CBRE

Auckland Property Market Overview

INSIGHTS

- Occupiers are facing increasing challenges, with the weaker demand environment prompting a shift towards an "occupier-favoured" market with higher incentives across the office and industrial sector. Retail performance has been more heterogenous, with some centres remaining resilient, others facing downward pressures on rents, indicating a diverse occupier market dynamic.
- Vacancy results did not show a dramatic increase in either the CBD or Non-CBD office markets. This was helped by building withdrawals, as demand contracted in H1, indicated by six-monthly net absorption of -13,000 sqm in the CBD and -7,200 sqm in the Non-CBD.
- Industrial vacancy in H1 rose from 0.5% to 1.0%, equivalent to 70,000 sqm of vacancy increase. This was primarily driven by occupancy consolidation, backfill vacancies due to occupier relocations, and some new speculative builds. The volume of new builds entering the market was 180,000 sqm compared to 110,000sqm of net absorption.
- Although recent quarterly data suggests that we are nearing the peak of the current yield cycle influenced by high interest rates, yields are facing some pressure from the weaker occupier market.

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	784,404	10.1	350 - 950	8 - 25	5.20 - 8.80
Secondary CBD Office	637,860	21.4	200 - 600	12 - 25	6.70 - 9.50
Prime Industrial	6,592,073	0.8	170 - 270	4 - 6	5.10 - 6.30
Secondary Industrial	7,459,695	1.3	120 - 220	4 - 8	5.35 - 7.00
Prime CBD Retail			2,500 - 5,500	1 - 3	5.35 – 6.50
Major Regional	294,628	1.5	700 – 2850	4 - 6	6.80 - 7.40
LFR Centre	474,053	1.0	180 - 550	4 - 6	7.10 - 7.90

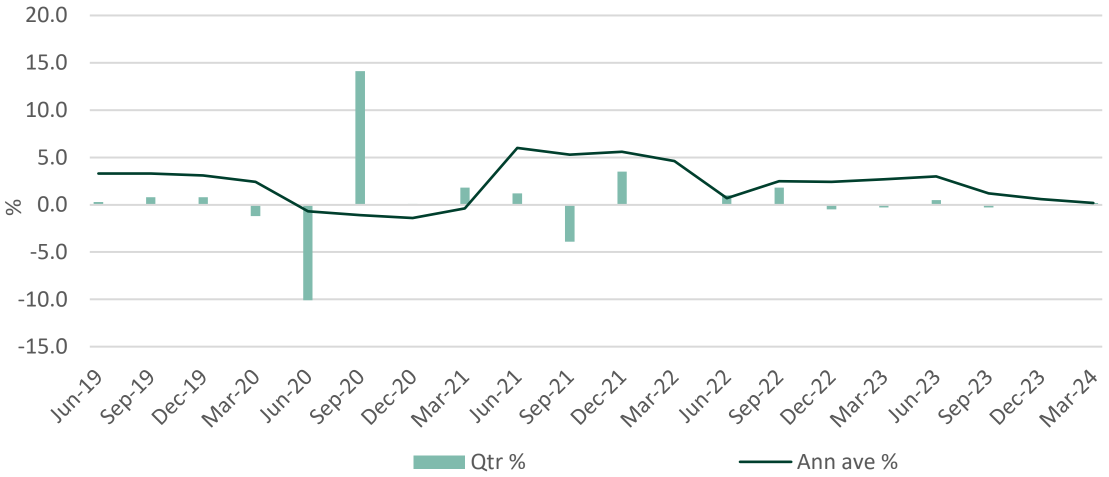
Economy

Major business surveys and activity indicators are at recessionary levels, indicating challenging economic conditions for the next few quarters. The Reserve Bank of New Zealand (RBNZ) revised its annual average GDP growth for 2024 to 0.4%.

However, there may be a silver lining, as the sluggish economy could lead to a quicker than previously anticipated dissipation of domestic inflation pressures and bring forward interest rate cuts. Although OCR cuts were expected to commence in Q2/Q3 2025 a couple of months ago, they have now been cut in response to inflation returning to within the 1-3% target band. The June 2024 quarter inflation rate was weaker than the RBNZ predicted in May (3.3% vs 3.6%). Even the domestic-generated (non-tradable) inflation during Q2 was almost on par with the figure that the RBNZ predicted (5.4% vs. 5.3%).

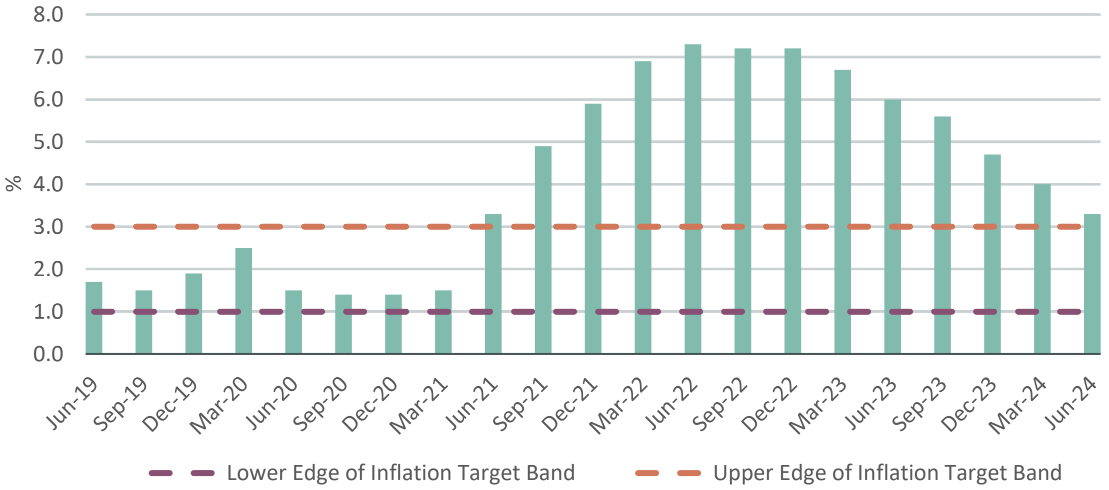
Some economists believe that a recession this year could potentially pave the way for a stronger economic rebound. Subdued or negative economic growth throughout the year and rising unemployment are the precursors of economic hardship. However, we can also expect a faster and more significant decrease in interest rates. As a result, there is a higher likelihood of a more dynamic economic recovery starting from mid-2025 onwards.

