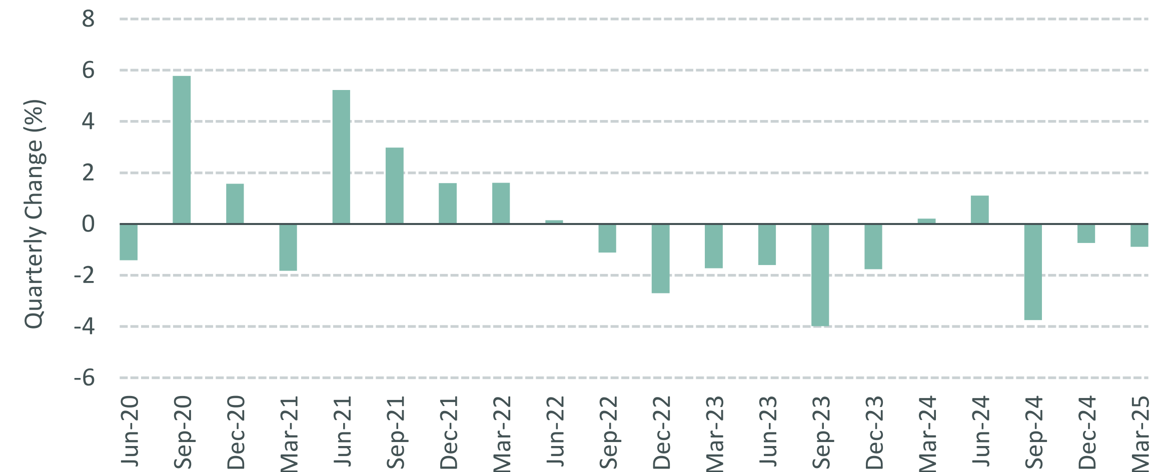
CBRE

# Wellington Property Market Overview

## INSIGHTS

- The RBNZ's ongoing monetary easing policy increased investors' appetite for deals in Q1 due to lower interest rates. However, the sudden volatility in global financial markets could hold back some decisions for acquiring assets on the riskier side of the spectrum. Wellington indicative yields remained stable during Q1 across all sectors.
- In Q1, Wellington's CBD office market saw a decline in Prime net effective rents due to increased incentives, while the Secondary CBD office submarket experienced a drop in face rents. Also, the Secondary CBD retail submarket registered a decline in rents due to higher vacancy in some pockets. In contrast, industrial rents rose with lease renewals resulting in higher rents, with tenants willing to pay a premium to retain space.
- CBD office vacancy increased to 14.3%. The primary factor was the increase in vacant office space in Secondary buildings. While many owners of office buildings are lamenting higher vacancy, the market remains relatively healthy. When looking at Prime grade office space, Wellington has the second-lowest vacancy rate (6.0%) among all major cities in Australasia, behind only Christchurch.
- The retail market saw a rise in vacant space last year due to weaker trading conditions and reduced foot traffic. In the CBD retail market, the vacancy rate climbed to 8.5%, largely driven by a substantial increase in vacant locations in the Courtenay area.

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 | 505,923 | 6.0 | 583 – 1,075 | 6 – 13 | 6.00 – 8.25 |
| Secondary CBD Office | 901,065 | 19.0 | 220 – 720 | 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 | 1.13 | 1,900 - 2,700 | 10 – 11 | 6.76 – 7.61 |
| Secondary CBD Retail | 165,373 | 9.20 | 800 – 1,700 | 10 – 11 | 7.00 – 8.35 |

* Stock and vacancy figures are as of December 2024. Gross Face Rent, Incentives and Yield Range figures are as of March 2025.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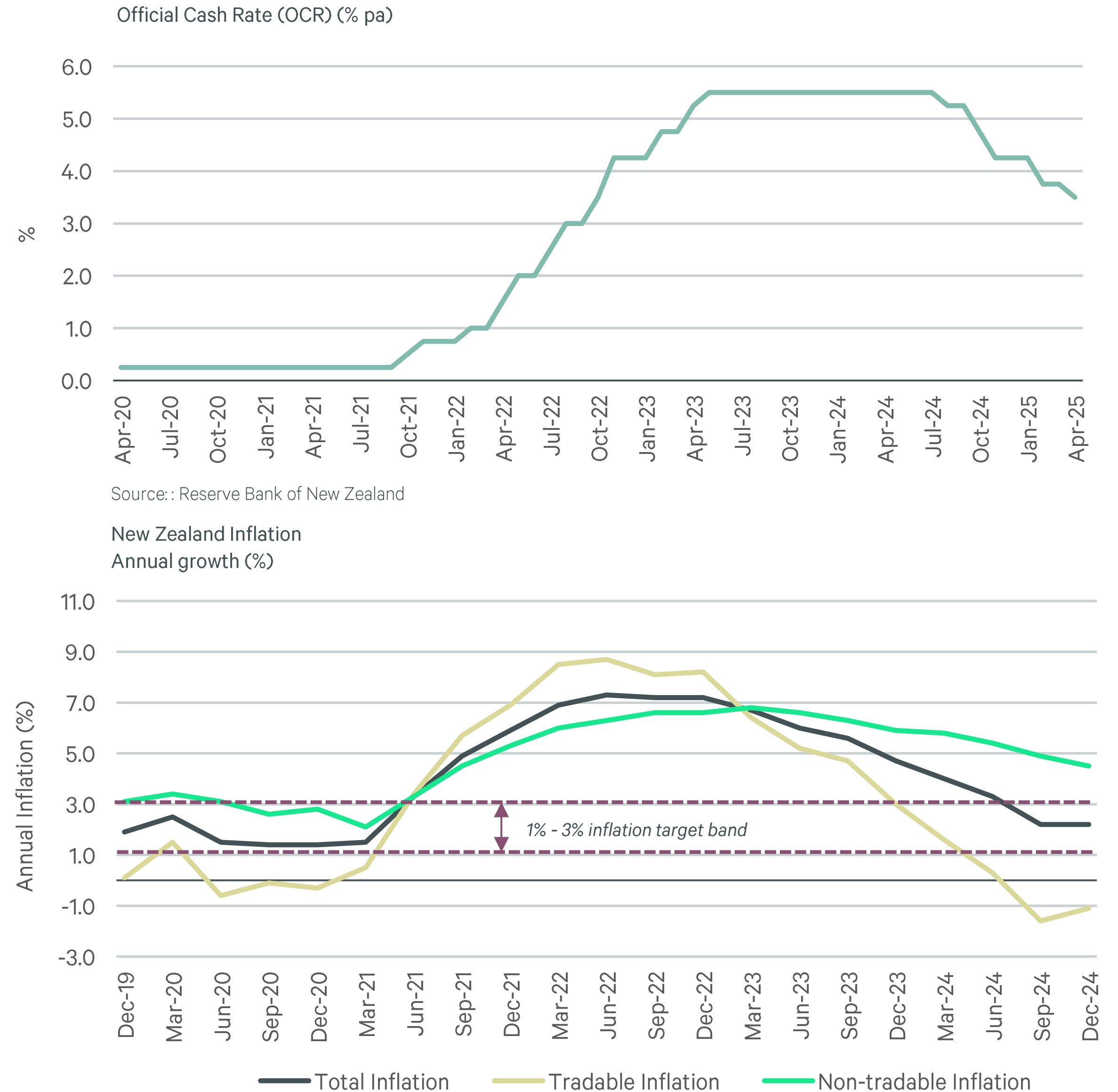
# Economy

