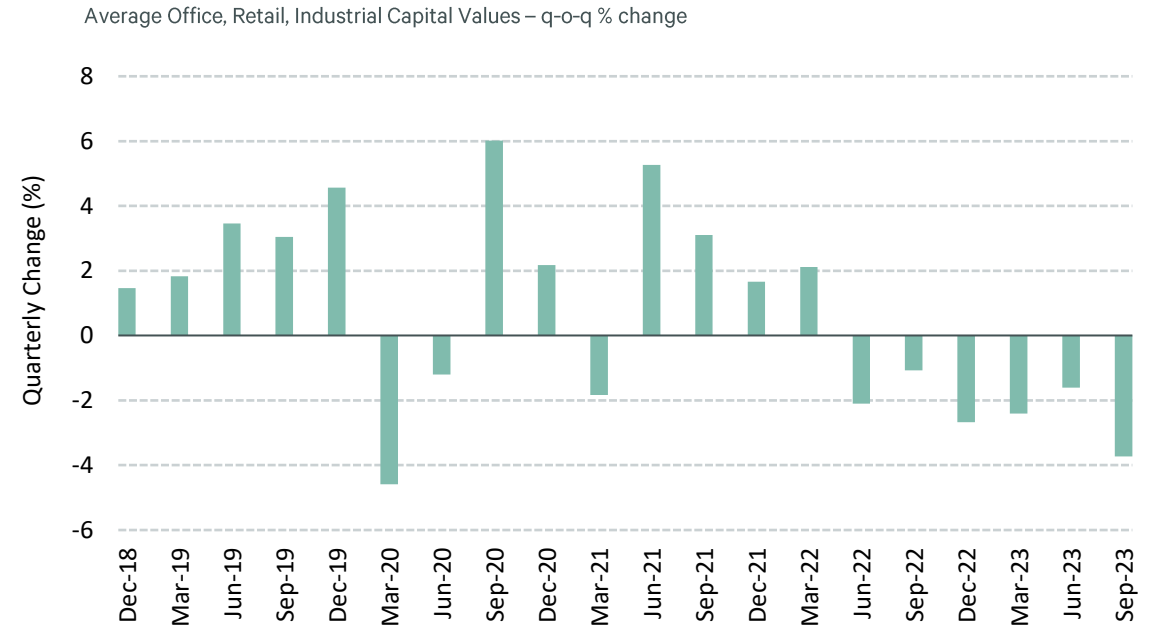


Wellington Property Market Overview

INSIGHTS

- In Q3 2023, yields continued their softening trend across all market sectors, increasing 52-96 basis points in the past 12 months. The impact of rising interest rates continues to hamper transactional activity.
- Rents remained stable in Q3. However, outgoings witnessed an increase across almost all markets in Q3 due to insurance and property rate hikes. This resulted in an increase in gross rents on a net lease and a decrease in net rents on a gross lease.
- In H1 2023, CBD office vacancy rose to 7.9% from 7.5%. Premium grade remains very tight with only around 1,500 sqm of vacant space. Backfill vacancy had a material impact on Grade B vacancy, which jumped almost to 6.0% from 5.0%.
- Compared to previous periods, during H1 2023 no buildings were taken out of the market due to refurbishment and/or strengthening works, something that has characterised the Wellington office market since 2016.
- Industrial vacancy is 2.4% overall, with material variation between precincts and grades. Prime vacancy is zero. Rental growth continued in Q2 2023 for Secondary assets. Prime rents remained unchanged in Q2, after experiencing healthy growth in previous periods.



Market indicators

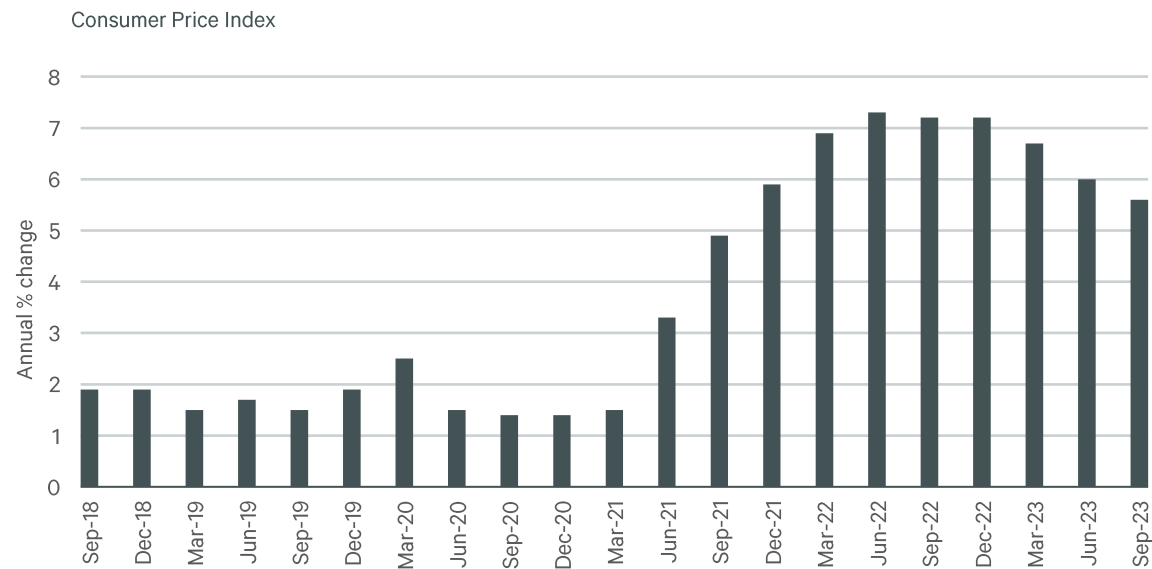
Market Sector	Stock (sqm)	Vacancy (%)	Gross Face Rent (\$/sqm/yr)	Incentives (%)	Yield Range (%)
Prime CBD Office	429,239	2.8	585 – 985	4 – 6	5.85 – 8.25
Secondary CBD Office	893,639	10.3	220 – 650	5 – 10	7.35 – 11.45
Prime Industrial	456,849	0.0	180 – 250	1 – 2	6.00 – 7.00
Secondary Industrial	1,716,795	3.0	120 – 180	3 – 4	6.50 – 8.25
Prime CBD Retail	-	-	2,000 - 2,800	5 – 7	6.66 – 7.51
Secondary CBD Retail	-	-	800 – 1,700	6 - 7	7.10 – 8.25

