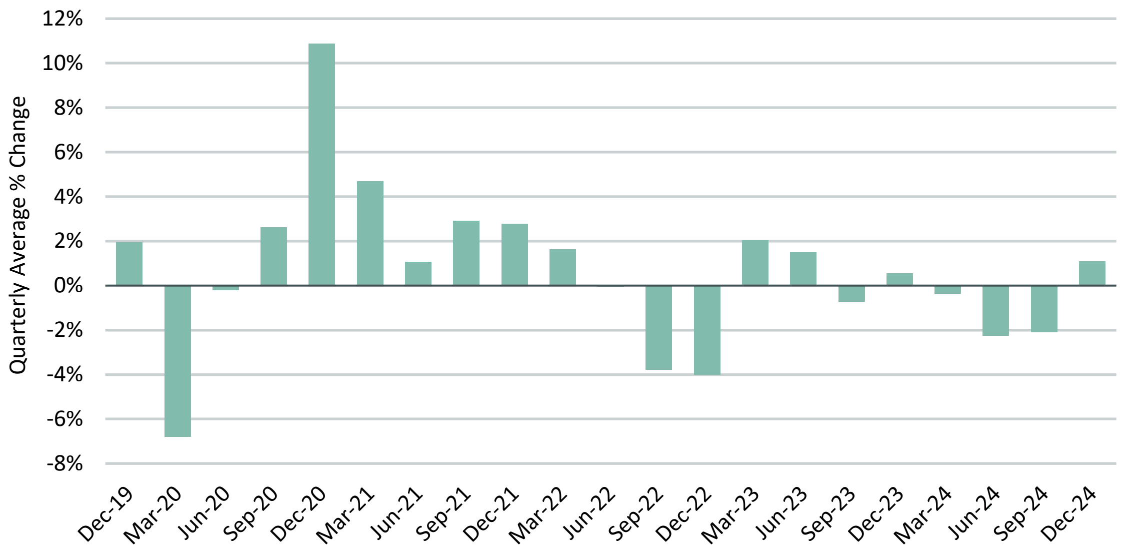
Auckland Property Market Overview

INSIGHTS

- The improving occupier confidence that leasing brokers reported in Q3 is starting to flow through to increased activity with agents generally experiencing a busy start to the year.
- Expected higher leasing volumes this year will bring welcome relief to generally increasing vacancies during H2 2024.
- The lift in confidence has helped stem the trend of increasing incentives that drove the decline in net effective rents in Q3. Our Q4 assessments indicate that incentives have remained largely stable. Combined with some face rent increases, this resulted in slight net effective rent growth for Prime grades in industrial, CBD office, and shopping centres.
- Lower interest rates have refocused buyers to a more transactional mindset. While this shift was already evident in Q3 via improving sentiment, in Q4 it has further manifested itself in increased levels of bidding and transaction activity. These indicate firmer pricing at the smaller asset size/value end of the market, especially for good quality industrial buildings. Liquidity and pricing remain more challenging for larger assets in the realm of institutional investors.

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



Market Indicators

Market Sector	Stock (sqm)	Vacancy (%)	Net Face Rent ($/sqm)	Incentives (%)	Yield (%)
Prime CBD Office	776,938	10.2	300 - 950	8 - 25	5.15 - 8.80
Secondary CBD Office	686,375	22.4	190 - 600	10 - 25	5.75 - 9.50
Prime Industrial	6,744,210	1.5	170 - 260	5 - 7	4.90 - 6.30
Secondary Industrial	7,409,921	1.7	120 - 220	5 - 8	5.10 - 7.00
Prime CBD Retail			2,500 – 6,000	1 - 3	5.35 – 6.50
Major Regional	294,628	1.3	700 – 2900	4 - 6	6.90 - 7.40
LFR Centre	474,053	0.9	180 - 550	4 - 6	7.10 - 7.90

Economy

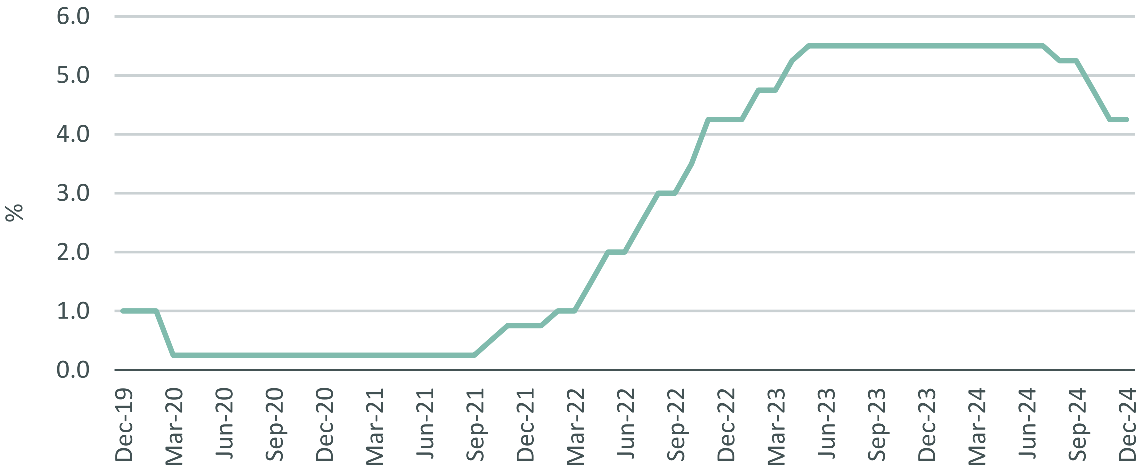
Even though inflation seems now to be under control (sitting at 2.2%, close to the midpoint of the RBNZ's 1-3% inflation target band), the RBNZ's aggressive monetary tightening policies had severe consequences for the real economy. However, despite the challenging economic conditions, the market is beginning to see the light at the end of the tunnel due to high expectations of an economic rebound through lower interest rates and higher consumer confidence.

Since mid-August, the Monetary Policy Committee has cut the OCR by 125 basis points (the current OCR sits at 4.25%). Most of the major banks are pencilling a 50-basis points cut in February and predicting that the OCR will land around 3.25% in late 2025. The latest surveys of business and consumer sentiment indicate that more accommodative interest rates are setting up the framework for a rebound in economic activity during 2025.

This is evident in ANZ's December business confidence survey showing firms' own activity outlook at a decade high level. Forsyth Barr's Pulse of NZ Business survey indicates that about half of businesses are budgeting for a better year ahead, and a similar proportion have already seen an improvement in the last three months. The ANZ-Roy Morgan Consumer Confidence Index became net positive for the first time in two years, driven by a large lift in consumer's perceptions of current conditions.