After experiencing the most substantial six-month economic decline since 1991, excluding the quarters following the pandemic, New Zealand's economy grew by 0.7% in Q4 2024 compared to the previous quarter. This move into positive territory was mainly driven by a rebound of primary and service industries. At the same time, during the last quarter of last year New Zealand's annual inflation sat at 2.2%, the same level registered in the previous quarter, remaining close to the midpoint of the 1% - 3% RBNZ target band.

The RBNZ's ongoing monetary easing policy, which has translated to a reduction of the OCR by 200 basis points since August 2024, has not only brought inflation under control but also spurred greater business and consumer confidence during Q1 2025. According to the latest NZIER's Quarterly Survey of Business Opinion, during the first three months of this year most businesses remained positive about New Zealand's economic performance. The retail sector stood out as the most positive regarding improving economic conditions later in the year. These surveys pointed to a gradual improvement in occupier market conditions for the rest of 2025.

The local impact of the recent global turmoil is uncertain but may result in both lower growth and lower interest rates. Before the 25-basis point reduction in April (reducing the OCR to 3.50%), most analysts and major banks had forecast that the OCR could land around 3.00% - 3.25% in late 2025. However, the RBNZ may be prompted to set the OCR at a lower level than previously expected, with current market pricing indicating around 2.50%-2.75%.





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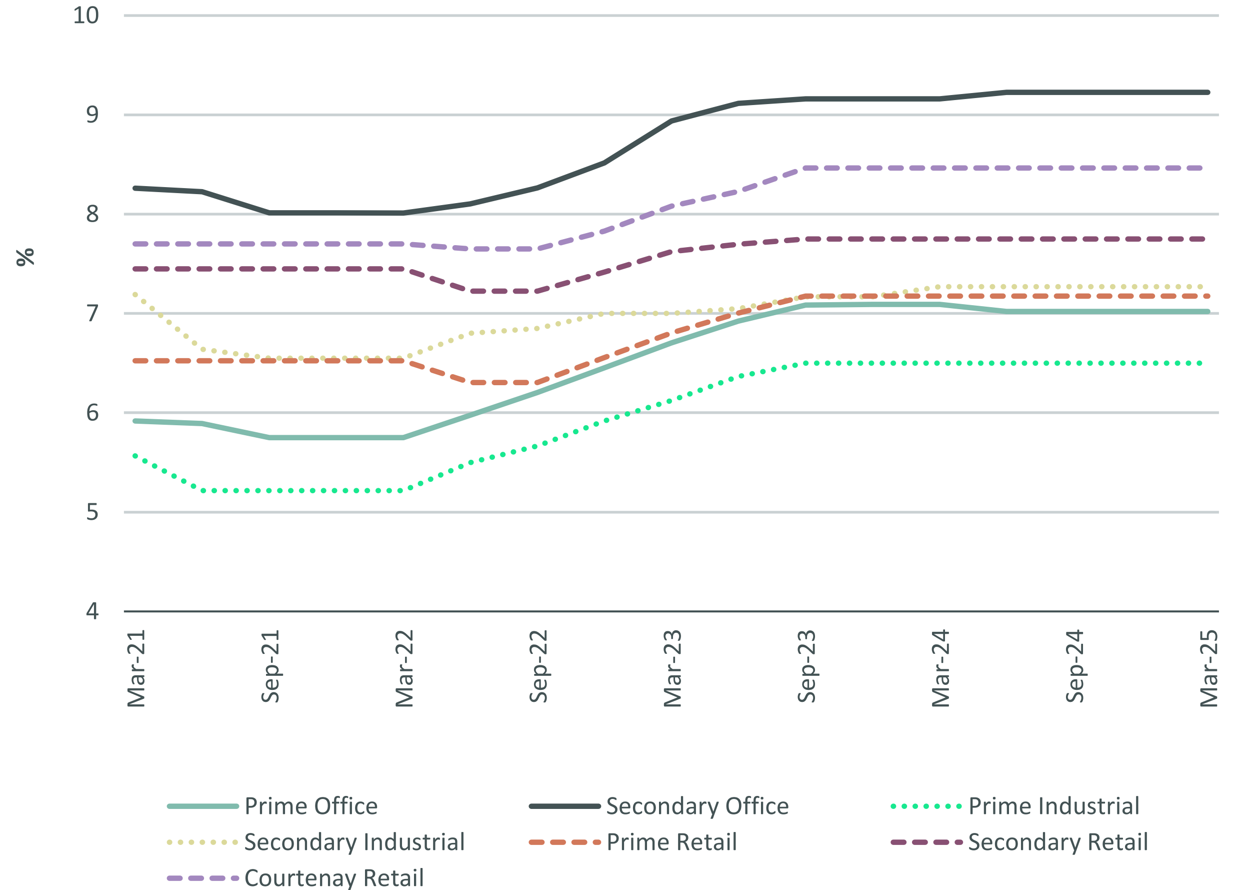
# Investment market

The RBNZ has cut the OCR by 200 basis points since August, with additional cuts forecast for this year, more so than a few weeks ago. Two-year swap rates fluctuated between 3.4% and 3.6% in Q1, close to the Q4 level, before experiencing a significant decline in the last two weeks, largely in response to recent global events.

