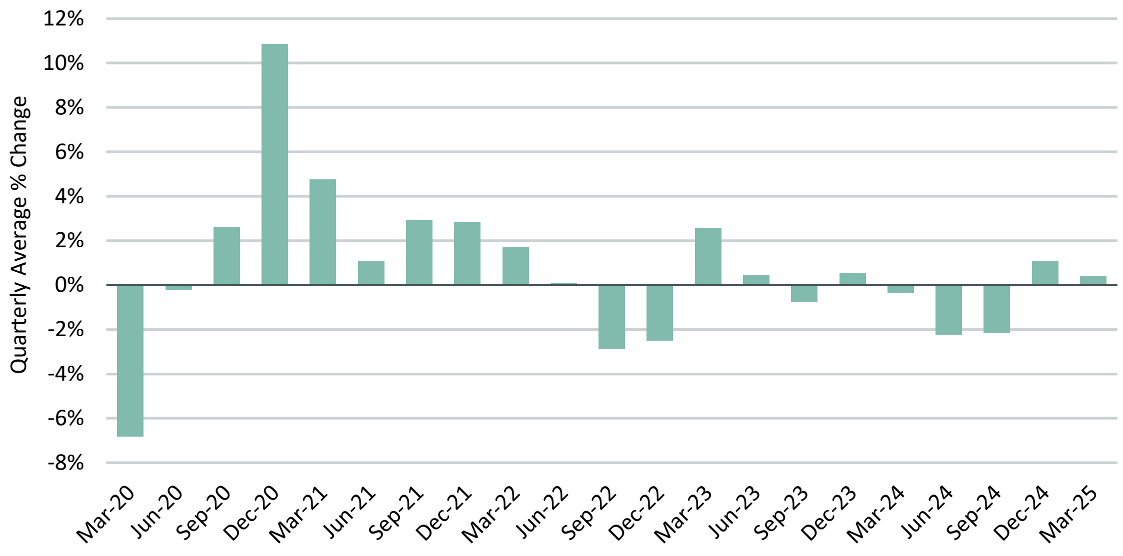
Auckland Property Market Overview

INSIGHTS

- 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. This shift is creating a positive context to property yields but with the degree of yield movement varying across different property sectors during Q1.
- Recent market evidence suggests some price strengthening for industrial and, some, retail assets, especially where local private capital is involved. The office investment market shows less positive momentum.
- Office rent changes show significant submarket and building/lessor specific diversity, reflecting underlying leasing market dynamics. Premium rents increased 0.6% in Q1. In Grade A, the rental situation was made more complex by a mixed picture in the CBD fringe, where some lessors in campus typology buildings are increasing incentives in response to sticky and rising vacancies.
- There are indicators of an improving industrial leasing market based on recent leasing evidence of more inquiries and a new benchmark rent in Grade B.
- Retail centre rental growth slowed down in Q1. The LFR and Major Regional categories are leading, with a 0.5% quarterly increase for each.

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 - 6.20
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

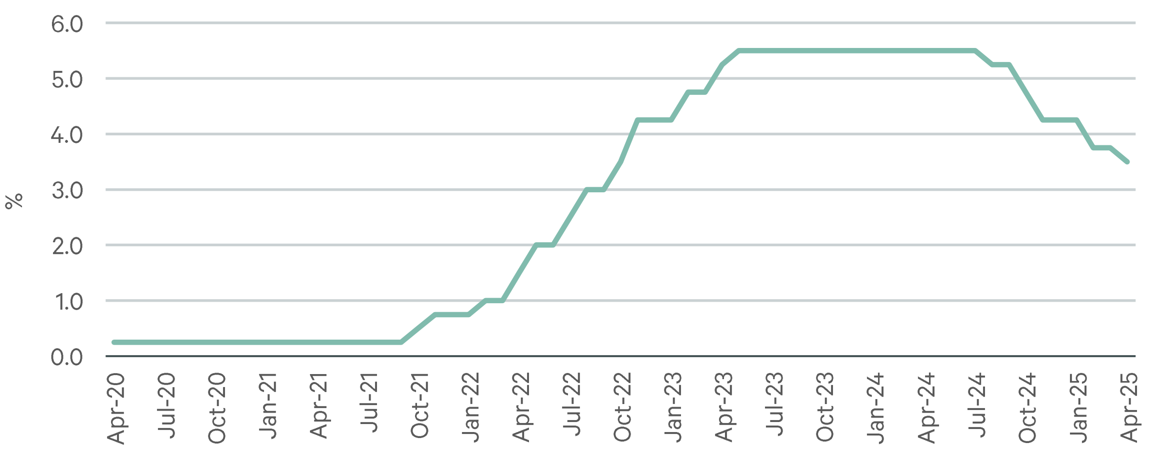
Economy

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.