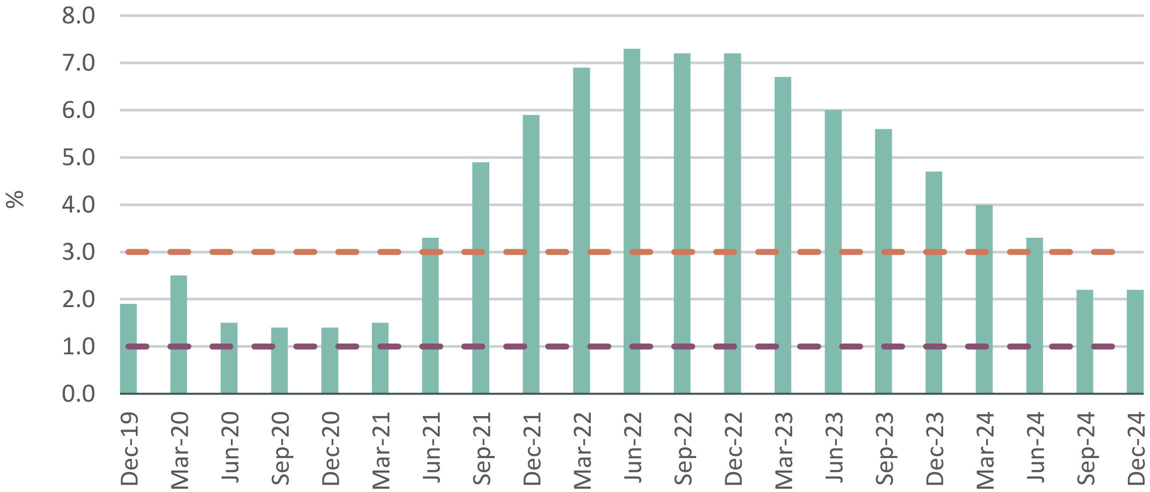
It remains to be seen if the more positive sentiment translates to a sustained lift in activity without government policy also turning more fiscally supportive, but if the economy improves as expected, consumers will likely drive the initial rebound. Capital spending, including investments in productive capacity such as business space, will follow later in 2025 but most likely not lift materially until 2026 once current excess capacity is absorbed, and the recovery is well entrenched.

Official Cash Rate (OCR) (% pa)



Source: : Reserve Bank of New Zealand

Consumer Price Index



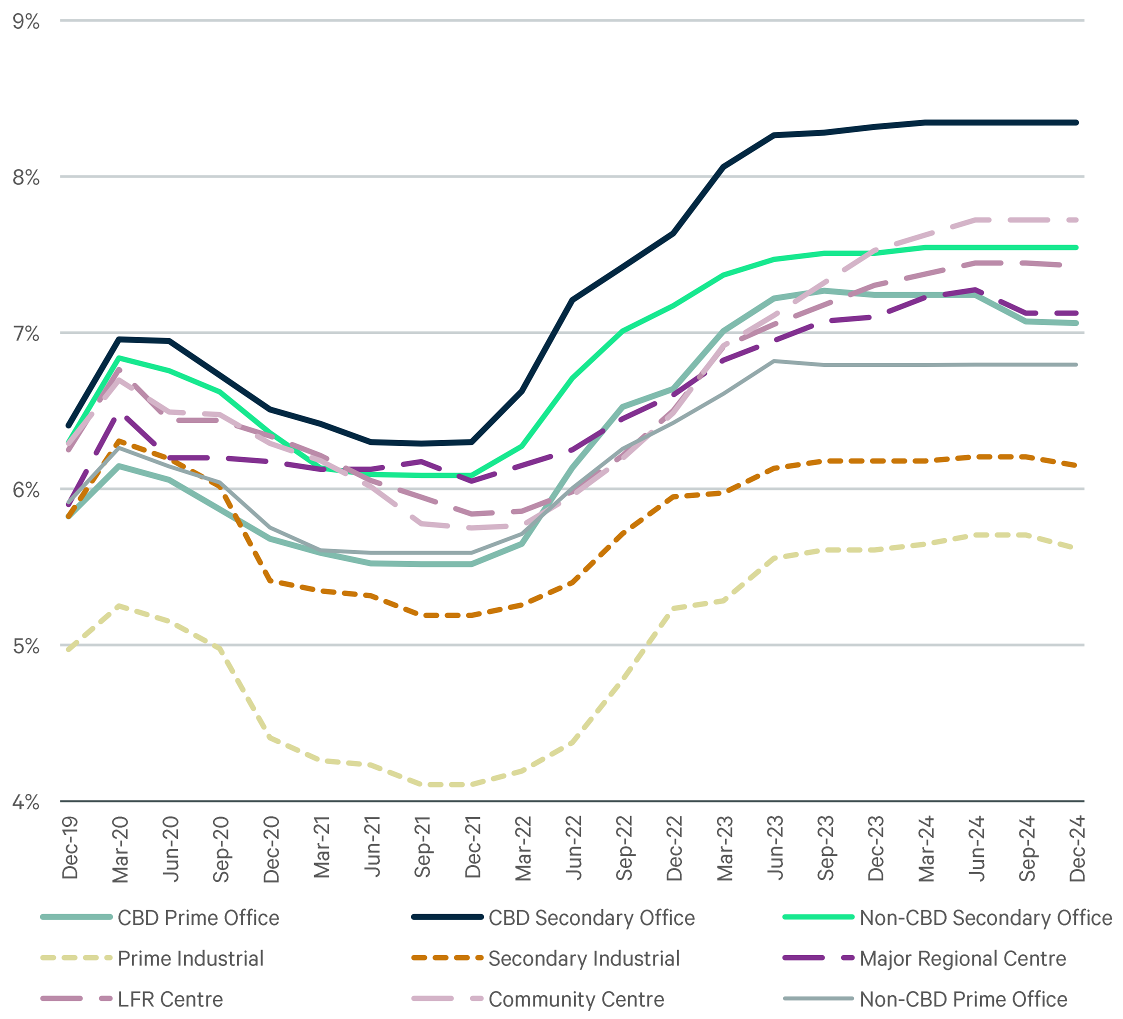
Source: : Statistics New Zealand

Investment Market

The 125 bps OCR cut during the RBNZ's last three policy reviews between August and November and its apparent commitment to further easing monetary conditions has refocused buyers to a more transactional mindset. While this shift was already evident in Q3 via improving sentiment, in Q4 it has further manifested itself in increased levels of bidding and transaction activity. These indicate firmer pricing at the smaller asset size/value end of the market, especially for good quality industrial buildings tenanted on favourable lease terms.

As a result, we have moved the lower end of the industrial yield range from 5.10% to 4.90% in Q4, with the indicative yield shifting from 5.71% to 5.62%. Liquidity and pricing remain more challenging for larger sized industrial assets in the realm of institutional investors. We have also firmed yields in retail (for LFR) and office (in A grade CBD) but these reflect asset specific considerations rather than broader market trends. Nonetheless, favourable yield adjustments due to improved asset occupancy and market positioning bode well for wider market improvements as 2025 unfolds.

Auckland Indicative Yields by Sector



Note: CBD Prime office yields firmed in Q3 2024 due to some non-market changes including introducing a few new buildings in this submarket. The market trend in Q3 was flat in this submarket.

CBD Office Vacancy

CBD office vacancy increased in H2 2024, rising from 14.5% in June 2024 to 15.9% by the end of December. Due to the late-in-the-year completion of fully-precommitted 50 Albert Street, we double-counted the spaces some tenants departed as those premises are yet to return to the market.