Transactional appetite has increased in response to lower interest rates, particularly in Auckland and Christchurch, providing more attractive conditions for acquiring assets as the market cycle shifts. The Wellington market, however, continues to face challenging conditions due to government-induced austerity measures. Transactions were limited, and CBRE's Q1 evaluation suggests stable market yields across all sectors.

Between the market peak in 2021 and Q1 2025, CBD office yields dropped more than other sectors. Prime CBD office yields rose by 134 basis points, while Secondary CBD office yields increased by 122 basis points (off already elevated levels). Meanwhile, industrial yields softened by 96 basis points on average.





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# CBD Office Vacancy

During H2 2024, the Wellington CBD office market saw a rise in vacancy from 13.4% to 14.3%. This rise was primarily due to an increase in available space in the Secondary submarket, mainly in Grade C in the Core CBD, and in the Grade B and Grade D submarkets in Thorndon. Prime (Premium and Grade A) office vacancy went up slightly from 5.8% to 6.0%, while Secondary (Grade B to D) vacancy increased from 17.7% to 19.0%.

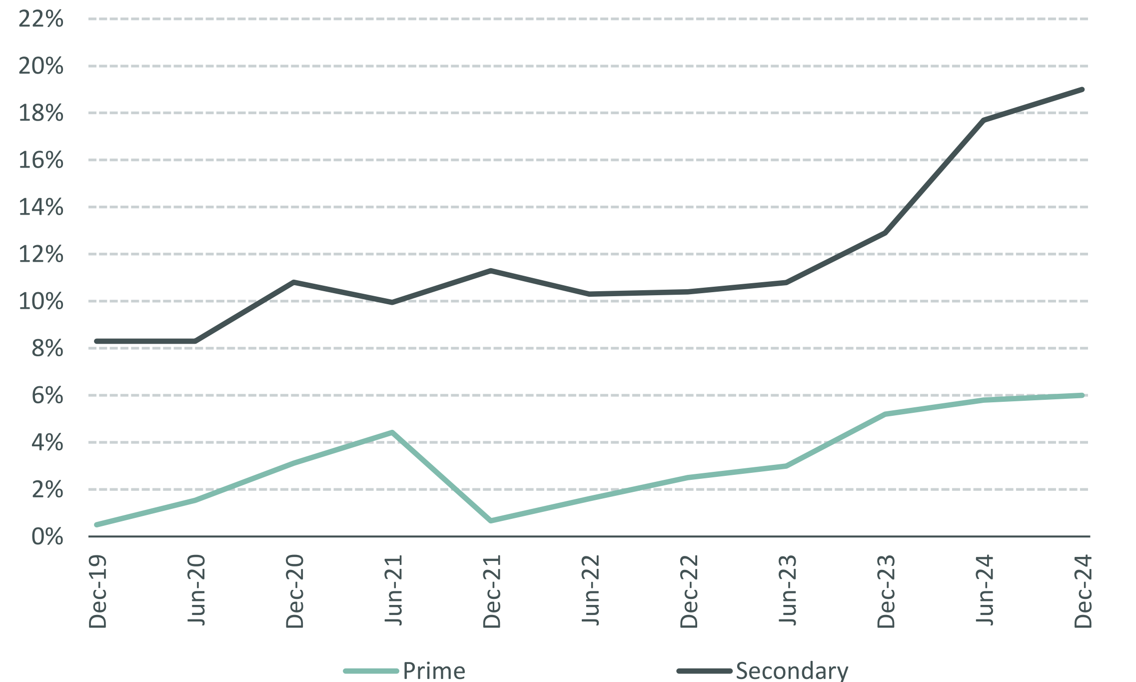
A combination of downsizing, backfill vacancy, and liquidations provoked the increase. During H2 2024, Trade Me vacated 1,305 sqm of Grade B office space in Jervois Quay but still occupies 3,000 sqm in that building. MBIE reduced its footprint by almost 2,400 sqm of Grade C space in 110 Featherston Street but maintains around 1,100 sqm there and nearly 37,000 sqm across all of Wellington CBD. Computer Concepts downsized by vacating 1,300 sqm of Grade C office space in 15 Willeston Street, retaining 320 sqm in that location. Additionally, Digital Nomad vacated 1,155 sqm in three different buildings located in the Core area (two Grade B and one Grade C buildings) after going into liquidation. Regarding the most relevant moves in the Grade D submarket, the Government Communication Security Bureau (GCSB) left behind circa 2,400 sqm in 20 Aitken Street in Thorndon. However, it still occupies 14,000 sqm in Pipitea Plaza. Premium office vacancy also increased in H2, mainly due to Symbio leaving behind around 915 sqm in the AON Centre at 1 Willis Street (it still occupies around 600 sqm in Spark Central).

During H2 2024, Wellington CBD total office stock increased to 1,406,988 sqm, an increase of 6,895 sqm compared to H1. This was driven mainly by an increase in Secondary office stock. This rise was driven by the re-introduction of Environment House after undergoing refurbishment works, a 6,125 sqm Grade B building located in 23 Kate Sheppard Place in Thorndon, and by the return of 126 Lambton Quay, a refurbished 5,643 sqm Grade B asset located in the Core area. This was offset by the removal of a 4,873 sqm Grade C office building in 114 The Terrace since it will be converted into a residential building.

CBD Office Vacancy Change by Grade

| | | PREMIUM | GRADE A | GRADE B | GRADE C | GRADE D | TOTAL |
|---|---|---|---|---|---|---|---|
| Vacancy - December 2024 | % | 3.7% | 6.5% | 15.7% | 18.5% | 27.7% | 14.3% |
| | sqm | 3,578 | 26,600 | 69,359 | 52,993 | 48,417 | 200,946 |
| Vacancy - June 2024 | % | 2.2% | 6.7% | 15.2% | 16.9% | 25.4% | 13.4% |
| | sqm | 2,147 | 27,433 | 65,207 | 49,016 | 44,334 | 188,136 |

Wellington CBD Office Vacancy





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# CBD Office Rents

During Q1, the Wellington CBD office market continued to face strenuous conditions due to government-induced austerity measures and challenging economic conditions. Occupier demand remained subdued, prompting landlords to take proactive measures to retain tenants, such as lifting incentives.