Economy

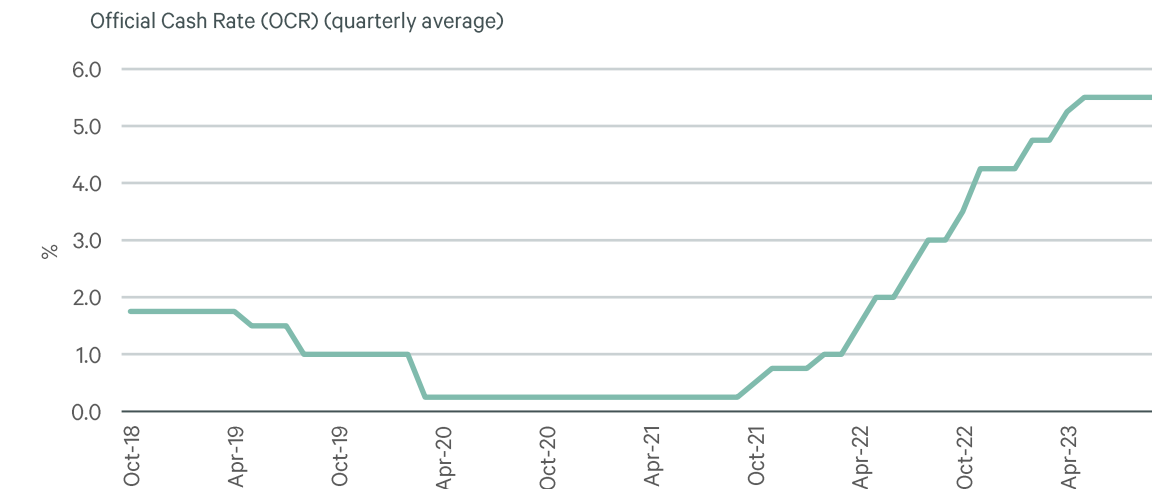
Economic growth in New Zealand has been volatile but more resilient than earlier indicated. Surprisingly, GDP increased by 0.9% in Q2 2023, higher than what the RBNZ and private sector economists were expecting, and Q1 growth was revised up from negative to zero. Overall, this means that a recession was avoided for the time being, although several economic variables, especially around consumption and investment, are looking weak. Most economists anticipate subdued GDP growth until late 2024.

Even though headline inflation continued to slow down, annual non-tradable inflation in Q3 was higher than what the RBNZ forecasted in the August Monetary Policy Statement (6.3% vs 6.2%). Domestically generated non-tradeable inflation is an important measure because this is the inflation component that the RBNZ can directly influence through monetary policy. Both the market and the RBNZ are still expecting that CPI will be back within the 3% target ceiling by H2 2024, but a wide range of opinion remains on how quickly inflation will fall in the next few quarters.

In its last three meetings, the RBNZ’s Monetary Policy Committee has held the OCR at 5.50%. The last increase was in May 2023, in which the OCR was hiked by 25 bps. Even though some economists believe that the OCR has already peaked, others believe that it could peak at 5.75% due to non-tradable inflation remaining high. In Q3 2023, longer term rates reached their highest levels in the last decade. The 5-year swap rate and the 10-year government bond yield pushed past 5.0%, exposing market uncertainty regarding evolving economic and financial conditions. An elevated level of uncertainty is likely to persist over the foreseeable future due to significant global economic and political events, i.e. slowdown of the Chinese economy, high oil prices, geopolitical tensions, among others. Coupled with this, inflation remains sticky in most part of the world and this, together with increasing government deficits and bond issue requirements, is driving a higher for longer narrative for monetary policy, wholesale interest rates, and bond rates.