Gross Domestic Product (GDP)
Quarterly and annual average growth (%)



Source: : Statistics New Zealand

Consumer Price Index



Source: : Statistics New Zealand

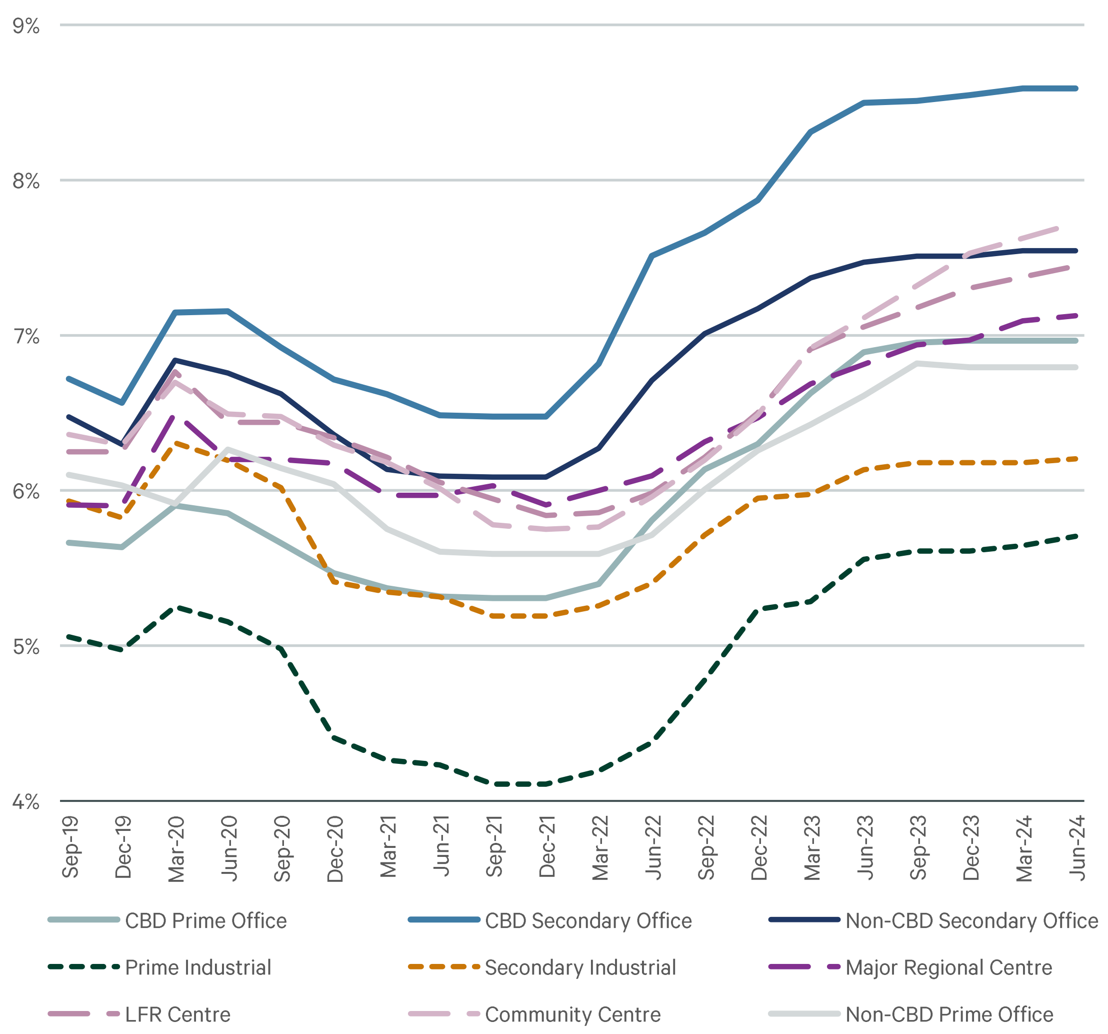
Investment Market

Although recent quarterly data suggests that we are nearing the peak of the current yield cycle influenced by high interest rates, we are also witnessing a softer occupier market characterised by increasing incentives. While the impact of interest rate moves tends to trump the impact of rental changes, rents will have a bearing on the quantum and direction of yield changes in coming quarters.

In recent quarters, retail centres have experienced the most yield movement, with yields across the category increasing by an average of 15 bps in H1 this year reflecting a thin investor base and generally lukewarm sentiment towards many parts of this asset class. It also continues to reflect an element of catch up with retail yield movements in this cycle remaining materially below the adjustments made for office and industrial. While seismic issues are also a concern for some centres, in our assessments we are seeking to look through these given significant uncertainties and unknowns at the individual asset level. In addition to retail, there have also been some adjustments, ranging between five and ten basis points, to the yields of some industrial precincts.

Since early August, both government bond and swap rates have dropped significantly. Despite the market's volatility since the start of this year and the likelihood of rates bouncing back, the recent drops reflect a strong market expectation that inflation is effectively managed. This, coupled with a weak economy, is expected by the market to prompt the Reserve Bank to cut the OCR early. Even if the OCR isn't reduced as swiftly as anticipated, recent wholesale interest rate drops can help counterbalance some of the rent induced upward pressures on property yields.

Auckland Indicative Yields by Sector



Note: Non-CBD Grade A office yields firmed in Q3 2023 due to some non-market changes including introducing a new building in Newmarket. The market trend in Q3 was still softening in this submarket.

CBD Office Vacancy

CBD office vacancy increased in H1 2024, rising from 14.4% in December 2023 to 15.1% by the end of June. Absorption loss is the main reason for this increase in vacancy, although the withdrawal of two buildings, amounting to 5,000 sqm of vacant space, somewhat mitigated the impact of the absorption loss, resulting in only an additional 0.7% or 9,000 sqm of vacancy in H1.

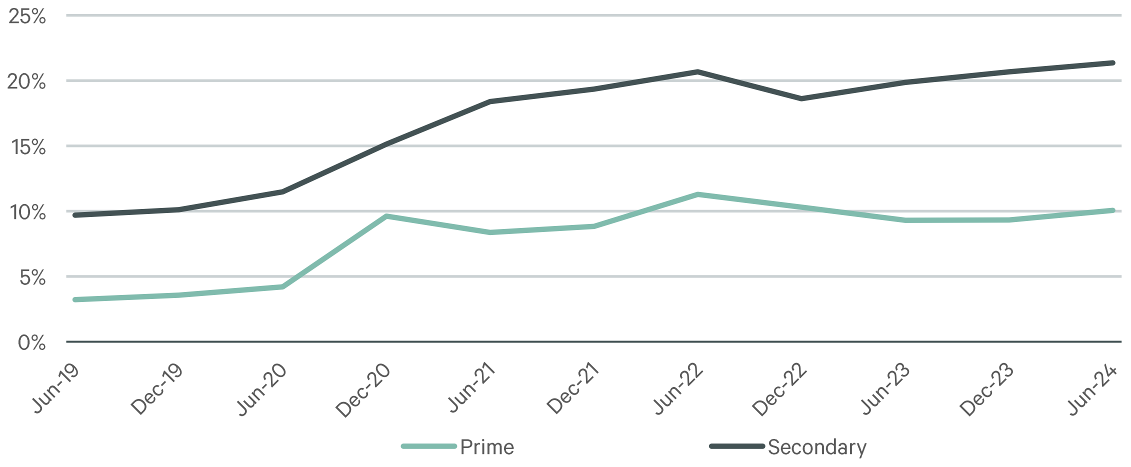
Premium vacancy remained stable at 3.6% in the six months to June 2024. Bell Gully moving to 1 Queen Street contributed most of the absorption loss and backfill vacancies in Vero Centre but this was balanced out by new occupants taking a large proportion of the backfill. There were other small new take ups in the rest of the Premium buildings, resulting in only 100 sqm of vacancy increase.

In Grade A, negative absorption resulted in a 1.0% or 5,700 sqm vacancy increase. The two main contributors to Grade A absorption loss were from DIA/Three Waters vacating 34 Sale Street, and Spark vacating two levels at 167D Victoria Street. There were also some new take ups in this grade, the biggest one being over 4,000 sqm of new absorption in 66 Wyndham Street. Bank of China is new to the building, while existing tenants Ministry of Justice and Helloworld have expanded.