According to CBRE's assessment, incentives in the Premium office submarket increased from 6.0% to 8.8% of face rents, and in the Grade A submarket they went up from 10.7% to 13.0% of face rents. Consequently, Prime net effective rents declined, on average, by 4.2% in Q1 compared to the previous quarter, whilst face rents remained unchanged.

In contrast to previous quarters, incentives remained unchanged in the Secondary office submarket. Only Grade B buildings experienced a decline in face rents in Q1, decreasing by 1.1%. The relative stability of Secondary office rents does not reflect market strength. Instead, it reflects the limited ability of lessors to reduce rents further from their already low level, especially in net terms.

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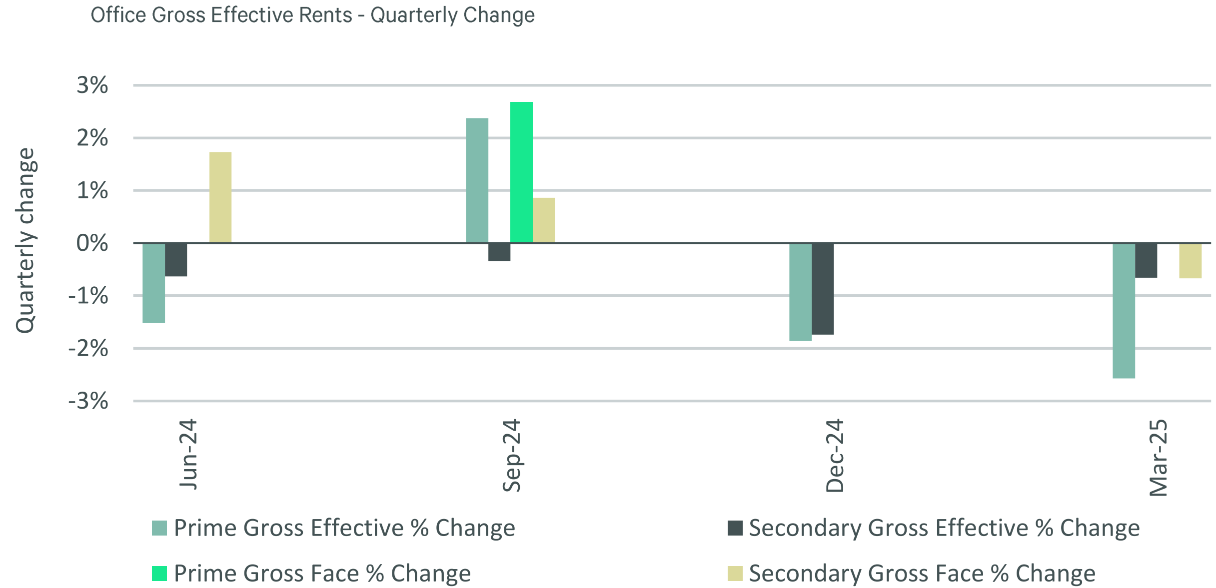