Source: Statistics New Zealand



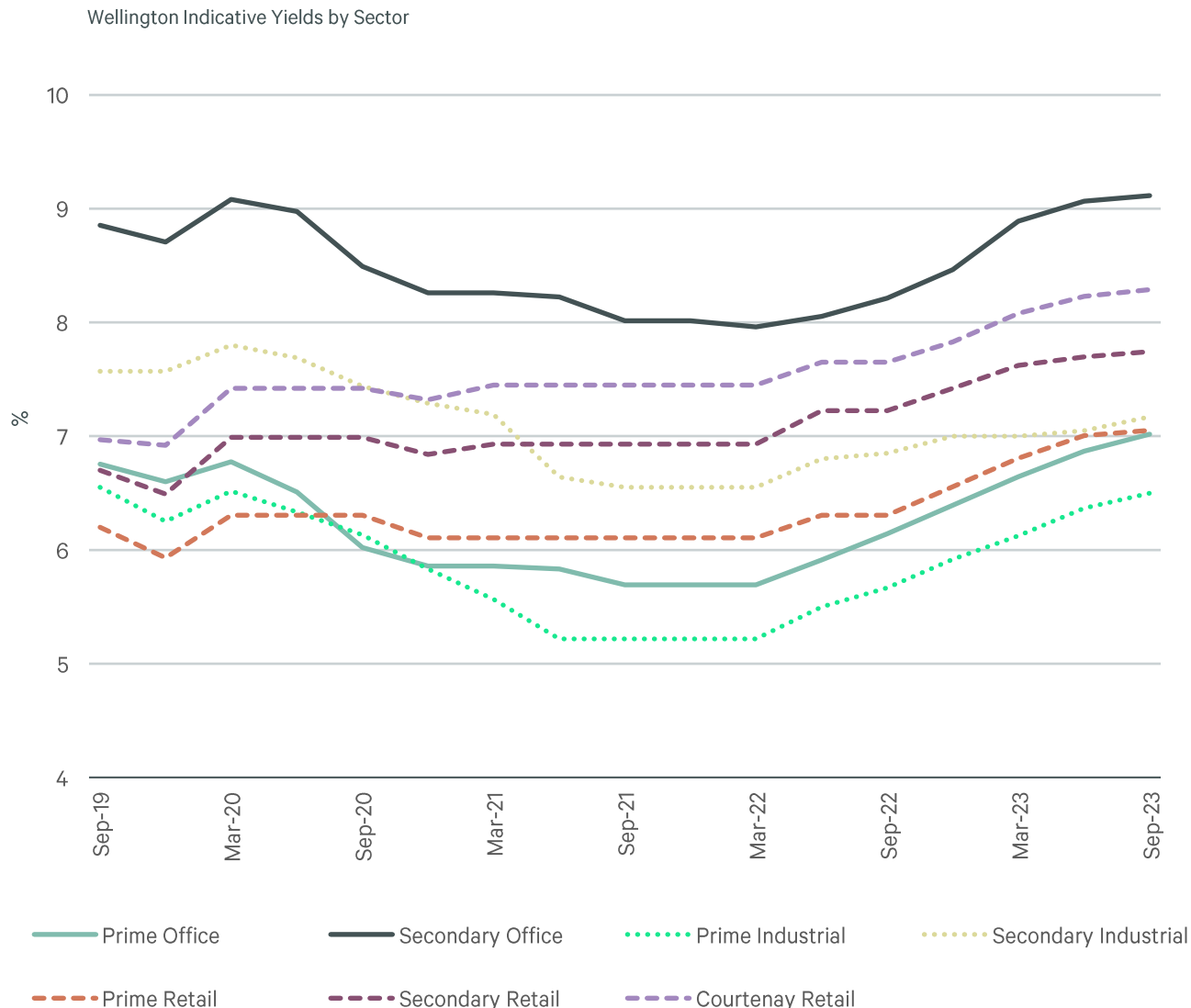
Source: Reserve Bank of New Zealand

Investment market

The yield expansion trend continues in most market sectors although the rate of yield increases in Q3 were the lowest since we commenced the easing cycle in early 2022. Unless economic, financial and property market conditions dramatically change for the worse, we believe that we are now close to the top of the current yield cycle.

During Q3 2023, only a limited number of transactions were able to provide some insights into prices. CBRE’s engagement in several investment sale campaigns shows elongated and careful due diligence activity and continued stickiness with the bid-ask gap, exposing the ongoing mismatch between buyers’ and vendors’ expectations. Pricing on offer is influenced by the current availability and cost of debt and the medium-term expectations on the debt curve. Even though the current interest rate cycle seems to be reaching its peak, a high level of financial market uncertainty continues to hamper the investment market. Our quarterly yield assessments continue to primarily rely on CBRE’s market interactions and available bidding statistics and aim to find the middle ground between the diverging expectations of potential vendors and purchasers.

Prime assets in the office sector continued to experience some yield softening (of 15 bps) in Q3 but given their high absolute yield levels Secondary office has been less affected. Industrial assets were also affected by this trend, with Prime industrial asset yields expanding by 13 bps compared to Q2, and Secondary industrial yields up by 12 bps. Retail yields posted more modest increases of circa 5 bps during the quarter.



CBD Office Vacancy

Wellington CBD office vacancy increased during H1 2023, moving from 7.5% to 7.9%. The amount of total CBD vacant office area went up by 5,679 sqm during this period (from 98,700 sqm to 104,379 sqm), mainly due to an increase in vacant space in the Grade B submarket of the Core CBD and in the Grade A submarket of Te Aro. Prime (Premium and Grade A) vacancy increased from 2.3% to 2.8%, while Secondary (Grade B to D) vacancy rose from 9.9% to 10.3%.

During H1 2023, total vacant space in the CBD increased across almost all submarkets. This was more prevalent in the Grade B and Grade A submarkets, up by 3,595 sqm and 1,571 sqm, respectively. The only exception occurred in the Grade D submarket, which remained largely stable in this period. Regarding vacant space by market, the CBD Core registered the highest increase (up by 3,655 sqm), followed by Te Aro (up by 2,236 sqm).

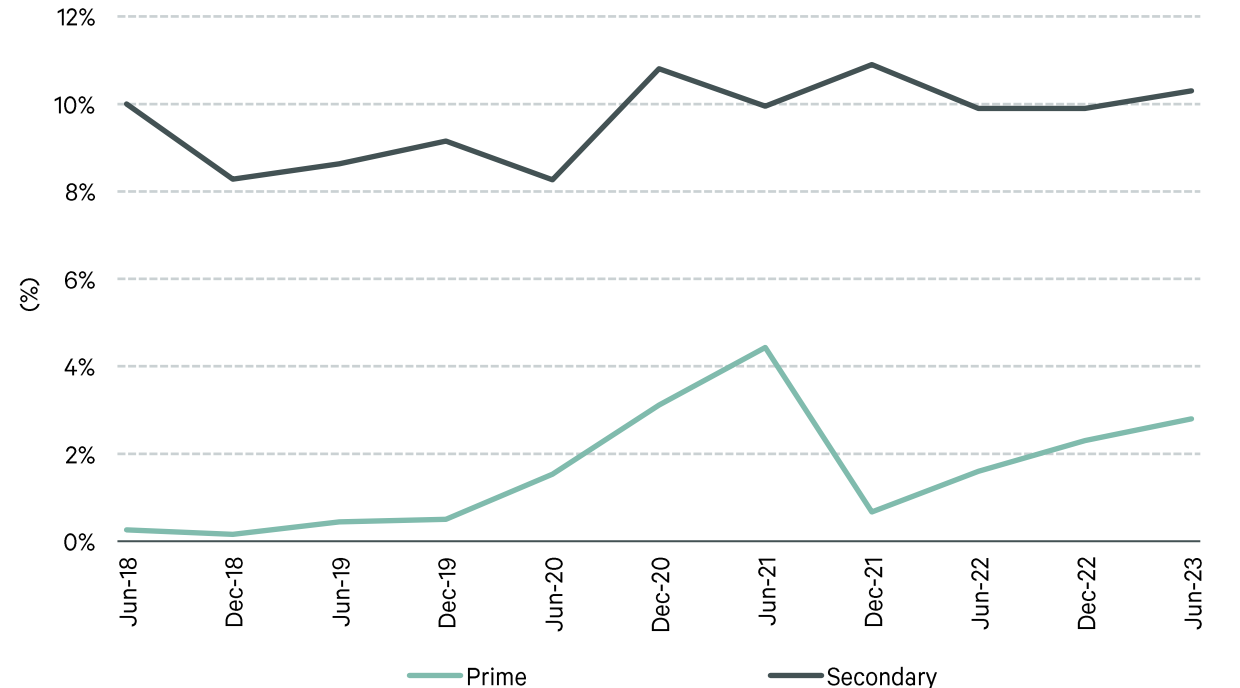
The increase in Grade B vacancy was mainly due to backfill vacancy, since Fujitsu relocated from 141 The Terrace to 40 Bowen Street, providing 2,667 sqm more Grade B vacant space. Also, the increase in Grade A vacancy was due to an additional 2,000 sqm of vacant space because of the introduction to the office market of a partially-occupied new building at 161 Victoria Street. Tonkin & Taylor occupies 1,000 sqm, being the only occupier in the building.

In terms of additional office stock, the previously mentioned Victoria Lane Office Stage 1 (161 Victoria Street) was the only new building completed during H1 2023. Also, Grade C stock increased slightly due to 259 sqm of retail space being converted into office space in iSoft House (111-115 Customhouse Quay). During H1 2023, no buildings were taken out of the market due to refurbishment and/or strengthening works, something that has characterised the Wellington office market in the last years.