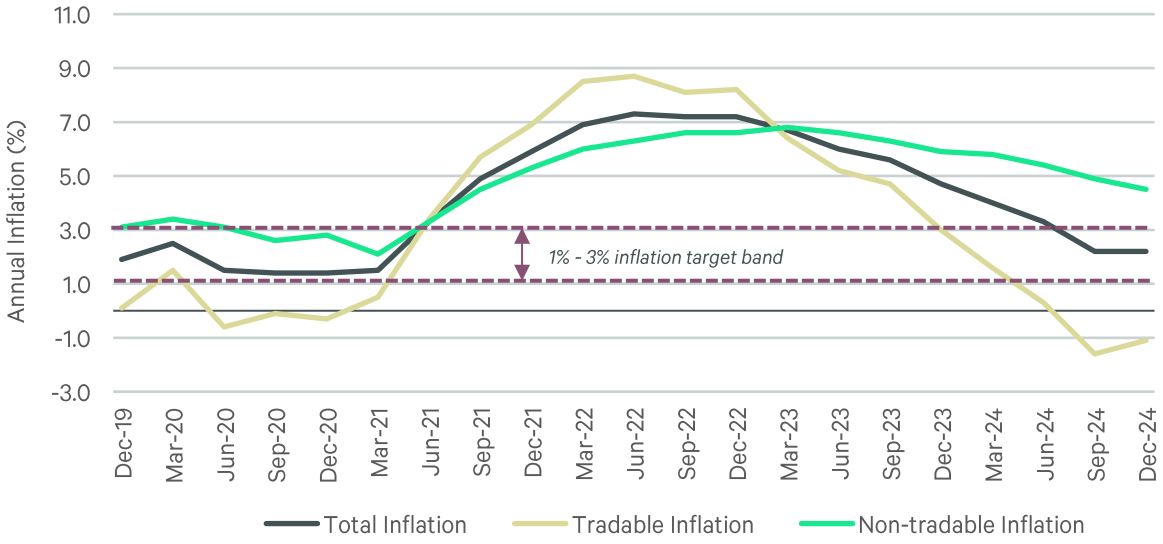
The local impact of the recent global turmoil is uncertain but may result in both lower growth and lower interest rates. Before the 25-basis point reduction in April (reducing the OCR to 3.50%), most analysts and major banks had forecast that the OCR could land around 3.00% - 3.25% in late 2025. However, 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%.

Official Cash Rate (OCR) (% pa)



Source: : Reserve Bank of New Zealand

New Zealand Inflation
Annual growth (%)