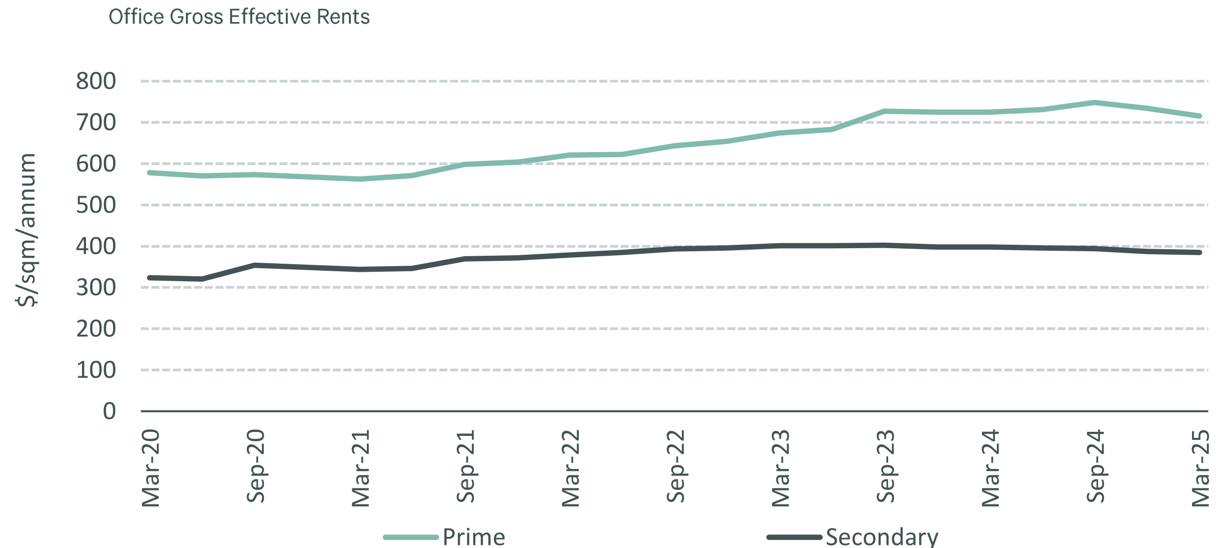



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# CBD Office Market Outlook

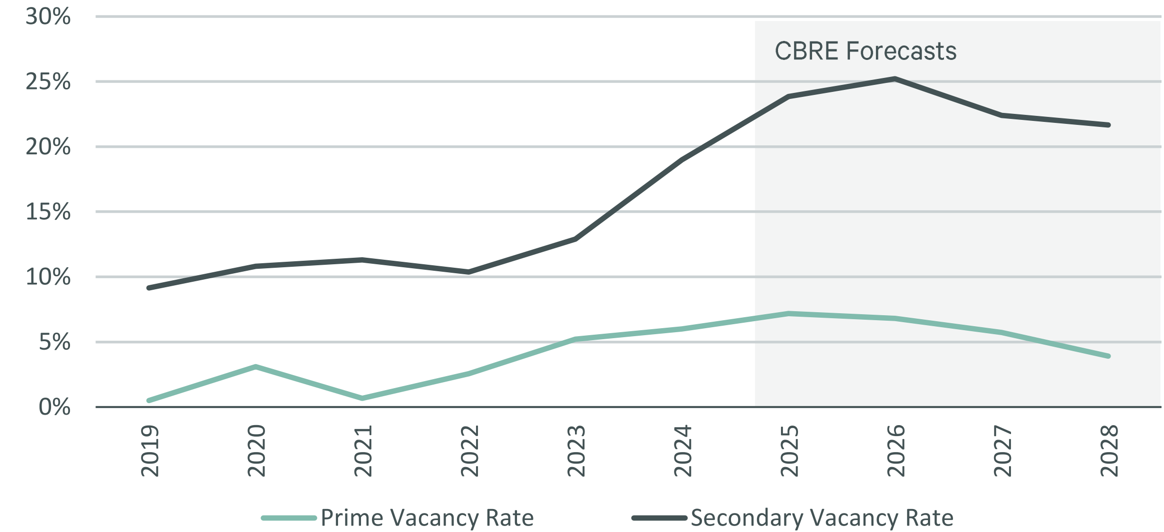
Net absorption levels in Wellington's CBD office market moved into deeper negative territory in 2024. The situation was triggered by a 'perfect storm' for the Wellington CBD office market: substantial absorption losses due to occupier contraction from economic headwinds, structural shifts, the current government's austerity drive, and public sector cutbacks.

While many owners of office buildings in the Wellington central business district are lamenting higher vacancy, 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 the second-lowest vacancy rate (6.0%) among all major cities in both countries, behind only Christchurch.

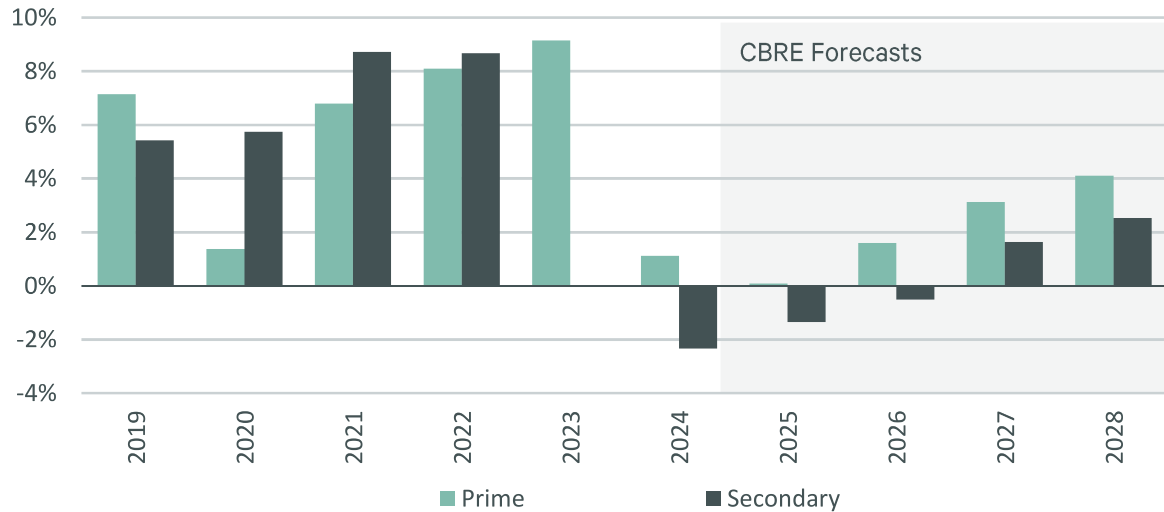
Six buildings are forecasted to be completed this year. One of them is a brand-new asset being built by Precinct Properties at 61 Molesworth Street (close to 19,000 sqm), and five are refurbished/strengthened buildings. The five refurbished buildings will increase the office stock by around 31,000 sqm. However, this will be offset by the removal of two buildings (close to 21,000 sqm) from stock due to refurbishment and strengthening works. The annual average supply of new stock during 2025-2028 will be about 10,000 sqm.

The supply cycle pressures will push Prime vacancy higher in 2025, peaking at 7.2%. The dissipating supply pipeline in 2026 will facilitate a Prime vacancy improvement considering the forecast net absorption benefits of occupier flight to quality, improving economic conditions and stabilising public sector demand. After 2026, a further decline in the supply pipeline is forecast to result in an accelerating improvement of occupancies. Secondary offices will be subject to higher short term vacancy pressures and will be slower to improve, with vacancies forecast to continue increasing in 2026. However, we forecast quite a rapid turnaround in 2027 and 2028 due to a pick-up in conversions.

CBD Office Actual and Forecast Vacancy




CBD Office Actual and Forecast Annual Gross Effective Rental Change





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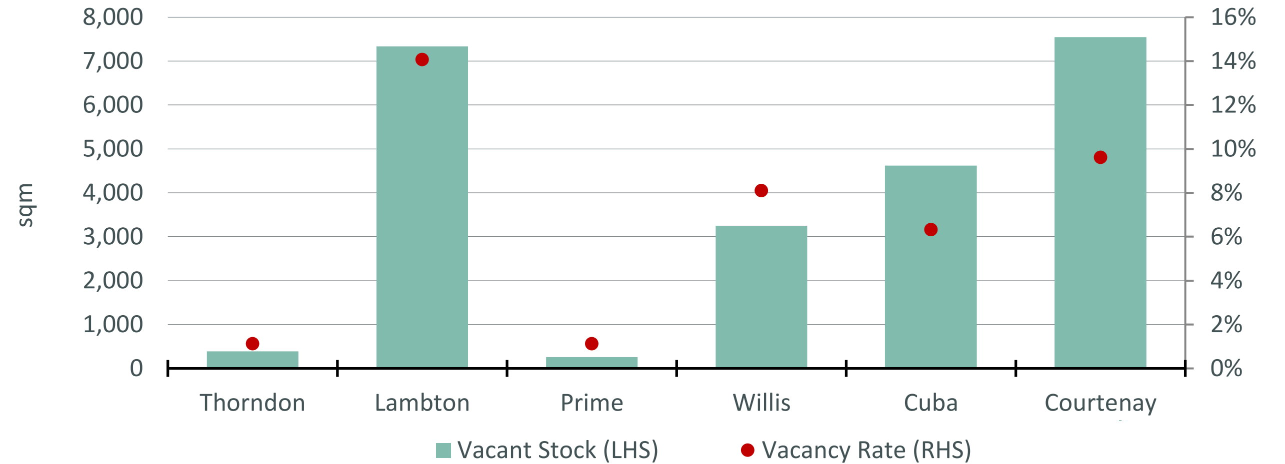
# Retail Vacancy