CBD Office Vacancy Change by Grade

		PREMIUM	GRADE A	GRADE B	GRADE C	GRADE D	TOTAL
Vacancy at June 2023	%	2.0%	3.0%	5.9%	12.7%	17.6%	7.9%
	sqm	1534	10,569	25,172	37,707	29,397	104,379
Vacancy at December 2022	%	1.2%	2.6%	5.0%	12.6%	17.7%	7.5%
	sqm	954	8,995	21,577	37,506	29,668	98,700

Wellington CBD Office Vacancy



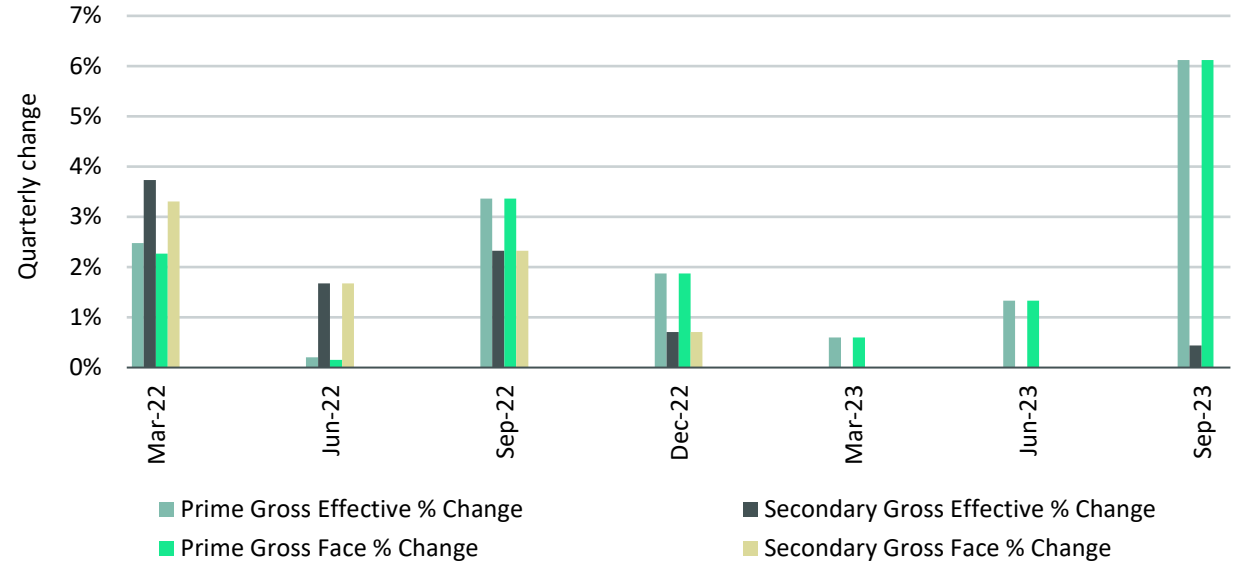
CBD Office Rents

Market rents were largely stable in Q3 in our view. However, given the prevalence of gross leases in the Wellington market, the changes in outgoings are a particularly important influence on rents. For instance, the Prime office market has been increasingly characterised by net leases over the past decade, while in the Secondary office market gross leases tend to prevail. This means that when Opex increases, on a net lease gross rents increase as the higher outgoings are added onto the net rent which flows through to higher gross rents. Conversely, on a gross lease gross rents remain unchanged as outgoings increase, but net rents reduce as outgoings are deducted from the gross rent.

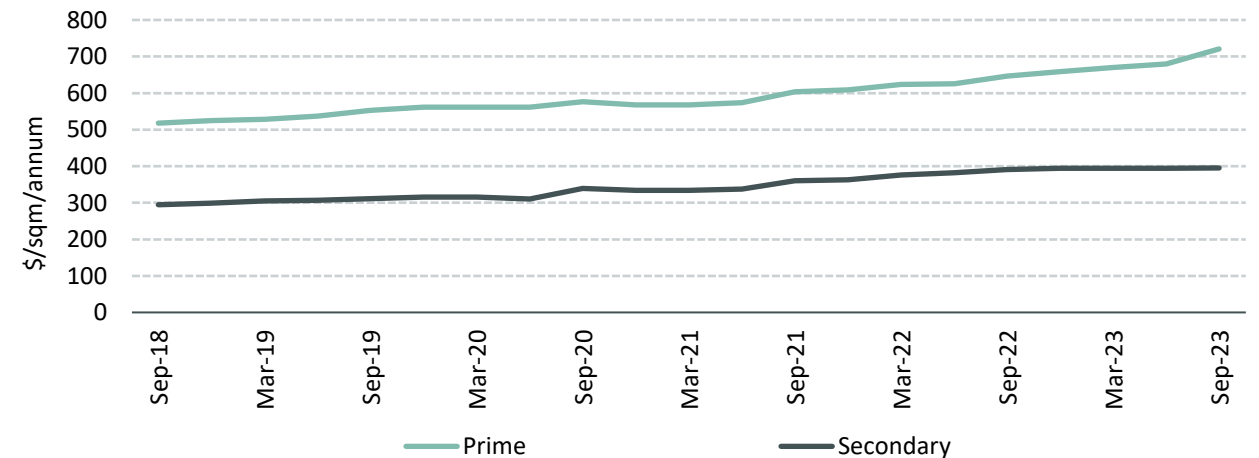
Because of this, Prime gross rents registered a substantial increase during Q3 2023. However, this non-market driven growth was mainly because of hikes in property rates and insurance premiums, with Wellington City Council’s rate hikes for 2023/2024 coming into effect this quarter. As a result, while we left office market rents unchanged the net lease nature of higher quality offices meant that the Premium and Grade A office submarkets registered substantial non-market driven gross rent growth in Q3 compared to the previous quarter (6.6% and 5.6%, respectively).

Based on CBRE’s assessment, in Q3 2023 indicative market incentives remained stable for Prime space, accounting for 4.0% of face rents. However, after remaining stable throughout the last year, incentives decreased slightly for Secondary buildings, shifting from 8.6% to 8.2% of face rents.