Market sentiment was still restrained in Q4, with smaller to medium sized occupiers generally waiting until expiries near before actively investigating leasing opportunities on the market. Specific buildings have bucked the quieter-market trend, with recent refurbishment and proactive landlords creating demand for their spaces, particularly evident in both 125 Queen Street and 66 Wyndham Street.

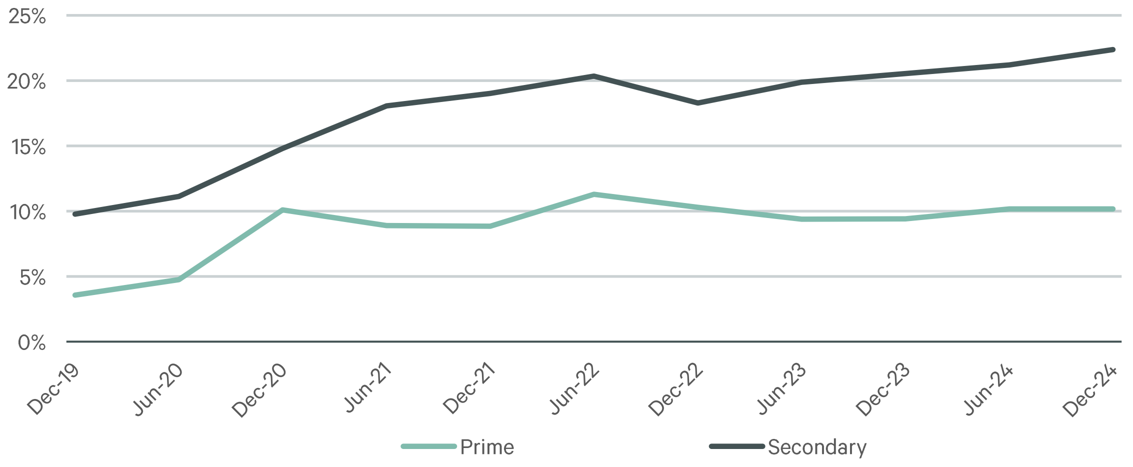
Premium vacancy increased slightly from 3.6% to 3.8% in the six months to December 2024, although the amount of physically vacant space grew from just under 7,000 sqm to 12,400 sqm. This is due to the H2 2024 regrading & expansion of Premium grade to include the highest quality campus and character buildings, which is now flowing through to our vacancy and absorption data.

Grade A vacancy increased from 11.4% to 14.8%. Spark's newly-vacated spaces on Victoria Street West contributed significantly, partially offset by Zuru and Civix moving in. Vacancy also resulted from the return of 30 Mahuhu (>7,300 sqm) to the leasing market and TVNZ's contraction (1,250 sqm).

Grade B vacancy increased 3.3% as Formery West was regraded from C. It's now ~50% full following refurbishment and repositioning. 75 K'Road contributed ~2,800 sqm to Grade C vacancy as the ex-Taylor's College space returned to market.

Note on regrading impact on figures: Stock in most grades changed in December 2024, as we expanded typologies & regraded stock (as well as new supply). We retrospectively applied regrading 5-years (2019-2024). These are not market-driven changes, so we have ensured that they do not distort vacancy & absorption figures. Read the full regrading report here.

Auckland CBD Office Vacancy



Auckland CBD Office Vacancy Change by Grade

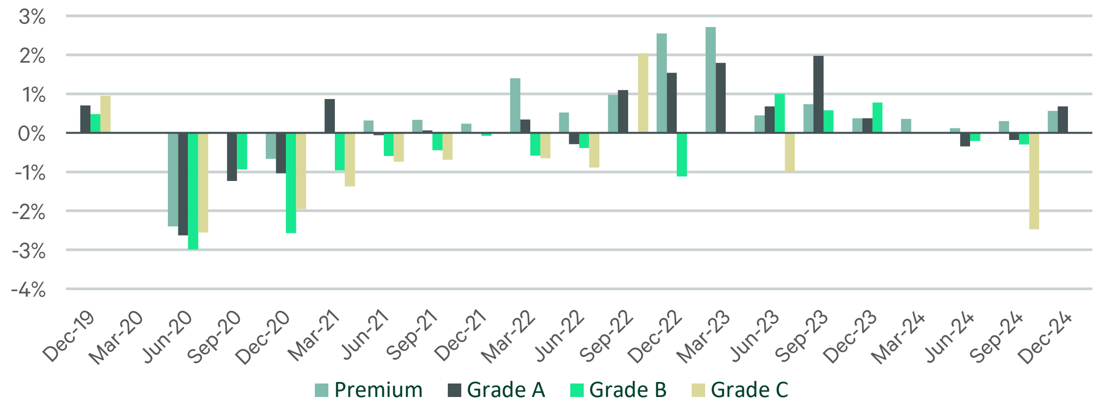
		PREMIUM	GRADE A	GRADE B	GRADE C	GRADE D	TOTAL
Vacancy as at December 2024	%	3.8%	14.8%	22.2%	20.1%	31.9%	15.9%
	sqm	12,410	66,674	77,178	53,824	22,599	232,686
Vacancy as at June 2024	%	3.6%	12.3%	18.6%	18.6%	31.3%	15.2%
	sqm	7,068	72,634	55,160	55,160	22,165	271,162

CBD Office Rents

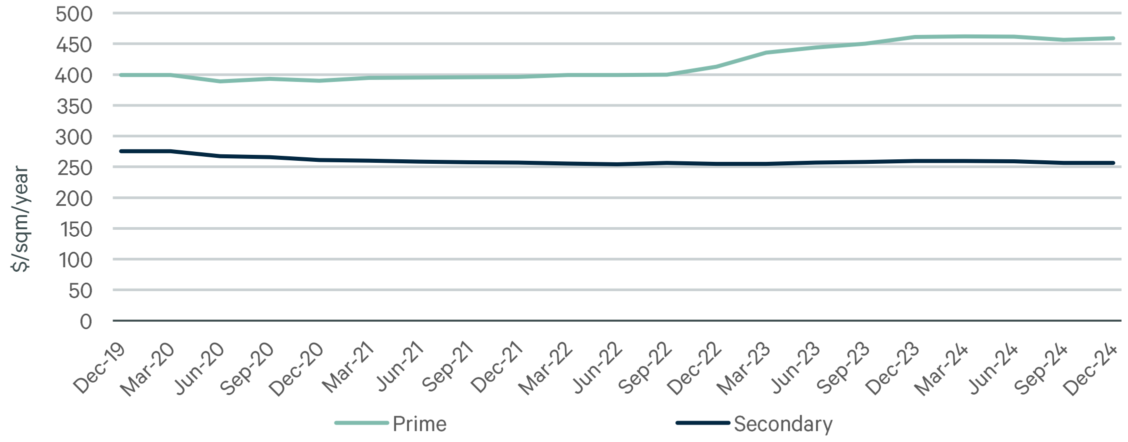
The Net Effective Office Rents graph (bottom) shows the absolute rental figure, with an increase in Prime rents from $456 to $459, with Secondary rents at $257, having slipped from $259 in Q3.