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 vacancy in Courtenay, which jumped from 7.5% to 12.1%, equating to around 3,000 sqm of retail space becoming unoccupied 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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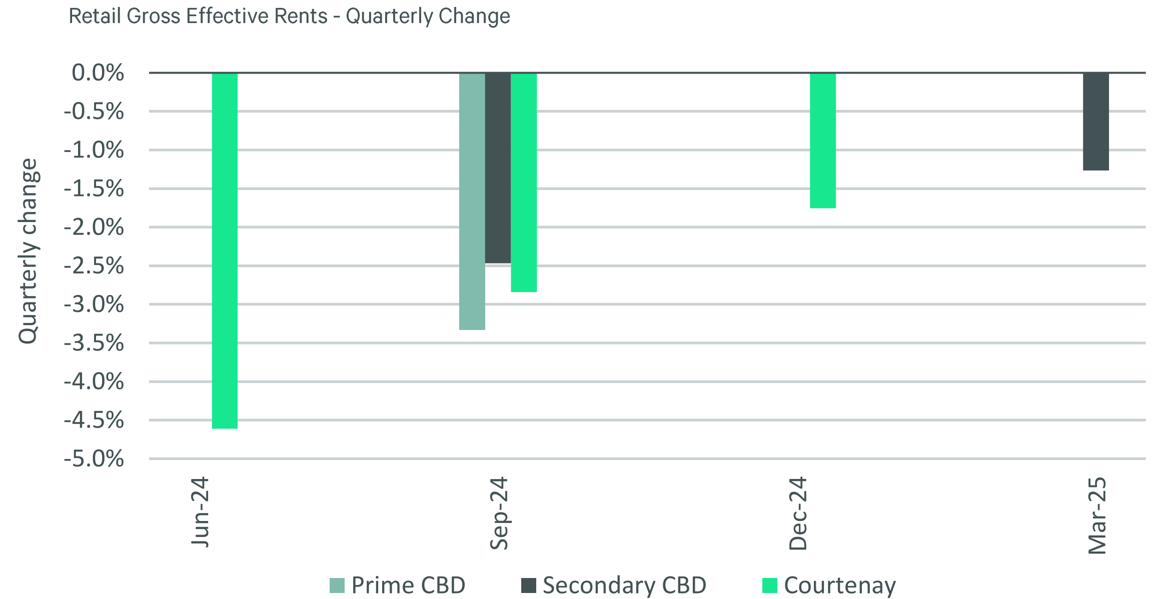
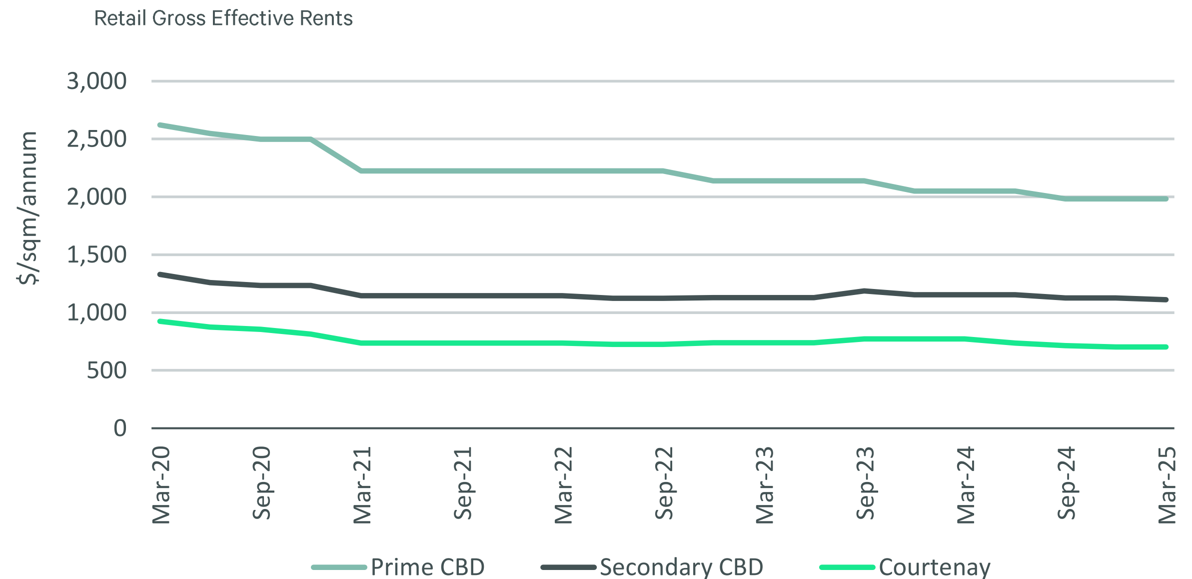
# Retail Rents

The Wellington retail market is showing signs of a nascent improvement. Healthier foot traffic and a lift in retailer interest in Lambton Quay indicate a likely increase in leasing activity, although rents remain stable for now.

Secondary CBD precincts show more diverse trends with locations such as Manners and Cuba Streets improving, but parts of Willis Street becoming more challenging. Secondary CBD rents declined by 1.3% in Q1 driven mainly by higher vacancy levels in the upper end of Willis Street. Courtenay remains in a challenging position, with ongoing trading difficulties for retailers and low demand. Face rents remain stable after previous declines.