Grade B vacancy increased by 2.5% or 8,400 sqm but only had 600 sqm of absorption loss. This is largely driven by 87 Albert Street (part of The Formery) coming into the Grade B market with 3,300 sqm of absorption gain but also 3,000 sqm of vacancy addition for this submarket. The Sale St carpark conversion with 1,000 sqm of new absorption is another driver of the big difference between B grade vacancy and net absorption.

Grades C's vacancy rate was stable while Grade D's rate declined primarily due to the removal of 144-150 Victoria Street West which took 4,000 sqm of vacant space from the Grade D submarket.

Auckland CBD Office Vacancy



Auckland CBD Office Vacancy Change by Grade

		PREMIUM	GRADE A	GRADE B	GRADE C	GRADE D	TOTAL
Vacancy as at June 2024	%	3.6%	12.2%	21.7%	18.6%	31.3%	15.1%
	sqm	7,067	71,867	58,860	55,160	22,165	215,119
Vacancy as at December 2023	%	3.6%	11.2%	19.2%	18.8%	33.5%	14.4%
	sqm	6,965	66,160	50,455	57,519	25,070	206,169

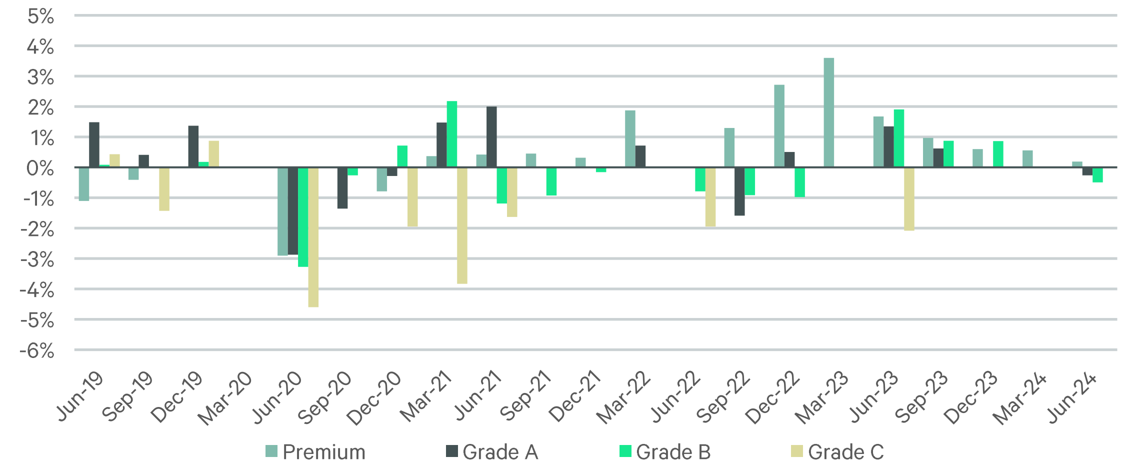
CBD Office Rents

Absorption losses and a lower level of occupier enquiries on available office space have led to a generally deteriorating sentiment amongst lessors during the first half of the year, and the rental market has been turning more towards favouring lessees.

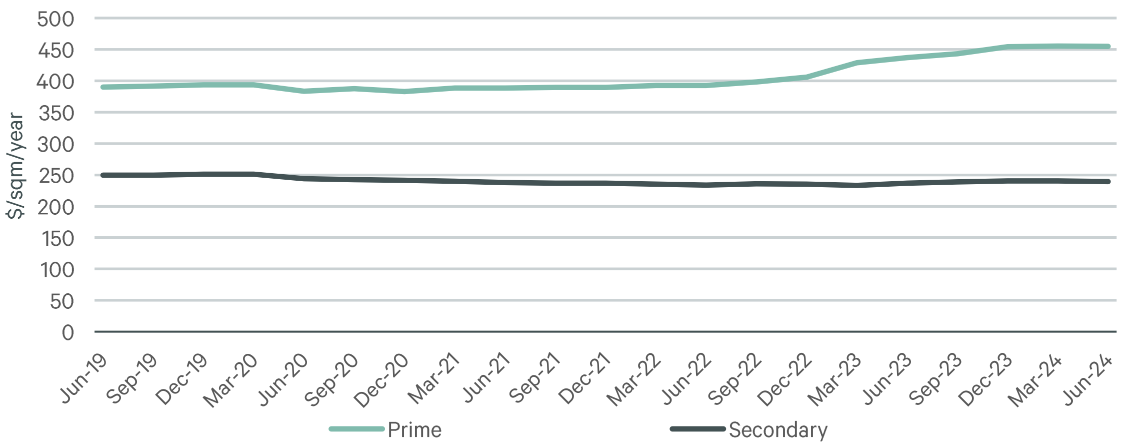
Our Q2 assessment of office rent growth shows a patchy situation both across individual submarkets and individual buildings. The biggest positive adjustments occurred for B grade face rents in well located buildings that have seen recent capital expenditure and provide a high level of occupier amenity and an attractive environment in the building's common areas. These buildings are seeing a positive response from occupiers based on the favourable cost benefit equation they provide.

While face rents still show some upward trend, higher incentives have been a countering force. As a result, Premium net effective rents went up fractionally in Q2, but effective rents in the lower grades have declined.

Auckland CBD Net Effective Office Rents by Grade – Quarterly Change



Auckland CBD Net Effective Office Rents



CBD Office Market Outlook

Vacancy

While soft economic conditions are a barrier to positive absorption and rental growth in the short term, the results of our recent office occupier survey suggest that underlying occupier sentiment is resilient. This indicates the likelihood of a bounce back in demand and rents as the economic cycle improves.

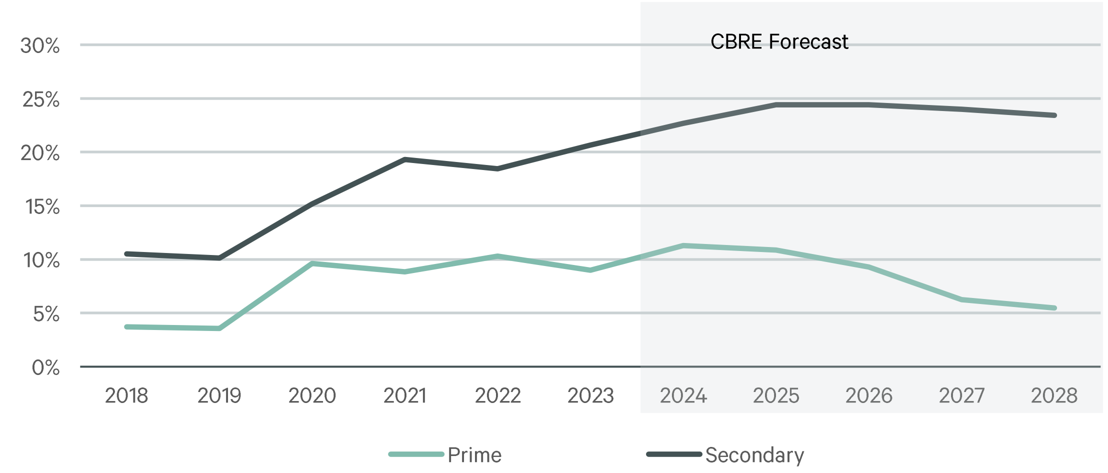
While we expect absorption to be negative in 2024, the overall outlook of five-year absorption rates are fairly positive. Supply and demand forecasts indicate that the vacancy pressure will peak in 2025, and afterwards will be trending downwards. Prime vacancy is likely to start declining from 2025 as the market absorbs the vacancy overhang created by relocating occupiers to new built space, but Secondary vacancy, especially in C grade, is not expected to decrease until 2027.