When we focus purely on 'like for like' market changes and discount compositional changes to grades, the picture changes subtly (top bar chart). Premium and Grade A Grade rents lifted by 0.6%-0.7%, while Secondary rents held in Q4. Much of the increase in Prime rents was building specific, driven by assets that have experienced good occupier take up in recent months. The resulting reduction in vacancy overhangs has led to the owners of these building increasing their rental expectations. These generally involved slightly higher face rents with incentives remaining stable.

Auckland CBD Net Effective Office Rents by Grade – Quarterly Change



Auckland CBD Net Effective Office Rents



CBD Office Market Outlook

Vacancy

CBRE's most recent office occupier survey indicates more favourable demand conditions emerging for 2025. Consolidation pressure is easing on office space footprints. Relocation strategies are now less about reducing space. Only 29% of respondents are planning to decrease their footprint, a significant decrease from 47% last year. This change is reflected in the growing proportion of respondents who are not planning any change to their footprint (45%) and those planning to expand (26%).

Despite the current soft economic conditions posing a short-term challenge to positive absorption, our survey results show resilience in leasing activity, indicating a likelihood of a rebound in demand as the economy improves.

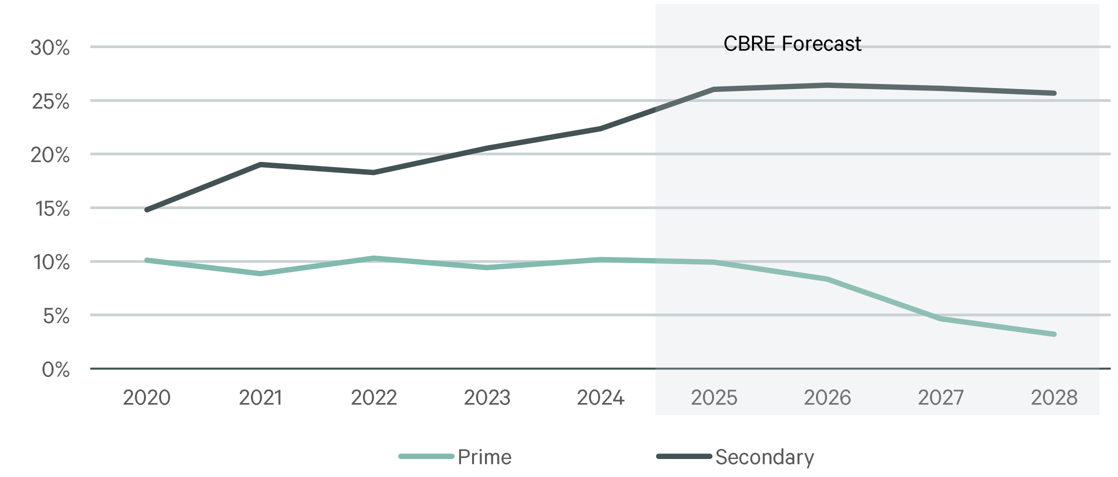
The forecast improvement in demand will be insufficient to offset what, in 2025, will be the biggest net increase in supply of the last 15 years, and as a result vacancy is forecast to deteriorate further this year. 2025 however will be the vacancy peak of the current cycle and we expect quite a rapid improvement during 2026-2028 driven both by positive demand as well as space withdrawals for alternative uses.

Rent

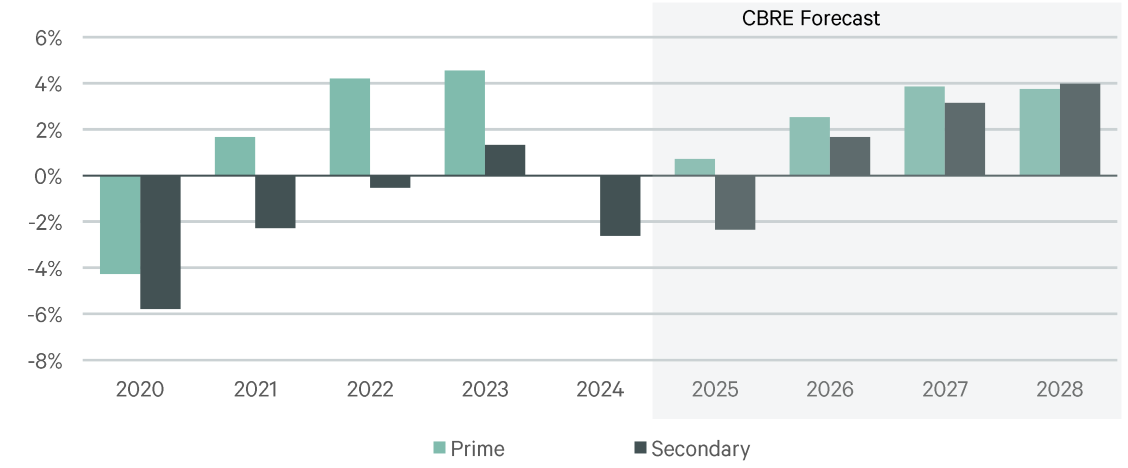
At the top end of the market, for Premium grade assets the more favourable demand environment expected for 2025 has led us to upgrade our rental projections and growth will further strengthen into 2026 and 2027 as the overall market improves.

While many Grade A and B buildings are benefitting from good locational and building specific attributes and show resilient rental dynamics, we think that the 2025 rental market will be more competitive for landlords in these submarkets and the upswing in office market conditions will take until 2026 to make a positive impact on rent growth.

CBD Office Actual and Forecast Vacancy



CBD Office Actual and Forecast Annual Net Effective Rental Change



Non-CBD Office Vacancy

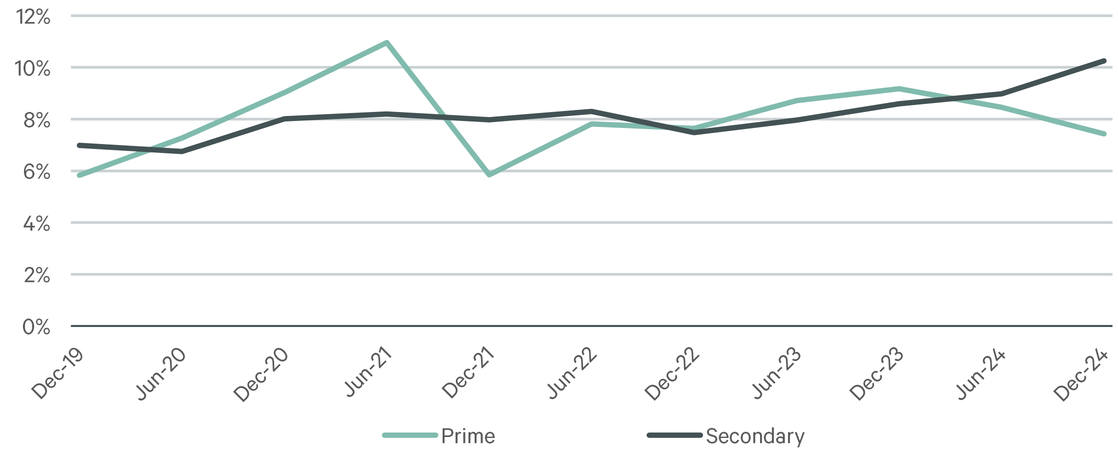
The Office Vacancy Change by Grade graph (top) shows the clear split between Prime and Secondary vacancy following 4 periods of alignment (Jun-22 to Dec-23). Prime vacancy has decreased from 8.5% to 7.4% that reflects the ongoing 'flight to quality' trend (and also helped by the lack of new supply) , while Secondary vacancy has increased from 9.0% to 10.3%.