Wellington Office Rents – Quarterly Change



Wellington Gross Effective Office Rents



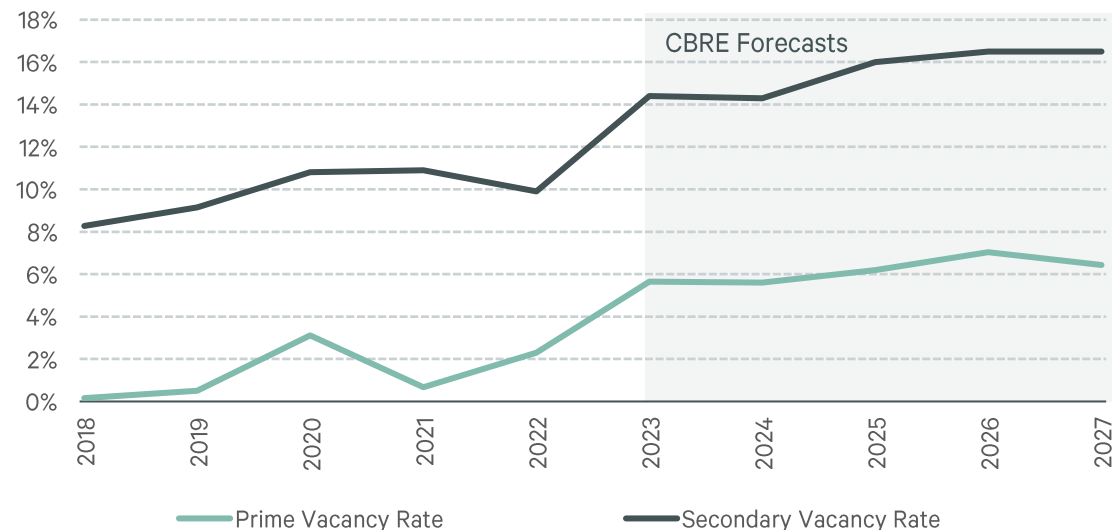
CBD Office Market Outlook

Absorption in the Wellington CBD office market is forecast to return into positive territory during 2023, after experiencing three consecutive years with negative absorption. This is mainly due to new Prime grade buildings with high commitment levels entering the market, as well as some newly refurbished and strengthened large buildings (e.g., the Asteron Centre, with 33,550 sqm of office space). New Prime stock tends to foster positive demand and absorption (especially Prime absorption). Some of the new buildings include One Whitmore (17,100 sqm) and 44 Bowen Street (11,549 sqm). Circa 85,000 sqm of new stock will come to the market this year, a historically high level. However, the prevailing strong demand for high-quality buildings will have a material impact on Secondary grade buildings, which will suffer from backfill vacancy, offsetting some of the high absorption levels of Premium and Grade A buildings.

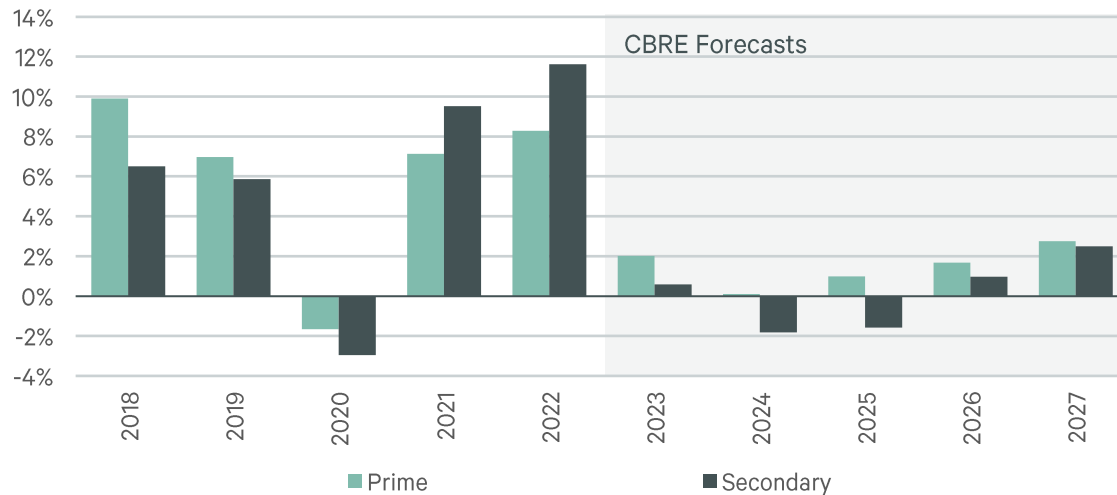
We expect vacant stock to increase this year by around 56,270 sqm compared to 2022, which would hike the vacancy rate to double digits (to 11.2% from 7.5%), the highest since 2015. The increase in vacant space in Grade B buildings is expected to be the main cause of this increase, since, as previously mentioned, buildings in this submarket are forecast to be the hardest hit by the relocation of tenants from Secondary buildings to new/refurbished ones. This will also restrain rental growth in Secondary grade buildings in the next years.

Although economic headwinds are expected for next year due to a recessionary environment, we predict that Wellington will not be as affected as the rest of New Zealand due to its intrinsic strengths, which are mostly linked to the fact that a high percentage of office space is occupied by governmental entities. However, some tenants are expected to reduce and/or sublease part of their office space. CBRE expects net absorption to recuperate during the period 2023-2027, with an annual average of circa 10,400 sqm in our base scenario forecasts.

CBD Office Actual and Forecast Vacancy



CBD Office Actual and Forecast Annual Gross Effective Rental Change



Retail Vacancy

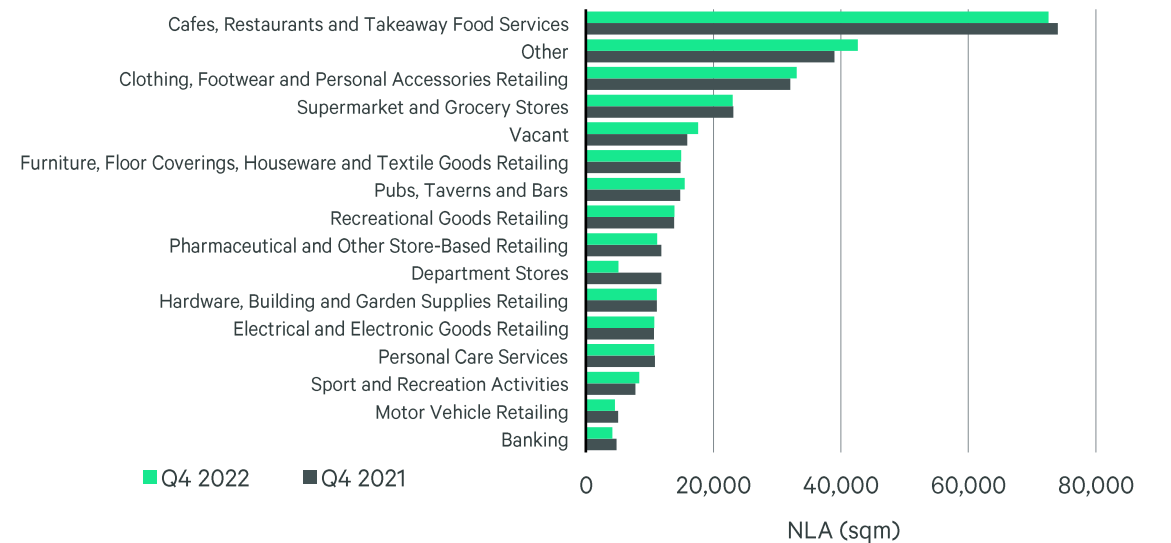
During 2022, Wellington CBD retail vacancy was relatively resilient. The vacancy rate increased from 5.2% to 5.7% compared to December 2021. David Jones left the market, resulting in a decrease of total department store space, but all their legacy retail space has now been leased to several brands. Also, the market gained some new shops associated with office building completions, for example, five new shops at 360 Lambton Quay & 8 Willis Street and three new shops on the ground floor of Site 9.