Incentives were unchanged during Q1, at 11.1% of face rents for Prime and Secondary CBD retail assets and at 12.5% of face rents for Courtenay locations.





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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.

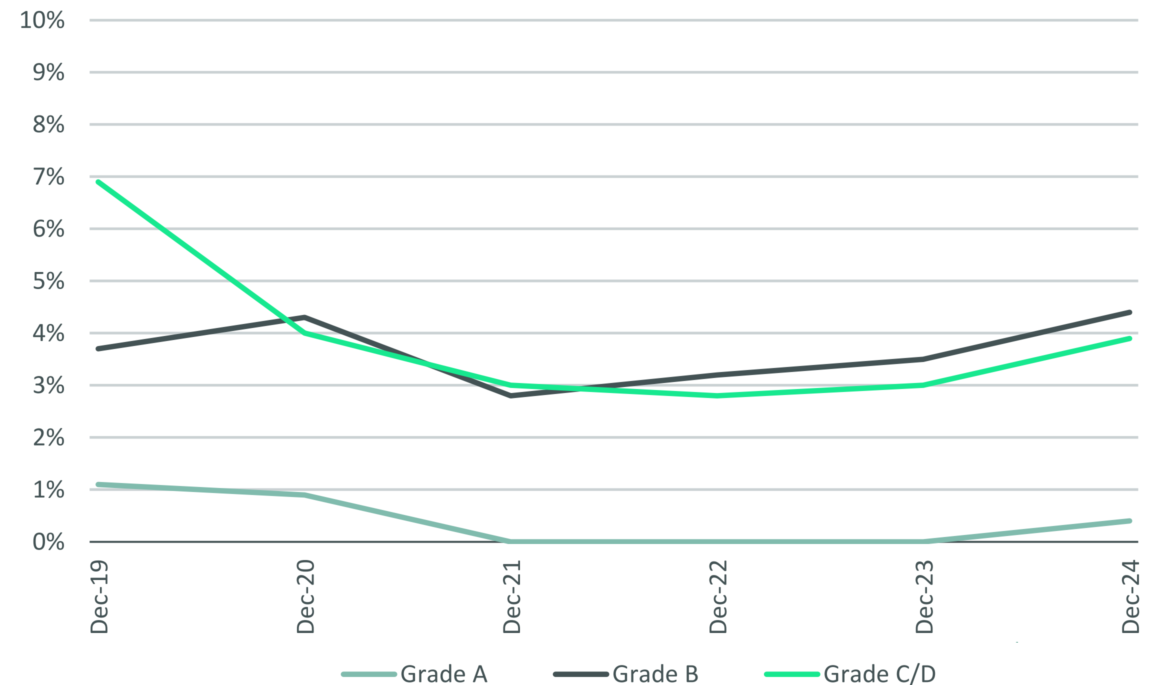
In terms of new industrial stock, around 8,400 sqm entered the market during 2024. The largest new facility was a showroom in Ngauranga (3,550 sqm), followed by a 2,182 sqm warehouse on Peterkin Street in Taitā and a 1,720 sqm prime owner-occupied warehouse in Porirua. However, the considerable number 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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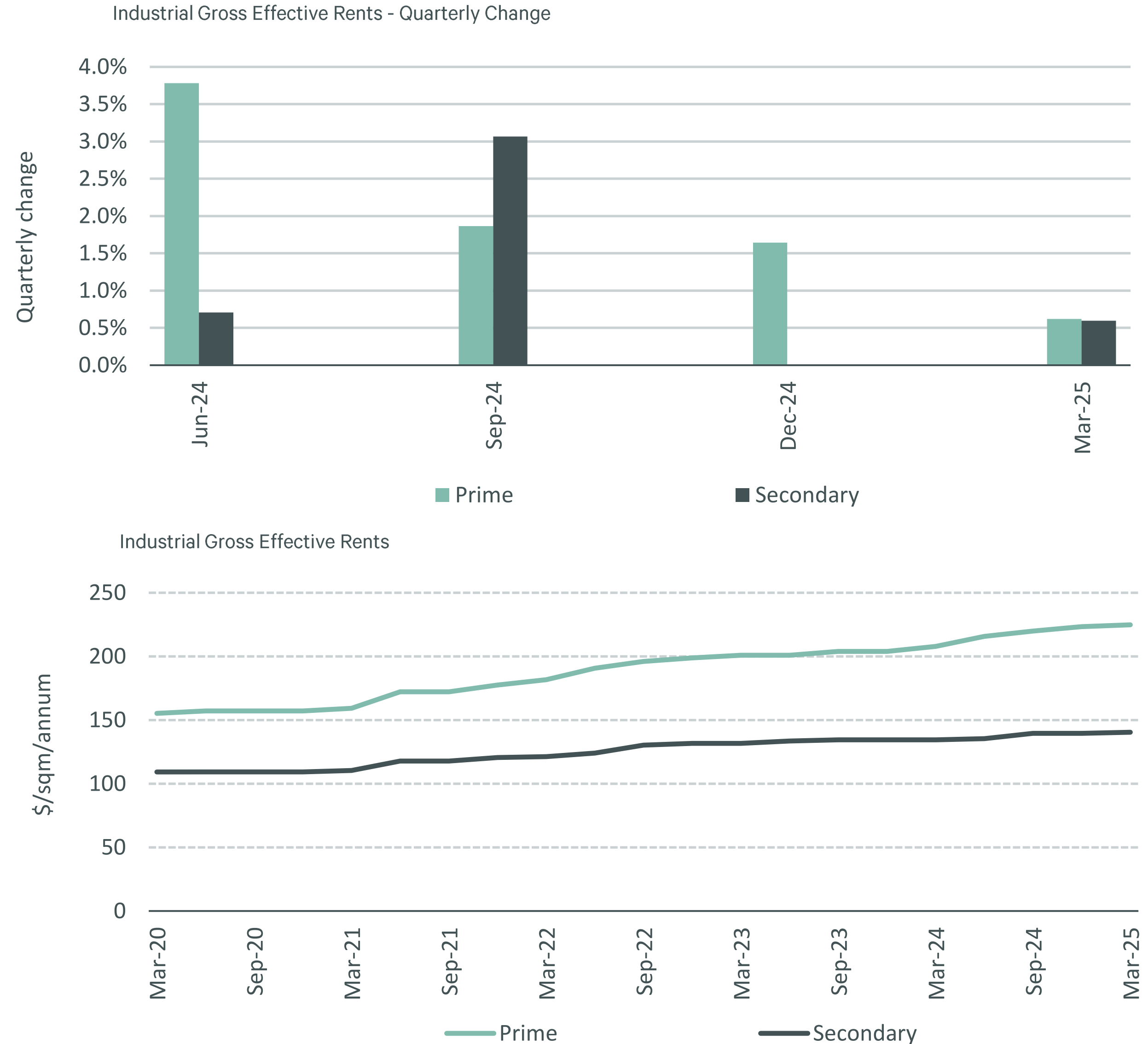
# Industrial Rents