Although the largest single Grade A vacancy at Munroe Lane in Albany remains, take-ups were strong elsewhere including Takapuna, Smales Farm, and Manukau. Smales Farm's gain was Takapuna's loss, as IRD took up space as One NZ consolidated ahead of its 2025 shift to Wynard Quarter.

Secondary Grade vacancy increased in Takapuna with the departure of IRD and Property Partners, which were only partly offset by Prendos' shift into the Grade B Byron St building. TV Shop left all 3 floors (3,300 sqm) they had occupied at 521 Lake Road, and tech firm SnapComms left almost 1,000 sqm in the Takapuna Finance Centre. The ex-Colmar Brunton building (4,200 sqm) was demolished

Newmarket was busy over the second half of 2024, with HEB Construction taking up ~1,000 sqm for a site office at 111 Carlton Gore Road, Bluecurrent also took up ~1,000 sqm here. Along the road at 101, Auckland War Memorial Museum have taken up ~900 sqm, with Belton Computer repair also taking up ~500 sqm. Huffer and VMAX management have both shifted to 135 Broadway, taking up a combined ~1,000 sqm. Engineers here had itchy feet, with PDP leaving 1,100 sqm as they moved to Fanshawe St, and Coffey left 25 Teed St for 88 Broadway, with ~900 sqm of new backfill vacancy resulting.

Auckland Non-CBD Office Vacancy Change by Grade



Auckland Non-CBD Office Vacancy

		GRADE A	GRADE B	GRADE C	GRADE D	TOTAL
Vacancy as at December 2024	%	7.4%	11.5%	9.2%	9.5%	9.5%
	sqm	27,275	60,197	60,274	14,307	162,053
Vacancy as at June 2024	%	8.5%	10.3%	8.4%	7.3%	8.9%
	sqm	31,021	54,212	55,579	11,108	151,920

Non-CBD Office Rents

Non-CBD Prime net effective indicative rent held at $369 psm p.a., as did Secondary grade at $259 psm p.a., although sub-markets within Auckland continue to be governed by differentiated stock levels, local demand and landlord resources to resolve vacancy.

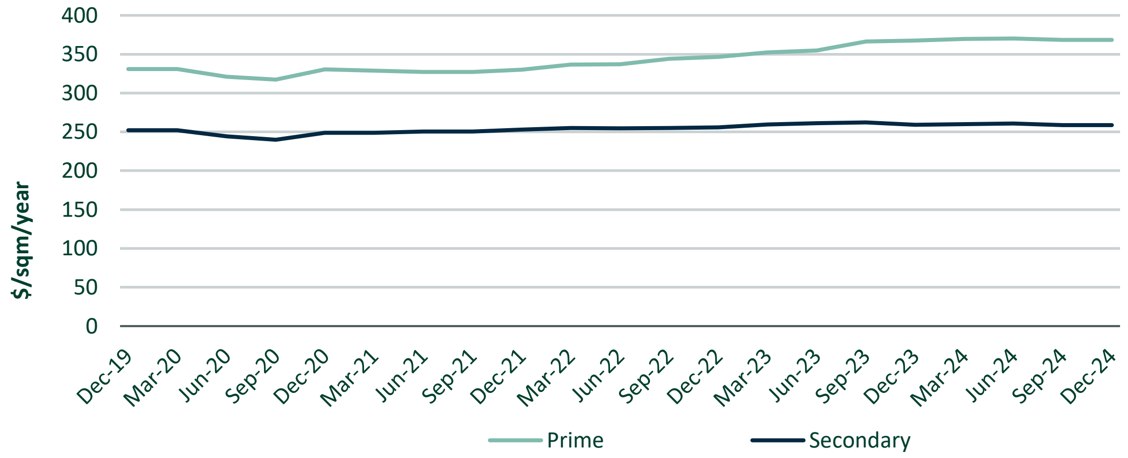
Although CBD-fringe suburbs including Newmarket and College Hill have been busy with occupier interest, rents have remained broadly stable, with a few exceptions. In Newmarket motivated landlords acted to reduce asking rents in two buildings, to alleviate sticky vacancies, while recent façade work as part of a refurbishment led another to lift their rental expectations.

Elsewhere in the CBD-fringe, North Shore, and South Auckland rents remained stable throughout Q4, with few transactions.

Market behaviour continues as it has for much of 2024, tenants are aware of their influence in negotiations, and landlords are willing to offer incentives to get deals done, although incentives are not increasing at present.

Auckland Non-CBD Net Effective Office Rents by Grade – Quarterly Change

Auckland non-CBD Net Effective Office Rents



Non-CBD Office Market Outlook

Vacancy

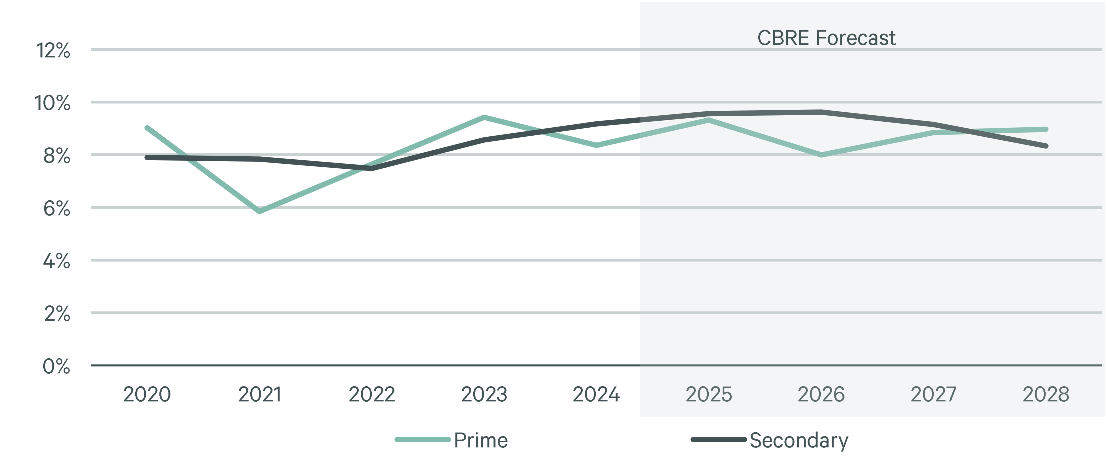
Challenging conditions persist in the Non-CBD office market although after a worse 2024 than previously expected, we now believe that in 2025 net absorption will contract less. Centralisation such as One NZ's move from Smales Farm into the CBD remains a concern. We still think that larger scale corporate demand will take some years to return in strength, but stronger economic conditions should result in an overall lift in net absorption during 2025-2026.