Rent

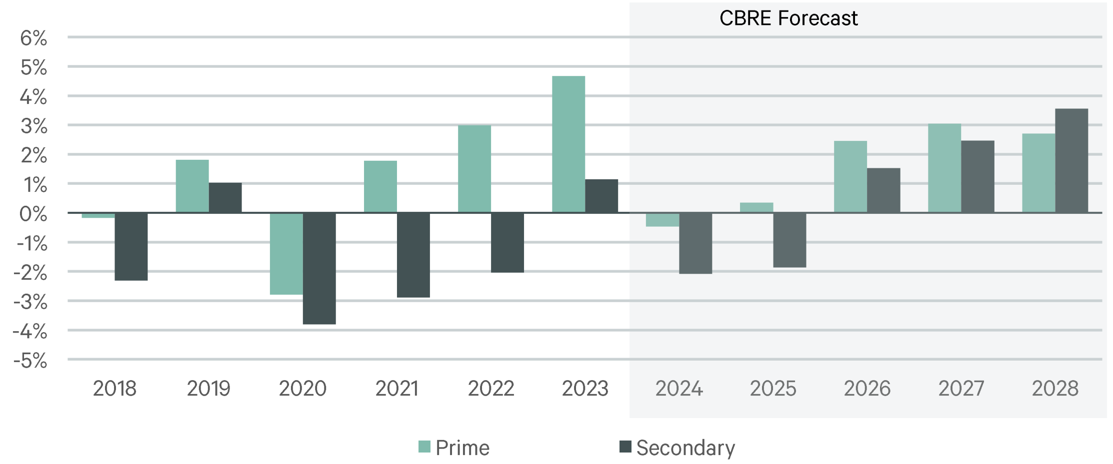
As we expected, this year is becoming more difficult for rent growth given the economic and vacancy backdrop. While there has been some positive momentum in the Premium market in the first half of the year, Grade A rents started coming under downward pressure. As a result, the overall Prime (Premium and Grade A combined) effective rents are likely to experience a drop this year and a minor increase next year before some stronger growth from 2026 onwards. Higher incentives rather than lower face rents will be the main drivers of effective rents declining.

We anticipate some moderate rent drops in Secondary net effective rents in the next 18 months as supply demand conditions and vacancy outlook have deteriorated, as well as the sluggish economy. From 2026 onwards Secondary rents are forecast to benefit from our expectations of a greater volume of building withdrawals which will benefit vacancy on top of a potentially more supportive demand environment. But Secondary rent growth will be concentrated in well located buildings offering a good occupier experience.

CBD Office Actual and Forecast Vacancy



CBD Office Actual and Forecast Annual Net Effective Rental Change



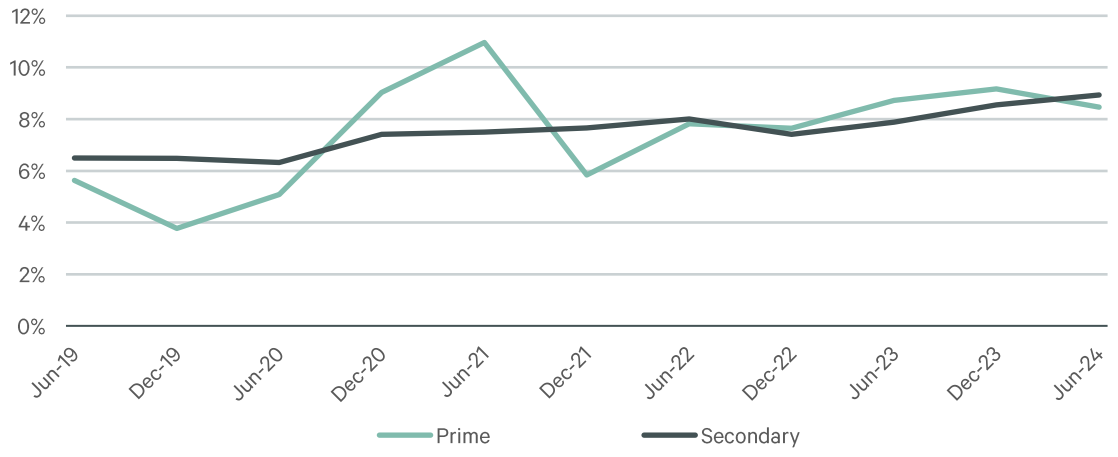
Non-CBD Office Vacancy

Overall non-CBD office vacancy in the first half of 2024 was largely stable, with an increase of only 0.1% or just over 500 sqm. Overall absorption losses leading to new vacancies were largely offset by the withdrawal of mostly vacant buildings from the market. At the submarket level, Grade A vacancy decreased by 0.7% or 2,600 sqm due to new take ups, while Grade B increased by 1.0% or 5,600 sqm due to absorption losses. Grade C and D vacancy remain stable, with the help of vacant space withdrawn from the market.

The major contributor to a lower vacancy rate in Grade A was from 3 Te Kehu Way. ASB and two health industry related companies accounted for a significant proportion of the 2,000 sqm new absorption in the building. Newmarket also had over 500 sqm of Grade A vacancy take up, while the rest of the Grade A submarkets had zero net absorption, albeit with some tenant movements.

The North Shore, Newmarket and Manukau contributed most of the net absorption loss in the Grade B submarket, resulting in a higher vacancy rate in H1. Occupancy downsizing from the public sector, such as ACC and the Electoral Commission, has been a notable driver of the loss.

Auckland Non-CBD Office Vacancy Change by Grade



Auckland Non-CBD Office Vacancy

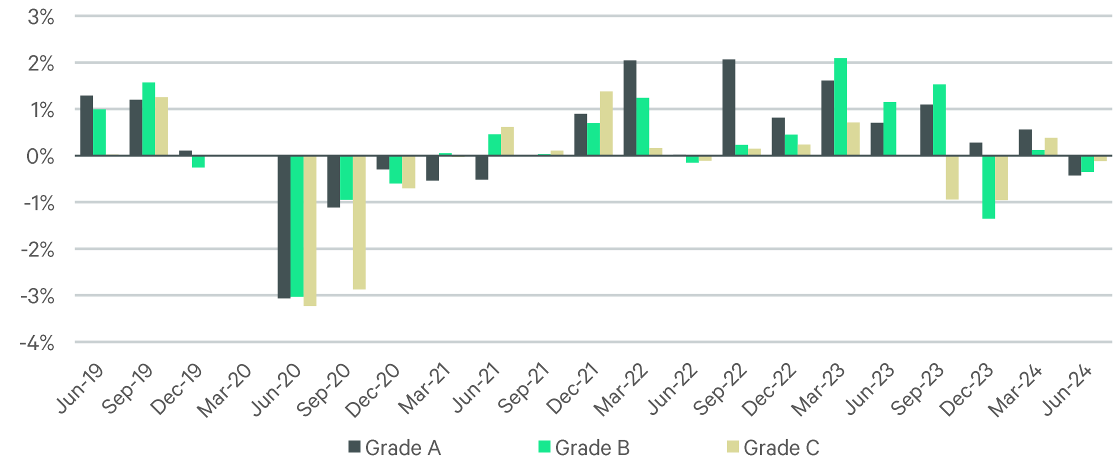
		GRADE A	GRADE B	GRADE C	GRADE D	TOTAL
Vacancy as at June 2024	%	8.5%	10.4%	8.1%	7.4%	8.8%
	sqm	30,439	55,850	51,996	11,552	149,837
Vacancy as at December 2023	%	9.2%	9.4%	8.1%	7.5%	8.7%
	sqm	33,012	50,259	53,913	12,134	149,318