The biggest change in the category composition of the CBD retail market was the reduction in department store space. Space occupied by cafes, restaurants and takeaways also reduced slightly but this category remains by far the largest occupier. On the other hand, clothing, footwear and accessories retailers saw their collective footprint increase during the year.

Wellington Retail Vacancy by Precinct - Q4 2022



Wellington Retail Occupancy by Industry

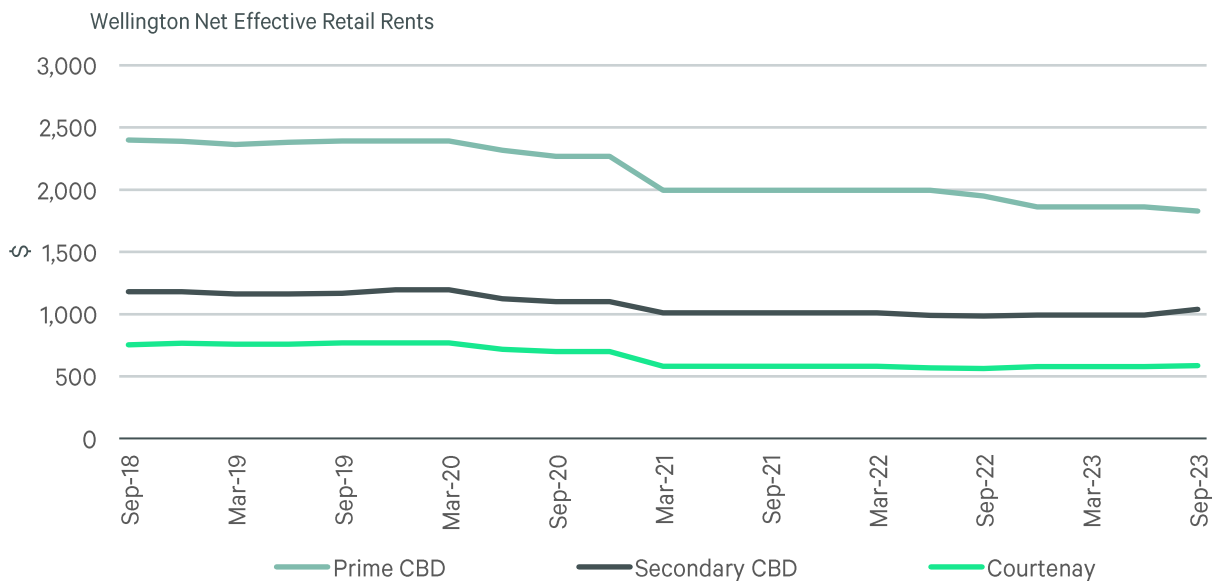
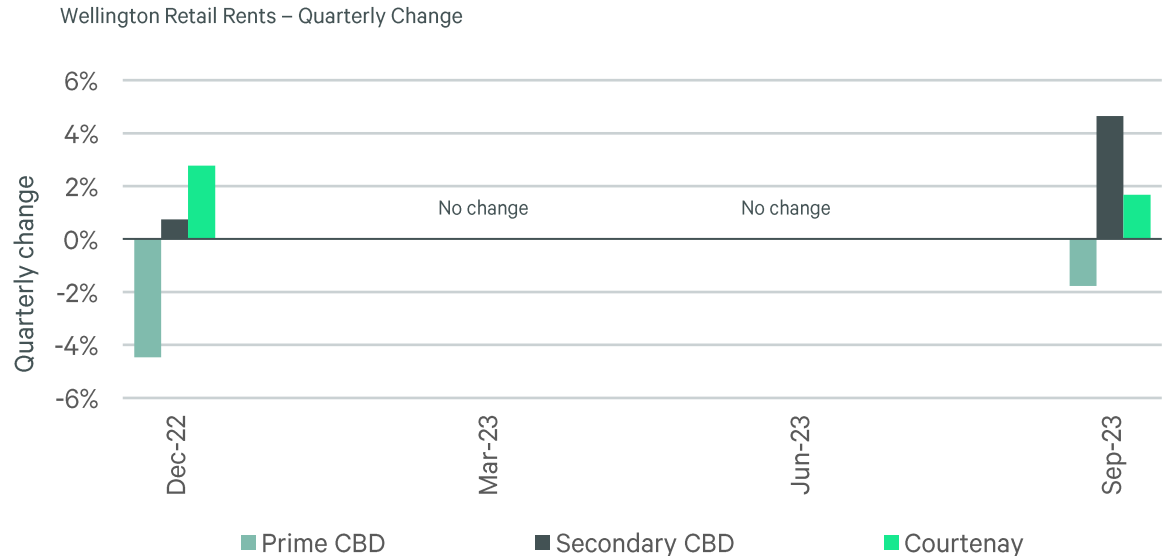


Retail Rents

The Secondary CBD retail submarket registered strong rental growth during Q3 2023. Locations around Cuba Street and Manners Street continue to benefit from high demand for retail space, no vacancy and high foot traffic. Also, even though Courtenay is still facing some challenges, this precinct witnessed some rental growth in Q3 (up by 1.7%).

Demand for retail space on Prime CBD locations in Lambton Quay continues to be high, including demand from international tenants. However, in Q3 Prime CBD net effective rents experienced a decrease compared to the previous quarter due to an increase in Opex, driven by a rise in property rates and insurance premiums. In the Wellington retail market, gross leases are the norm, which means that net rents decrease when there is an increase in outgoings, since they are deducted from the gross rent.

Based on CBRE’s assessment, in Q3 2023 indicative market incentives remained stable for all submarkets, accounting for 8.3%, 9.3% and 9.4% of face rents for Prime CBD, Secondary CBD and Courtenay locations, respectively.