The vacancy outlook is for a slow improvement. Weak demand creates upward vacancy pressures this year, but vacancy levels are forecast to remain moderate due to the low supply environment.

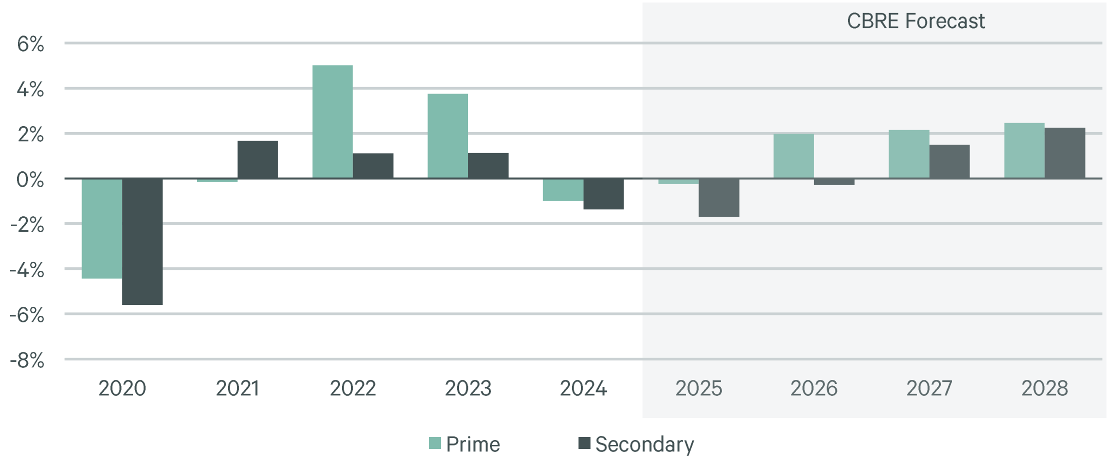
Rents

Increasing incentives will underpin falling net effective rents this year. At the same time, given that the vacancy pressure is quite localised we don't see deep market wide falls in rents as some suburban office locations will remain resilient. In the secondary market it will likely take until 2027 for rent growth to pick up stronger momentum with a more sustained improvement in demand and decline in vacancies.

Non-CBD Office Actual and Forecast Vacancy



Non-CBD Office Actual and Forecast Annual Net Effective Rental Change



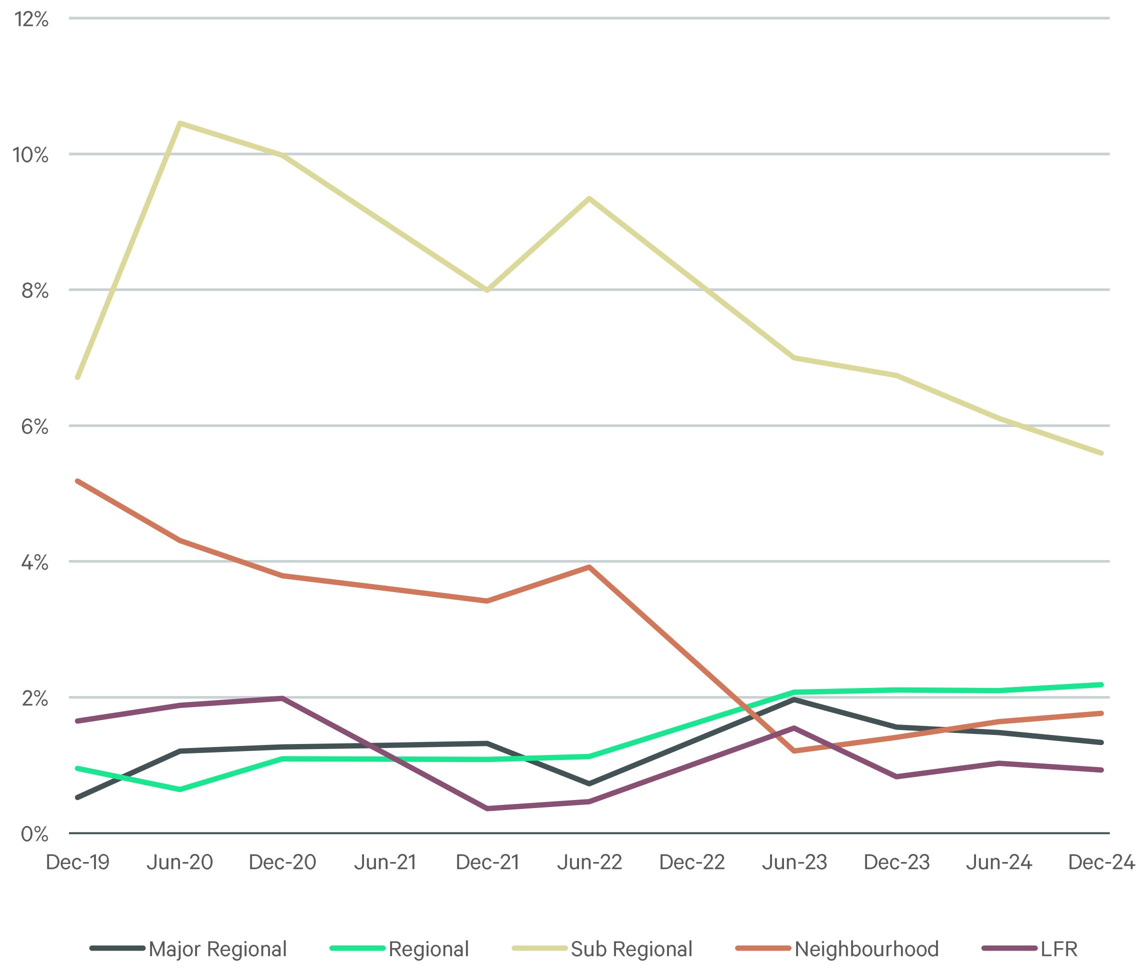
Retail Vacancy

Overall Auckland retail centre vacancy improved slightly during H2 from 1.9% to 1.8% or c24,000 sqm.

Vacancy remains concentrated in a handful of locations under significant competitive pressure in the subregional centre category, reflecting the vacancy gap between high-and low-quality stock as high quality centres with strong anchors are significantly outperforming.

This is highlighted in the LFR and major regional categories not just having the lowest vacancy rates but also improving their position over the past six months. Notably however, even the worst performing sub regional category showed improving occupancy. This largely reflects the ongoing expansion of Panda Mart in Pakuranga Plaza.