Non-CBD Office Rents

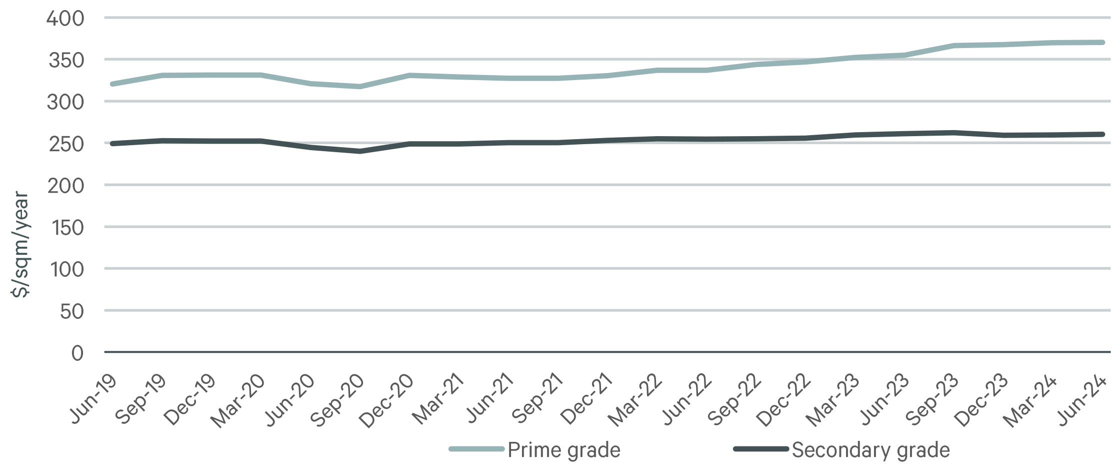
Non-CBD office rent dynamics are still differentiated by geography. Southern Auckland precincts continue to show positive rental trends, but downward rental pressure is evident in many precincts on the Isthmus and North Shore.

Overall, although the introduction of new built Prime building stock means that absolute $ per sqm rents are showing an increase, net effective indicative market rent changes show a decline for both A and B grade in Q2. The market movements were marginal however at -0.4%. Similarly to the CBD, while face rents remain stable to increasing, effective rents are negatively impacted by incentives drifting higher.

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



Auckland non-CBD Net Effective Office Rents



Non-CBD Office Market Outlook

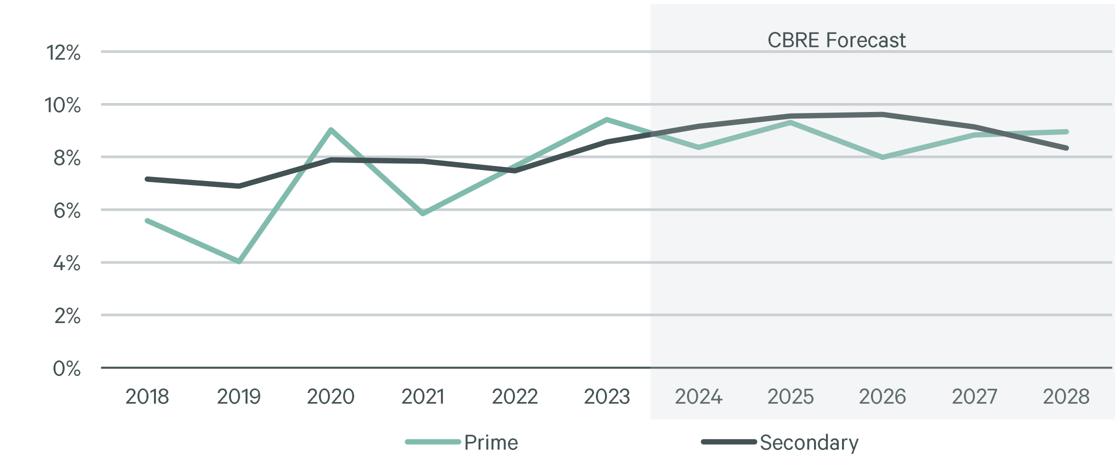
Vacancy

Weak demand will translate to upward vacancy pressure in the next 18 months, but vacancy levels are forecast to remain moderate due to the low supply environment. On the other hand, we also don't expect a dramatic improvement as economic conditions pick up from 2026 onwards. This reflects our belief that the pick-up in net absorption will remain lower than what we have seen historically, due to structural factors around hybrid work's impact on corporate occupier footprints in suburban markets.

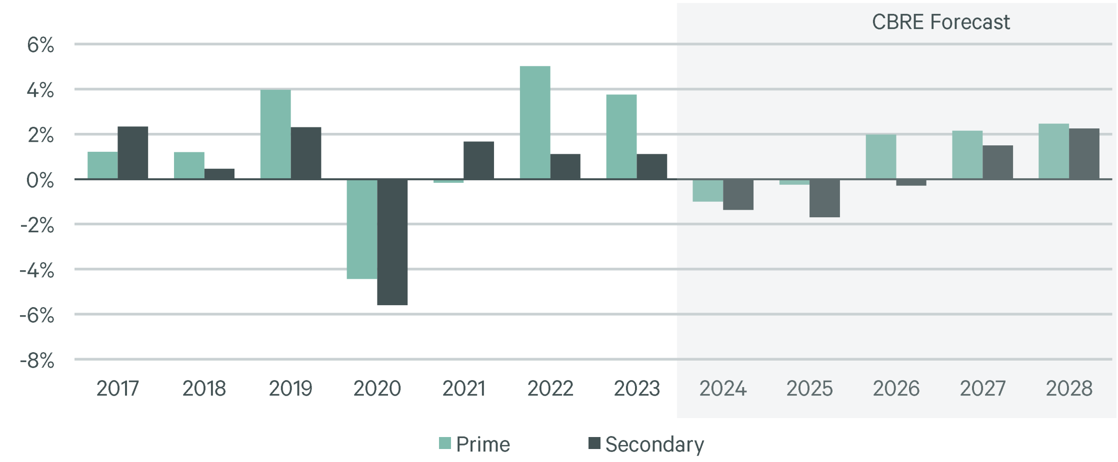
Rents

Similarly to the CBD, the challenging occupier market and economy will underpin falling net effective rents this year and next across all grades. As Grade A vacancy pressure is localised, we don't see deep market wide falls in Grade A rents as some suburban office locations will remain resilient. However, Secondary rents will have heavier annual rental decline, a 1.4% decrease in 2024 and a 1.7% decrease in 2025. Grade C rents are likely to continue decrease in 2026 while Grade B will stabilise.