Industrial Vacancy

Overall vacancy remained at 2.4% during the twelve months to December 2022, representing only a 222 sqm increase in vacant space. Grade A vacancy remained unchanged at zero, showing continuous demand for high-quality industrial space in Wellington. The increase in vacancy in Grade B industrial buildings (2,588 sqm) during 2022 was offset by the decrease in vacant stock in the Grade C submarket (-2,366 sqm).

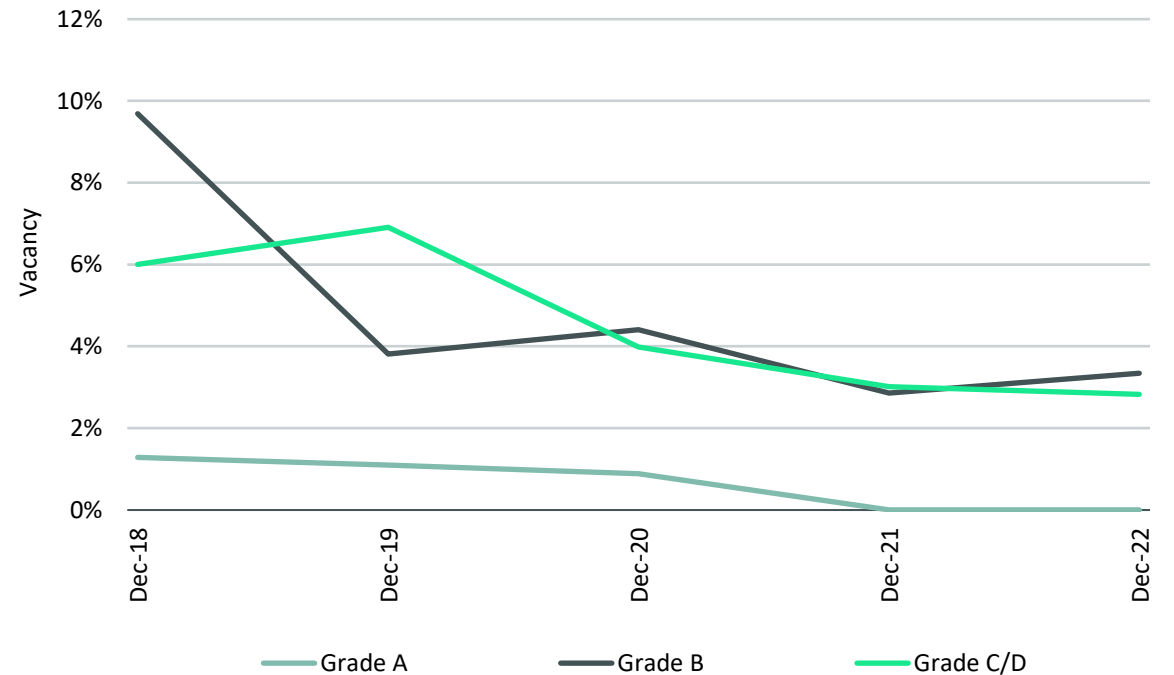
Circa 16,401 sqm were added to the market as new stock. Also, 11,350 sqm were withdrawn from the market, out of which 1,940 sqm were from a vacant Grade C building in Naenae.

Seaview experienced the largest change in vacancy, decreasing from 2.2% to 1.1%, largely due to 20 Bell South Road, a 5,970 sqm building that is now owner occupied. Also, Upper Hutt experienced the largest vacant space increase (7,330 sqm), mainly due to 42 Lane Street, a 2,270 sqm building that became vacant due to a civil engineering company leaving this property.

Wellington Industrial Vacancy Change by Grade

		GRADE A	GRADE B	GRADE C/D	TOTAL
Vacancy at December 2022	%	0.0%	3.3%	2.8%	2.4%
	sqm	0	18,796	32,585	51,381
Vacancy at December 2021	%	0.0%	2.9%	3.0%	2.4%
	sqm	0	16,208	34,951	51,159

Wellington Industrial Vacancy



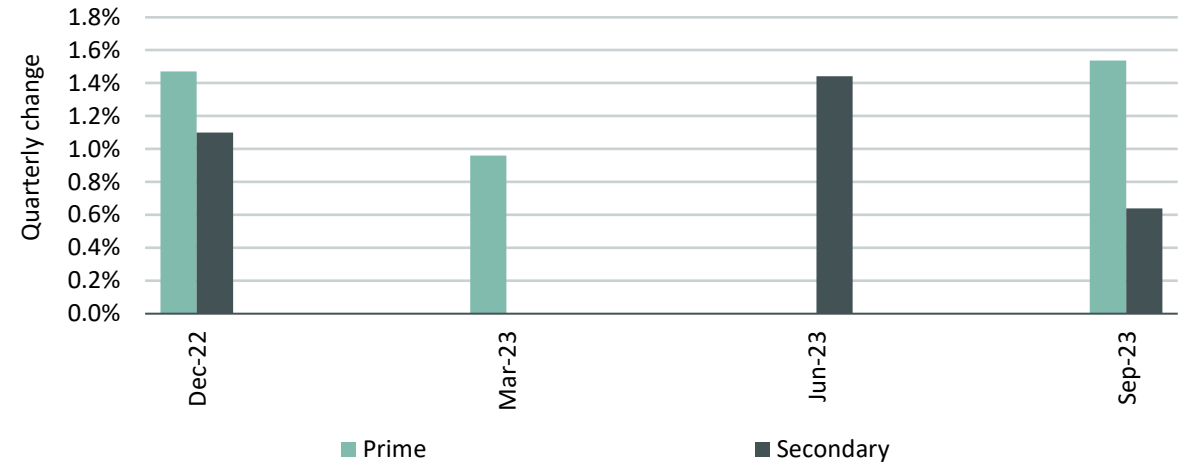
Industrial Rents

The increase in outgoings had a material impact on industrial gross rents, fuelling growth that is partially driven by non-market dynamics. During Q3, Opex increased circa 11% mainly due to an increase in property rates across the Wellington metropolitan area. However, Prime industrial market rents have also increased in our view.