Auckland Retail Centre Vacancy

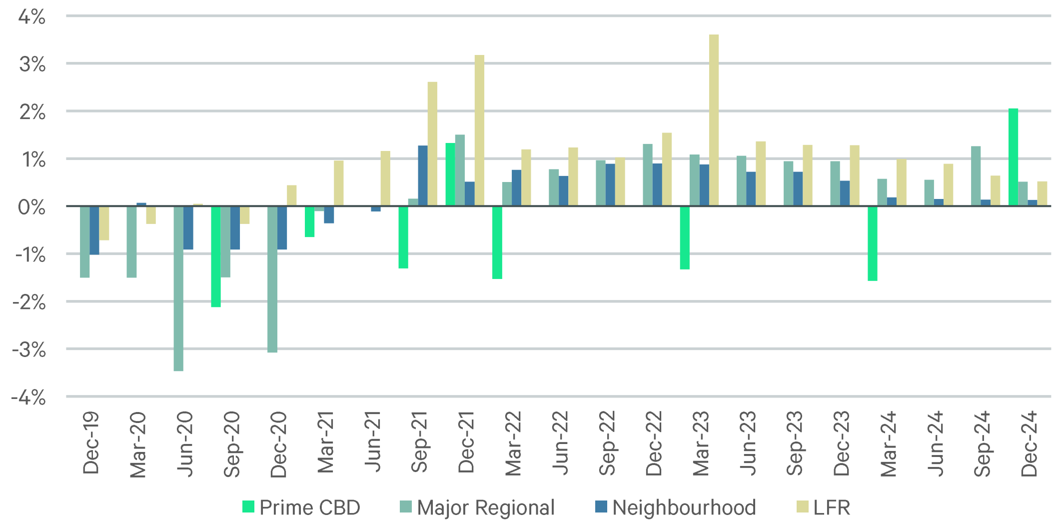


Retail Rents

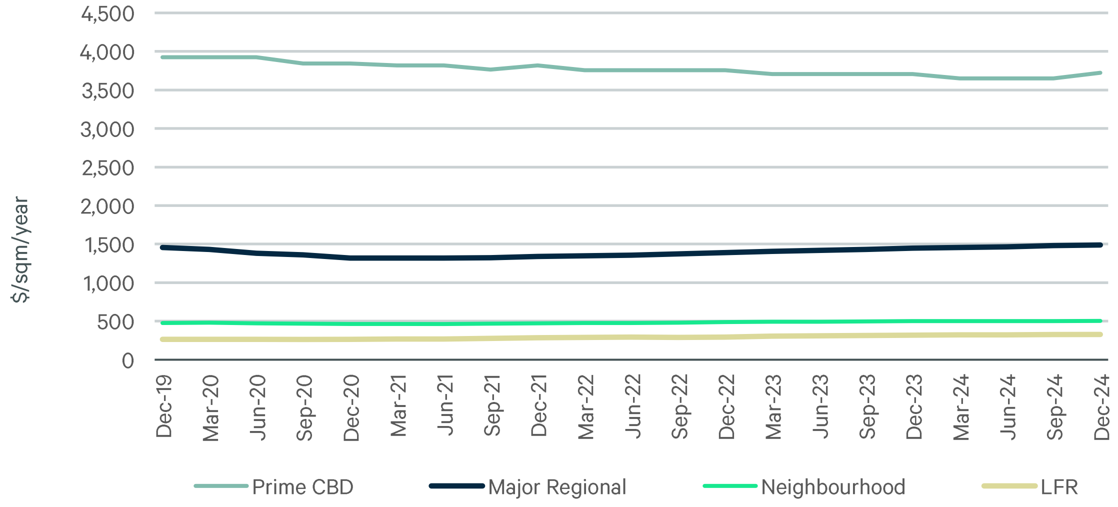
Following the trends established in Q2 and Q3, retail centre rental growth is slowing in response to more adverse trading conditions and falling inflation. For centre based retail rents, in Q4 the LFR and Major Regional categories led growth with a 0.5% increase for each.

The Prime CBD submarket was the bright spot for retail rents in the past quarter. Following an extended period of falling/stagnant rents, we adjusted market rents upwards by 2.1% in Q4. This reflects growth at the top end of the rental range driven by demand from the luxury sector and belies continued stagnation in some parts of the CBD retail property market.

Auckland Retail Rents – Quarterly Change



Auckland Retail Rents



Industrial Vacancy

Vacancy in H2 2024 rose from 1.0% to 1.6%, equivalent to over 77,000 sqm of vacancy increase, close to the H1 vacancy increase of 70,000 sqm. Grade A vacancy increased by 47,000 sqm or 0.7%, primarily driven by occupancy consolidation, backfill vacancies and speculative builds. Secondary vacancy increased by over 30,000 sqm or 0.4%.

Net absorption (six monthly) remained positive but has weakened from the Covid induced boost period. Total net absorption was 15,000 sqm in the six months to December, compared to the average six-monthly net absorption of 151,000 sqm since H1 2020. As usual, the uptake of new developments was the major demand contributor in Grade A. In H2, Grade A had around 101,000 sqm of net absorption gain, while Grades B and C was around -86,000 sqm of absorption loss. Of note, the two owner-occupied redevelopments contributed over 39,000 sqm of Secondary absorption loss in H2 but this loss means tenants are upgrading their occupancies rather than consolidating.

Auckland Industrial Vacancy

Auckland Industrial Vacancy Change by Grade

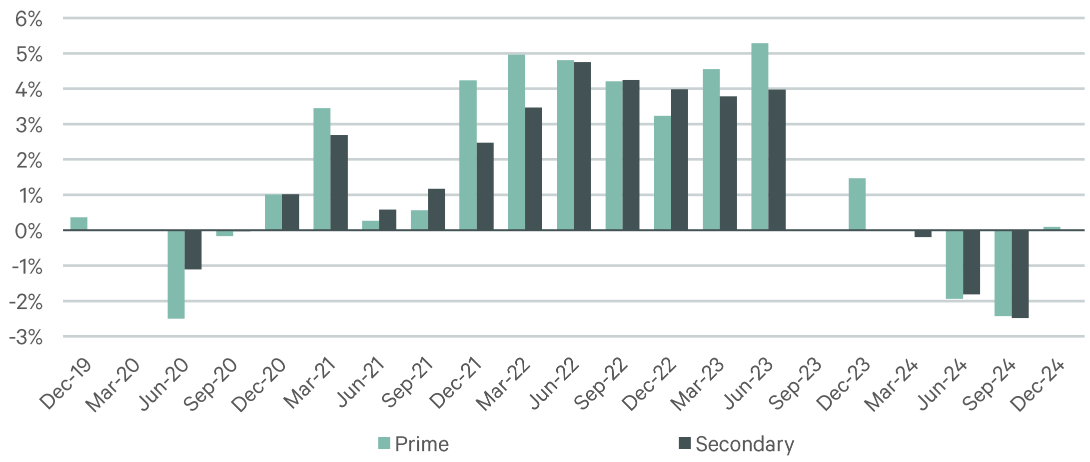
		GRADE A	GRADE B	GRADE C/D	TOTAL
Vacancy at December 2024	%	1.5%	1.4%	1.9%	1.6%
	sqm	98,896	55,979	67,971	222,846
Vacancy at June 2024	%	0.8%	1.3%	1.2%	1.0%
	sqm	51,666	50,535	43,099	145,300