Non-CBD Office Actual and Forecast Vacancy



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



Retail Vacancy

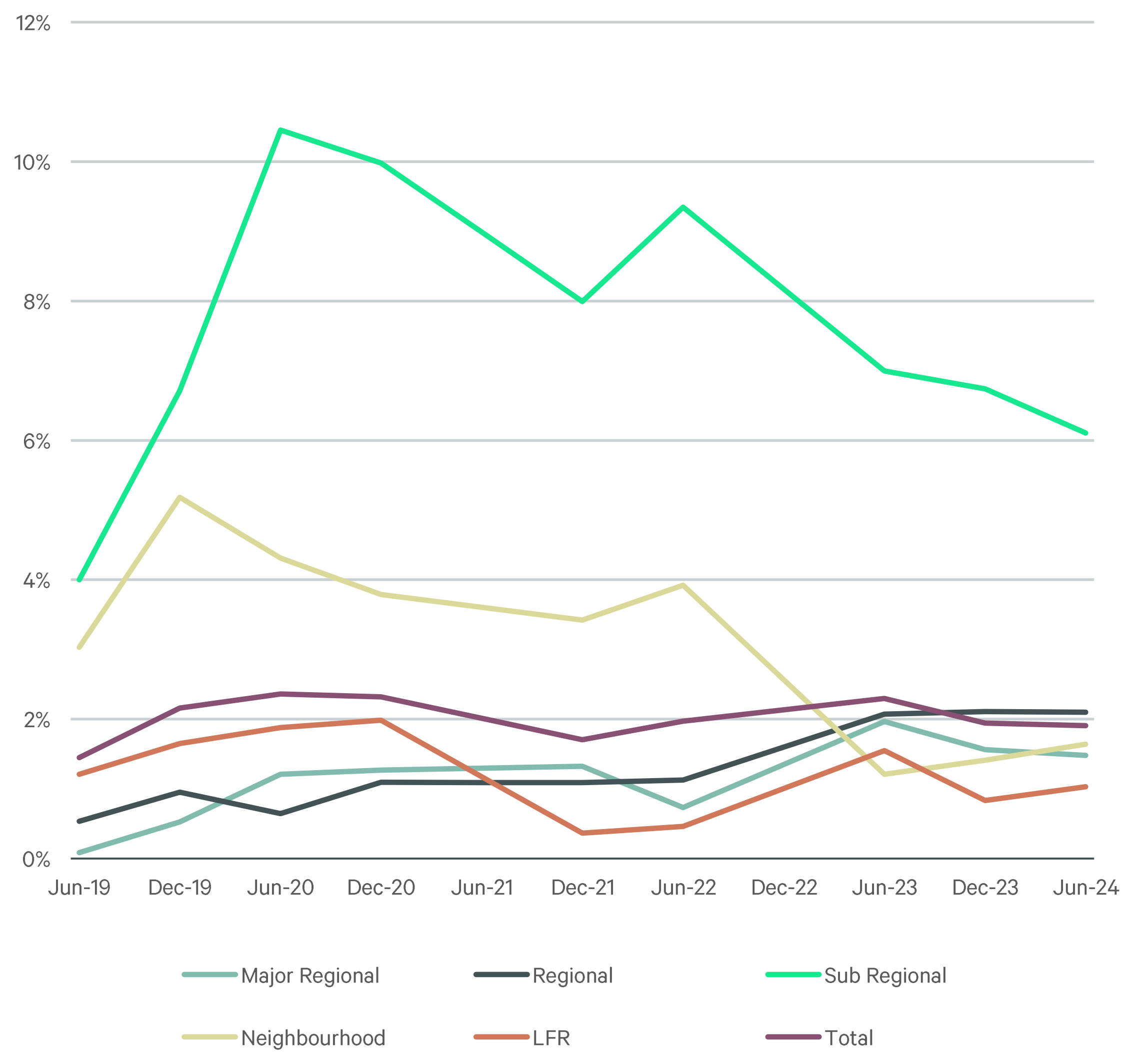
Vacancy levels have declined for 3 of the 5 centre typologies we monitor, contributing a slight reduction in total vacancy to 1.9% for Auckland. This is considered a good result given the current economic climate and elevated cost of living still dampening discretionary spending.

Vacancy has tended to concentrate in a handful of locations under significant competitive pressure. Good quality centres, with strong anchors are significantly outperforming those in need of refurbishment, with a growing vacancy gap between high-and low-quality stock.

Neighbourhood Centre vacancy declined over the pandemic due to shop local mandates but has increased to reach 1.6% over the first half of 2024. Sub Regional and Regional Centres continue to suffer the highest vacancy rates at 6.1% and 2.1% respectively, although we note vacancy has reduced for both typologies and vacancy is skewed by a small number of older centres under significant competitive pressure. Large Format Centres (LFR) remain a top performer with 1% vacancy due to robust consumer demand for the value end of the price spectrum. The data is also positive for Major Regional Centres, seeing a year of consistent vacancy improvements to the current level of 1.5%.

Looking forward, new retail stock coming to market is focused on LFR developments in Westgate, IKEA with additional LFR offerings in Sylvia Park, and the Manawa Bay Outlet Mall in Auckland's Airport Precinct. These developments boast high precommitment rates from quality tenants, with big international brands such as Tesla, Foodie, Coach and Kate Spade committed to name a few. The addition of high-quality retail stock is likely to contribute further vacancy challenges for older centres, although the timing of completions is likely to coincide with improved discretionary spending and consumer confidence given optimistic interest rate and inflation expectations for 2025.

Auckland Retail Centre Vacancy



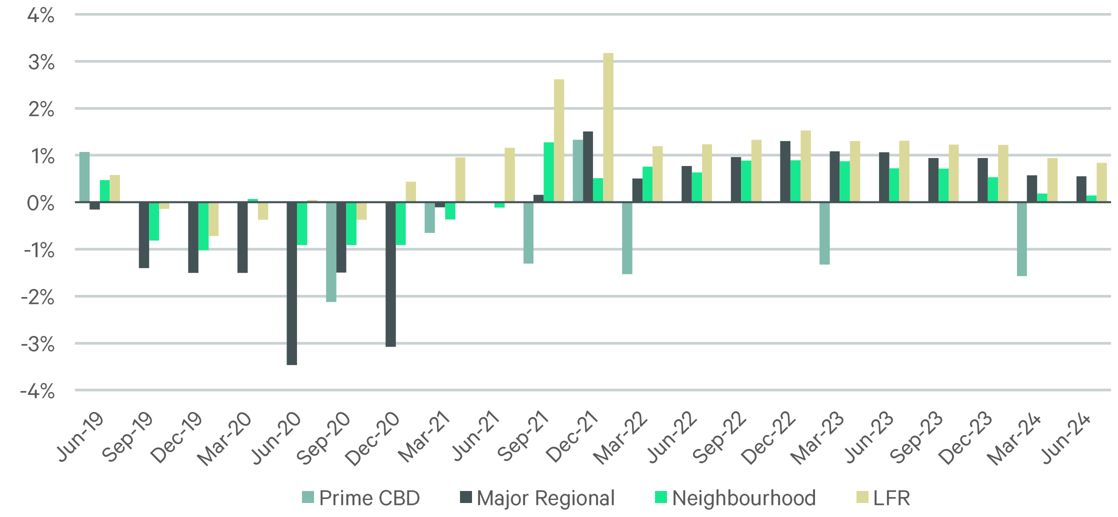
Retail Rents

Retail rents continue to benefit from CPI rent review mechanisms. Rental growth has generally slowed over the past 2 years which mimics the slowdown in inflation observed over the same period. Consequently, LFR rents increased by just 0.8% in Q2 of 2024, followed by Regional and Neighbourhood Centres (0.5% and 0.1% growth respectively).