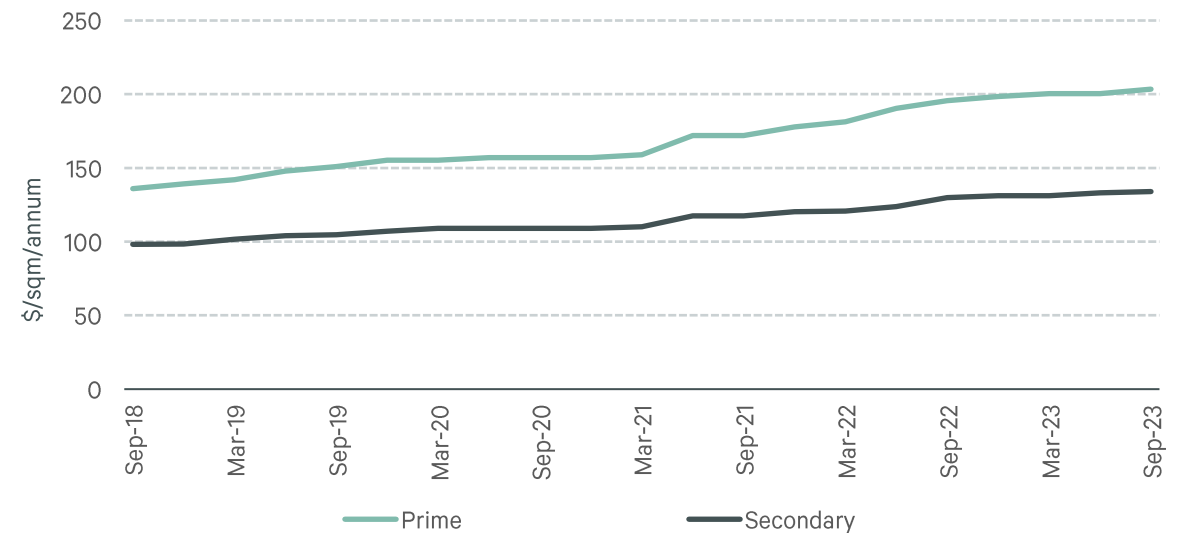
In Q3 2023, both Prime and Secondary submarkets registered rental growth. Industrial Prime gross effective rents reached at \$203 per sqm, up by 1.5% compared to Q2. Also, during the same period Industrial Secondary gross effective rents reached \$134 per sqm, up by 0.6% compared to the previous quarter.

Based on CBRE’s assessment, indicative market incentives remained unchanged in Q3 2023. The Wellington Industrial market has been characterised by consistent incentives during the past three years, with Prime incentives at 1.9% of face rents and Secondary at 4.2% of face rents.

Industrial Gross Effective Rents Quarterly Change



Wellington Industrial Gross Effective Rents

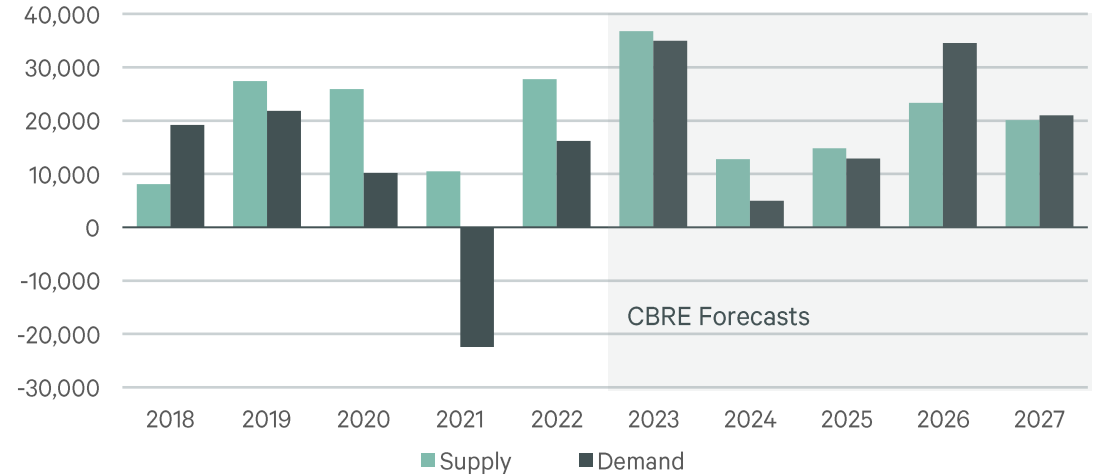


Industrial Market Outlook

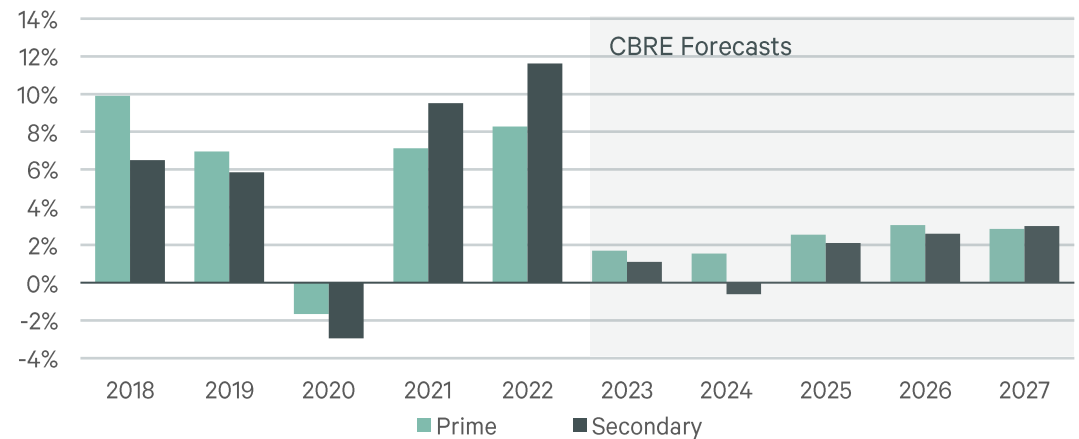
The supply pipeline is strong into 2023, with small unit developments dominating. The biggest of these is the Works Elsdon in Porirua totalling some 11,000 sqm across 87 units. The largest “proper” industrial building underway is the Foodstuffs distribution centre in Grenada North of some 4,700 sqm. The supply pipeline is smaller in 2024 with only two projects underway currently that are due for completion that year (including the Foodstuff premises) and with the more difficult environment for new development we forecast that both 2024 and 2025 will be lacking in new supply.

As the supply pipeline moderates rental growth driven by required economic rents to support new construction will largely dissipate. This, combined with the modest demand environment forecasts for the balance of 2023 and 2024 will result in lower rental growth for both Prime and Secondary premises. At the same time low vacancy and, unlike Auckland, the low levels of expected backfill vacancies due to tenant moves into will keep any gross rental downside in check. However, increasing opex will make net rental growth more challenging.

Wellington Industrial Supply and Demand Forecasts



Wellington Industrial Gross Effective Rents Outlook



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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