Industrial Rents

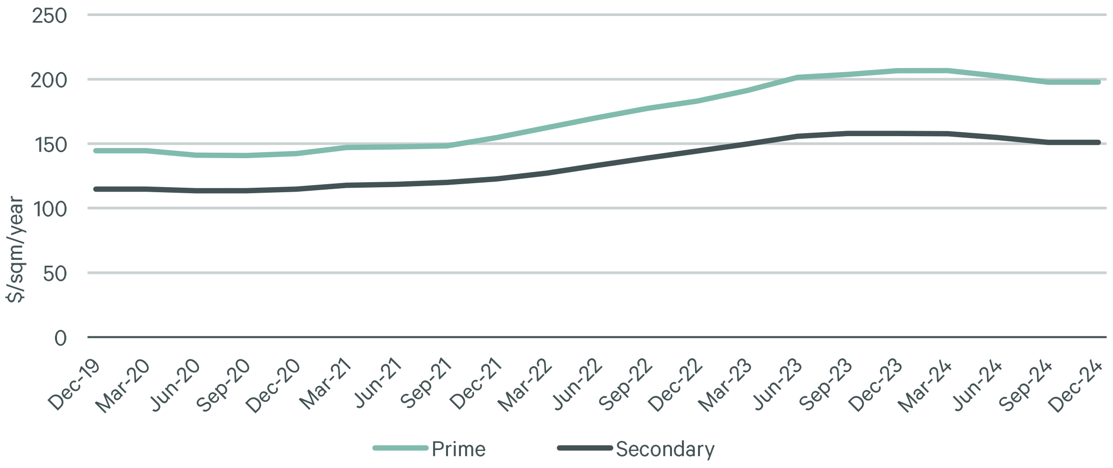
Industrial face rents in Q4 have been largely stable, edging forward slightly driven by new top-quality warehouses setting new benchmarks within their precincts. More generally, during the course of 2024, face rent growth was counteracted by higher incentives being offered more extensively in Q2 and Q3. During this period Prime and Secondary's incentives increased by two months on average, Prime to 6.5% and Secondary to 6.9%, leading to an overall decline of both Prime and Secondary effective rents.

After this adjustment to a more incentivised leasing market, we feel that incentives have stabilised in Q4. This is likely to be a temporary and we expect incentives to increase a bit more in the first half of 2025 although less so than in 2024.

Combined (office and warehouse) Net Effective Industrial Rents



Auckland Industrial Net Effective Rents – Quarterly Change



Industrial Market Outlook

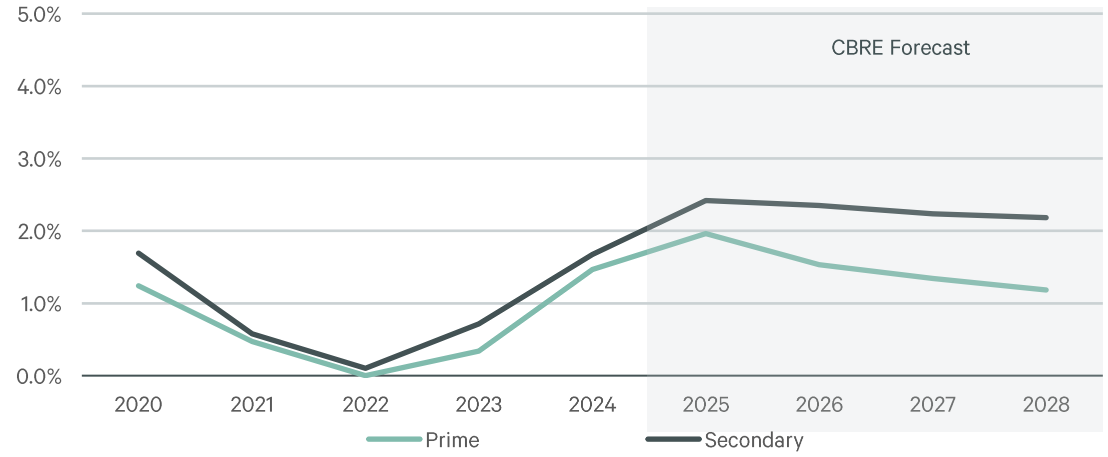
Vacancy

After the completion of over 320,000 sqm in 2024, the anticipated new supply for 2025 is projected to remain at a lower level than the historical annual average of 200,000 sqm. Amongst the new stock to be completed by the end of 2026, there is not a huge amount of speculative supply with circa 75% pre-commitment. Owner occupiers are one of the reasons for this healthy level. However, as supply chains normalise and economic conditions moderate, we expect that Prime vacancy will increase by another 0.3% in 2025 and start gradually decreasing from 2026 onwards. Tenant relocations creating backfill vacancies plus an increase due to occupancy consolidation are the main drivers of increasing Prime vacancy rates. The Secondary submarket, known for its greater volatility in response to economic cycles, is expected to be slightly more adversely affected than Prime in response to the current economic weakness.

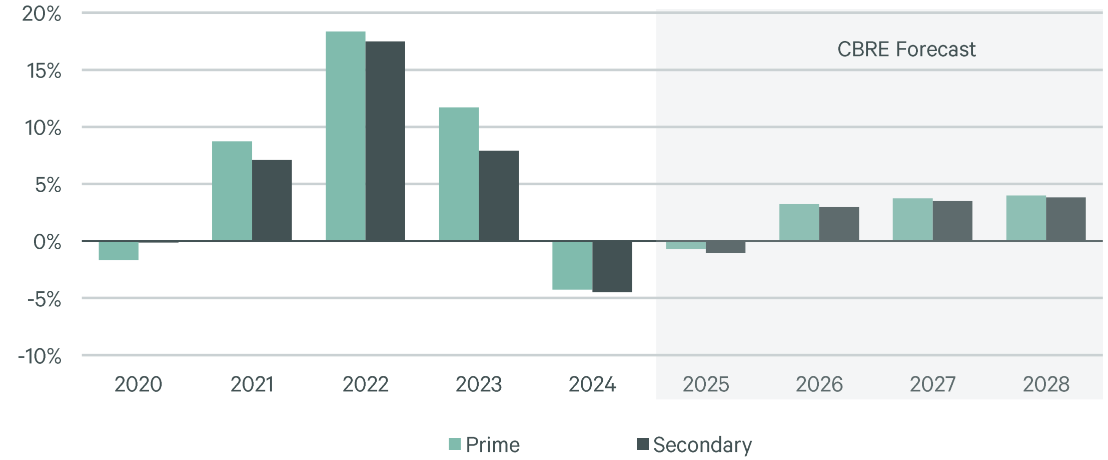
Rents

Recent asking rents indicate that net face rents in some suburbs may still experience slight growth, given spec/uncommitted buildings coming to the market presenting opportunities to achieve new benchmark rents. However, these potential increases in face rents are limited and will likely be insufficient to lift market wide net effective rents. As a result, market wide Prime effective rents are likely to drop further in the next six months, although at a much slower rate than in 2024. Secondary effective rents are expected to have a similar trend to Prime. Into H2 2025, we forecast net effective rents will remain largely stable before incentives come down and face rents increase from 2026 onwards.

Auckland Industrial Actual and Forecast Vacancy



Auckland Industrial Actual and Forecast Annual Net Effective Rental Change



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. As of Q4 2024 Auckland CBD stock, each Grade includes some of each the building typology – Tower/Standard, Campus, and Character.

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. As of Q4 2024 Auckland CBD each Grade’s “basket of buildings” includse examples of each building typology.

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