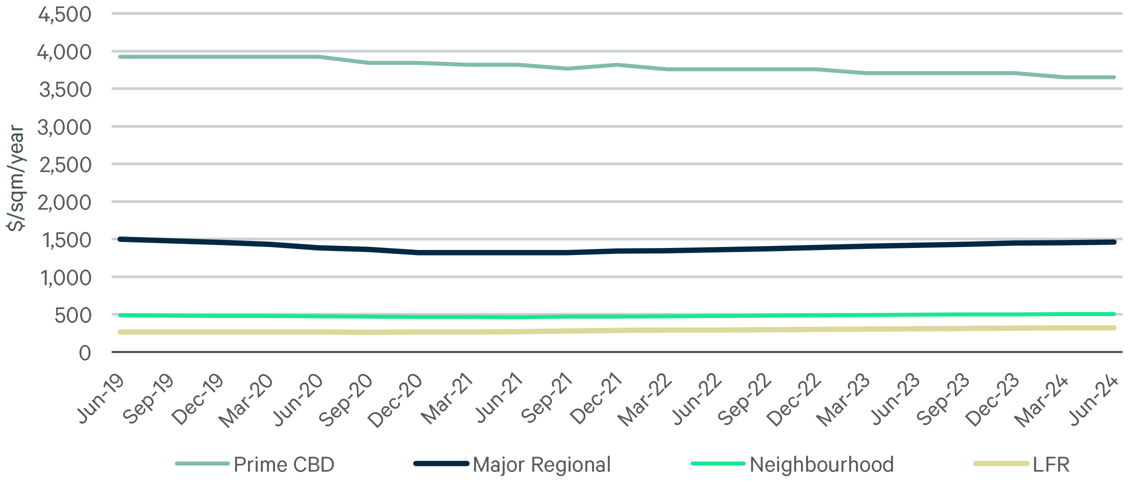
CBD retail rents remain stable after a downward movement in Q1. Retail spend in the waterfront areas of the CBD continues to improve with increased pedestrian counts driven by incentives to return to office, a full events calendar, and increased F&B spend.

Leasing agents are reporting generally improved appetite for space among larger retail chains although leases are still taking a long time to get finalised. Well capitalised retailers look beyond the short term when considering future space options and many seem to be looking through the current cyclical retail spending softness. On the other hand, inquiry levels from smaller local retailers are becoming more subdued.

Auckland Retail Rents – Quarterly Change



Auckland Retail Rents

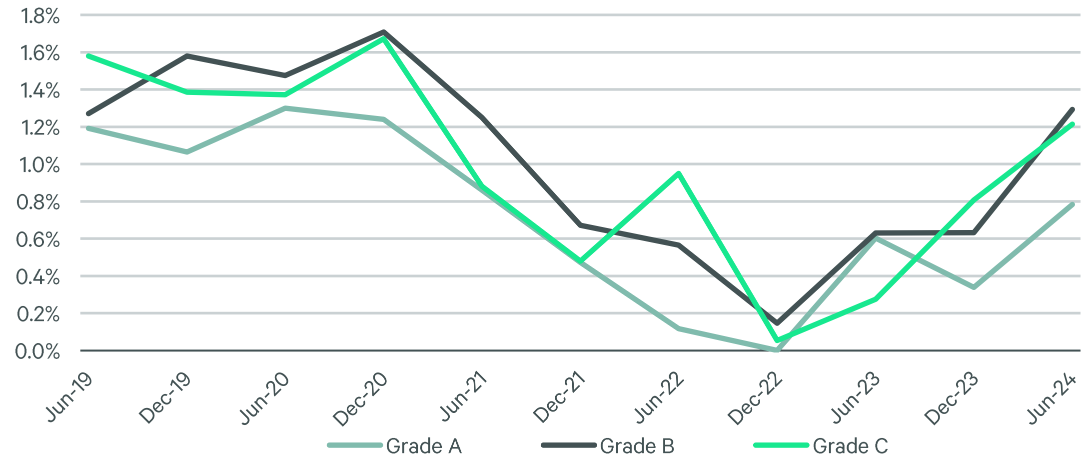


Industrial Vacancy

Vacancy in H1 2024 rose from 0.5% to 1.0%, equivalent to a 70,000 sqm vacancy increase. Grade A vacancy increased by 30,000 sqm or 0.5%, primarily driven by occupancy consolidation, backfill vacancies and speculative builds. Secondary vacancy increased by 40,000 sqm or 0.5%.

Net absorption remained positive but has moderated from the Covid induced boost of the past three years. Total net absorption was 110,000 sqm in the six months to June 2024, compared to the average six-monthly net absorption since H1 2020 of 151,000 sqm. As usual, the uptake of new developments was the major demand contributor in Grade A. Of note, total net absorption has lagged total net supply since H1 2023, signalling a gradual softening in the industrial market. Prime (Grade A) net absorption was 141,000 sqm, 23,000 sqm lower than in H2 2023. Although over 90% of the new stock has been occupied, more backfill vacancies contributed to this outcome. The departure of NZ Post from M20 at 86 Plunket Avenue and Repco from 510 Mt Wellington Highway (leased by VISY in July for a short term) accounted for a large portion of negative absorption and vacancy increase.

Auckland Industrial Vacancy



Auckland Industrial Vacancy Change by Grade

		GRADE A	GRADE B	GRADE C/D	TOTAL
Vacancy at December 2023	%	0.8%	1.3%	1.2%	1.0%
	sqm	51,666	50,535	43,099	145,300
Vacancy at June 2023	%	0.3%	0.6%	0.8%	0.5%
	sqm	21,758	24,647	28,729	75,134

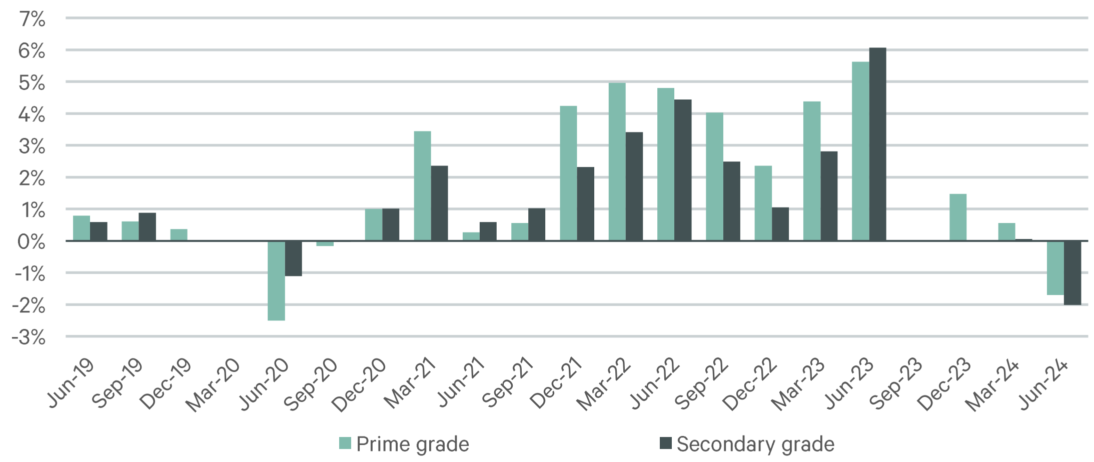
Industrial Rents

Industrial face rents have been largely stable in the first half of 2024, edging forward slightly driven by top-quality new warehouses. However, the growth was counteracted by higher incentives being offered more extensively in Q2, leading to an overall decline of both Prime and Secondary effective rents.