Both the Prime and Secondary Wellington industrial submarkets registered rental growth in Q1. Demand levels remained robust, especially for high-quality assets in good locations. Rent renewals for several Prime buildings resulted in higher rents, as tenants were willing to pay a premium to retain space. This led to a 0.6% increase in Prime face rents in Q1 compared to the previous period. Secondary face rents also increased by 0.6% in Q1, mainly due to unmet tenant demand in large-scale buildings in the higher spectrum of the Secondary submarket.

According to CBRE, indicative market incentives remained steady in Q1 2025. The industrial sector in Wellington is a notable oddity within all the city's commercial property markets, with incentives unchanged for over five years. Prime incentives are currently 1.9% of face rents, while Secondary incentives are 4.2% of face rents.





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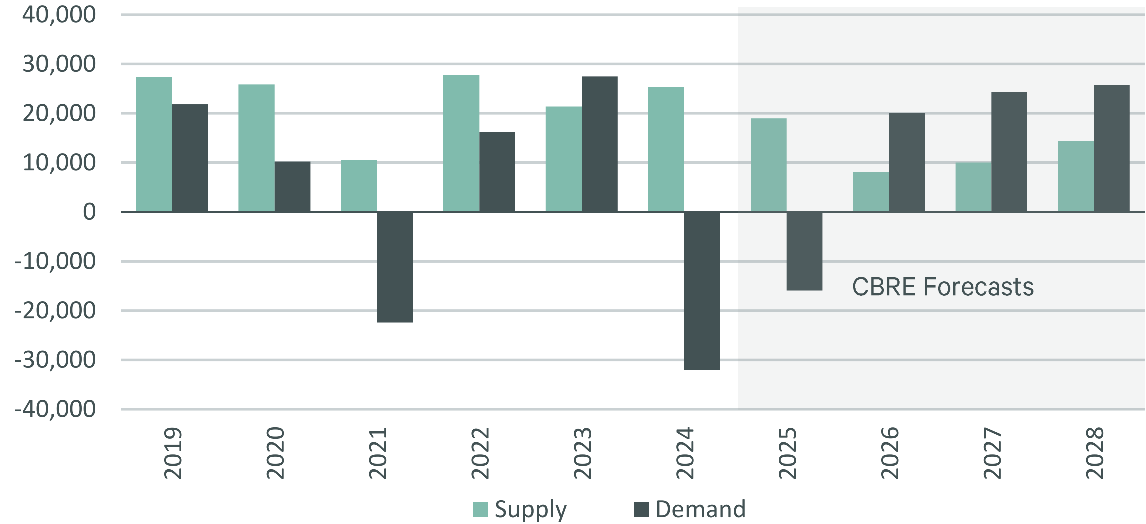
# Industrial Market Outlook

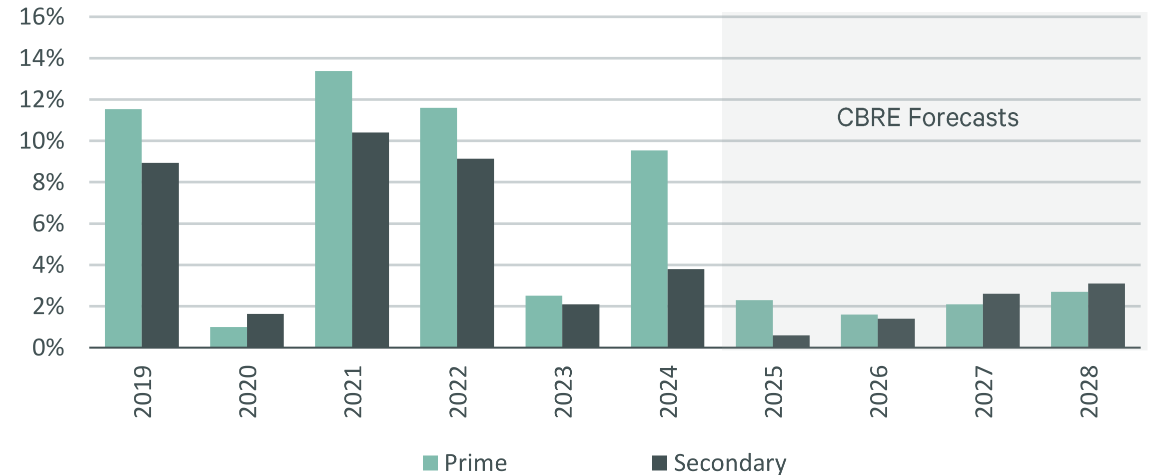
The industrial new supply remains active, despite the current economic environment. Even though the 2025 development pipeline is operative, nothing material is scheduled for completion in 2026 and beyond. Of the current pipeline, two projects, one each in Seaview and Upper Hutt, are scheduled for completion soon. Additionally, five buildings are under construction for completion in 2025, with the largest being Bidfood's distribution centre in Grenada North (over 6,000 sqm of high-quality industrial space). In line with this and the generally challenging economic and demand climate, we are forecasting a reduction in new industrial development for the last three years of the forecast period.

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. 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. 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. This will also help narrow the large Prime to Secondary rental gap that emerged in recent years.

Wellington Industrial Supply and Demand Forecasts




Wellington Industrial Gross Effective Rents Outlook





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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.

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