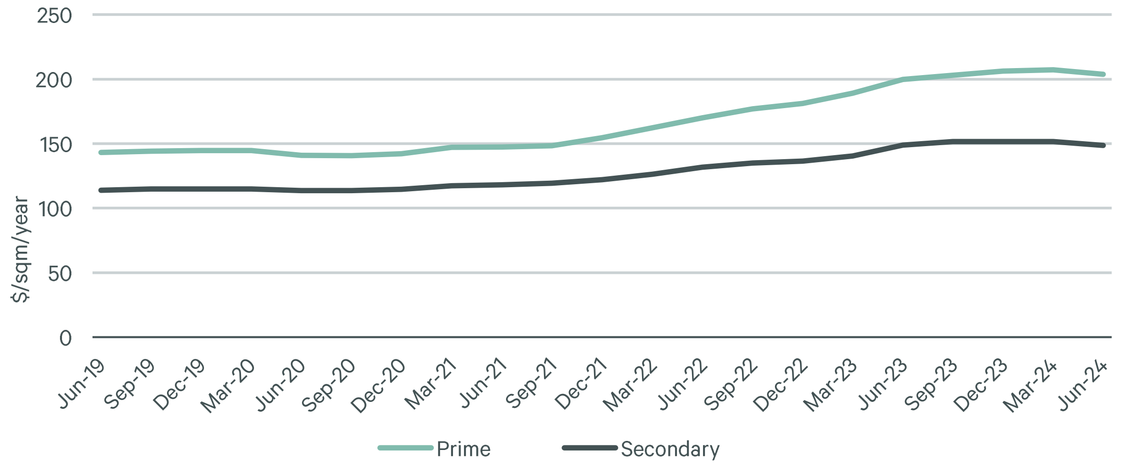
Grade A incentives increased by one month, while Secondary incentives increased by one to two months in Q2. The average Prime incentive stood at 4.4% and Secondary at 5.6%.

Recent asking rents indicate that net face rents in some suburbs may still experience slight growth, given some major spec/uncommitted buildings coming to the market presenting opportunities for the current stock to achieve new benchmark rents. However, these potential increases in face rents are limited and insufficient to prevent a decline in net effective rents given incentives will be increasing in H2.

Combined (office and warehouse) Net Effective Industrial Rents



Auckland Industrial Net Effective Rents – Quarterly Change



Industrial Market Outlook

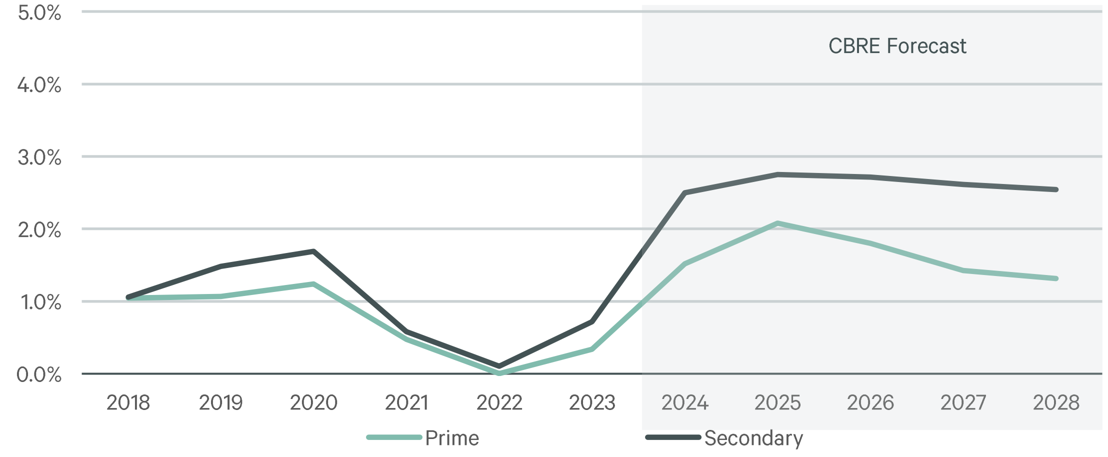
Vacancy

After the completion of nearly 300,000 sqm in 2023, the anticipated new supply for 2024 is projected to exceed 350,000 sqm. Amongst the new stock there is not a huge amount of speculative supply with circa 80% pre-commitment. However, as supply chains normalise and economic conditions moderate, we expect that Prime vacancy will increase through to the end of 2025 and stabilise in 2026. Tenant relocations creating backfill vacancies plus an increase in sublease vacancies 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 more adversely affected than Prime in response to the current economic weakness.

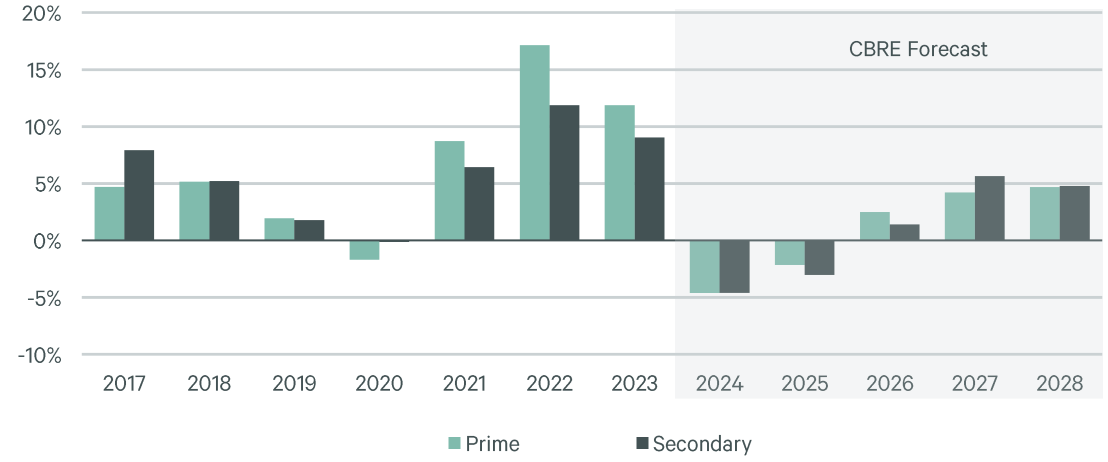
Rents

A circa 30% increase in Prime effective rents in the past two years to some extent sets up a fall as vacancy increases in the next two years. Recent market information indicates that some new or top-quality buildings may still achieve new face rent benchmarks, market wide Prime effective rents are likely to drop further in the next 12 months. Secondary effective rents are expected to have a similar trend to Prime, however, with more weakness in 2025 and 2026.

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.

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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