Source: : Statistics New Zealand

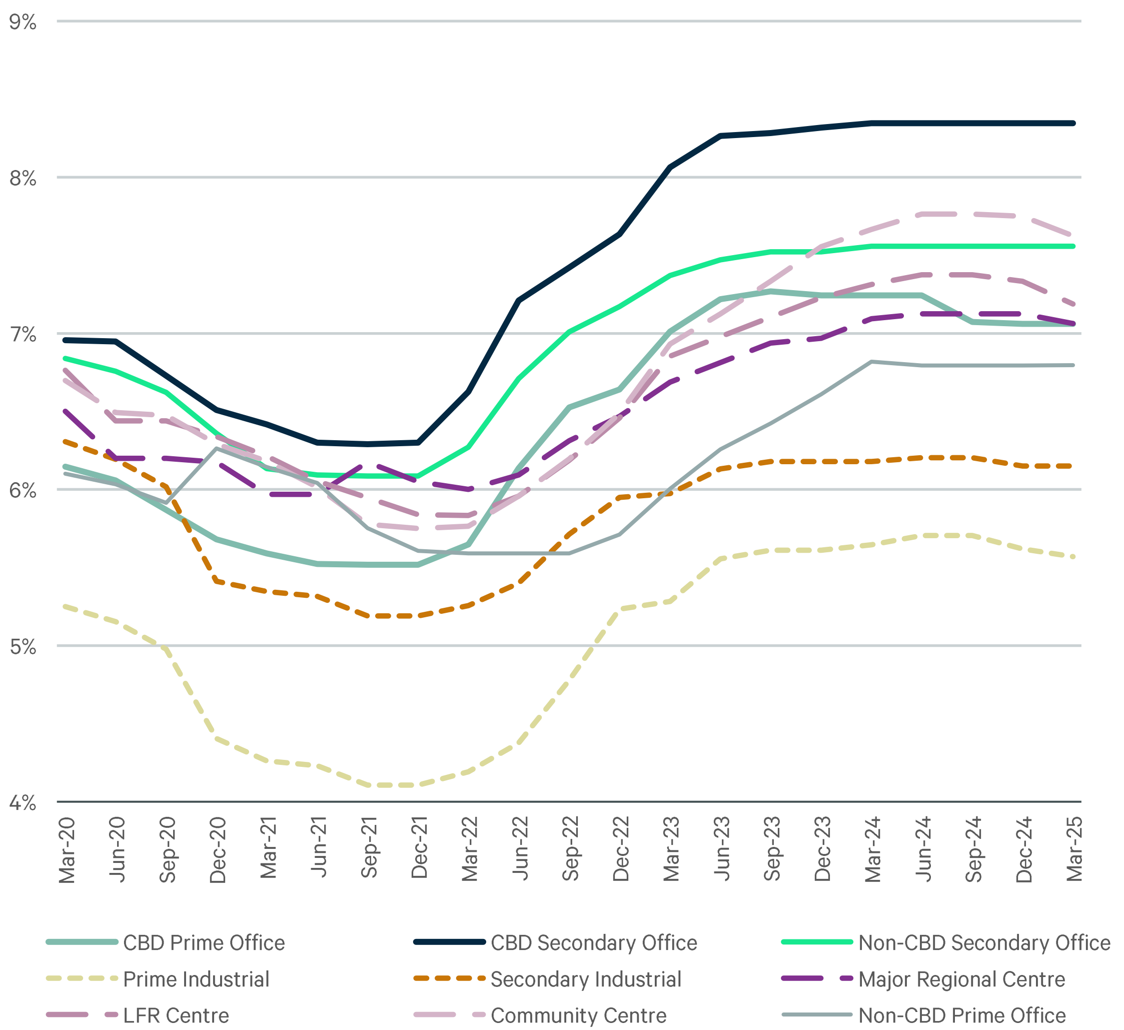
Investment Market

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. This shift is creating a positive context to property yields but with the degree of yield movement varying across different property sectors during Q1.

Recent market evidence suggests continued price strengthening for industrial and, some, retail assets, especially where local private capital is involved. As a result, we have firmed the upper end of the industrial yield range by 10 bps, with the indicative yield firming by 5 bps from 5.62% to 5.57%. Shopping centre yields firmed by 5 to 15 bps depending on different sub-sectors. LFR still shows a healthier trend than other sub-sectors. Both CBD and Non-CBD office yields remained flat.

The office investment market shows less positive momentum. Global capital seems to be prioritising the Australian market, particularly Sydney, where transactions show yields that are not dissimilar to the book values of Auckland assets. Given our market's reliance on global capital for large-scale office investments and the premiums that these buyers expect for Auckland relative to the major Australian cities, there appears to be limited potential for Prime office yield firming in the near term.

Auckland Indicative Yields by Sector



Note: CBD Prime office and major regional shopping centre yields firmed in Q3 2024 due to some non-market or basket component changes including introducing and withdrawing a few new buildings. The market trend in Q3 was flat in these submarkets.

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.

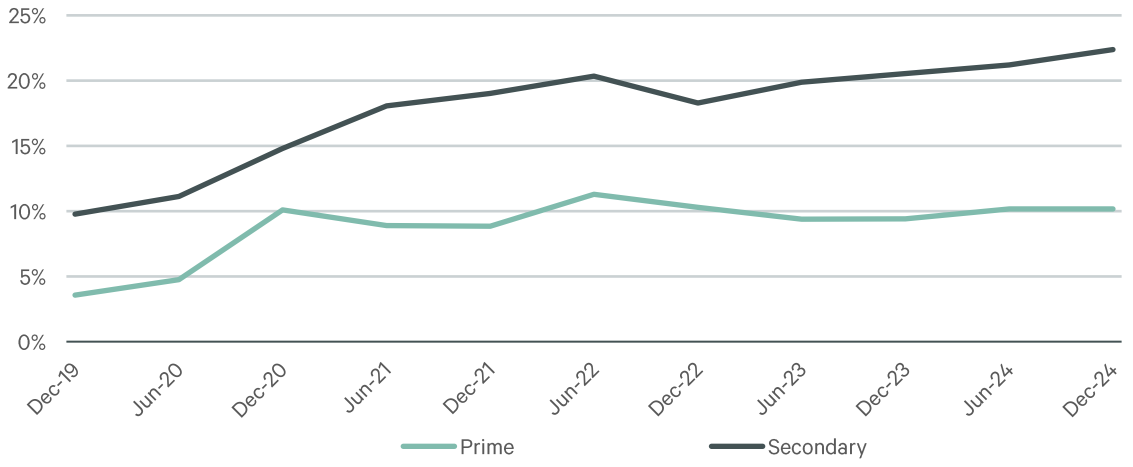
Premium vacancy increased slightly from 3.6% to 3.8% in the six months to December 2024, although the amount of physically vacant space grew from just under 7,000 sqm to 12,400 sqm. This is due to the H2 2024 regrading & expansion of Premium grade to include the highest quality campus and character buildings,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

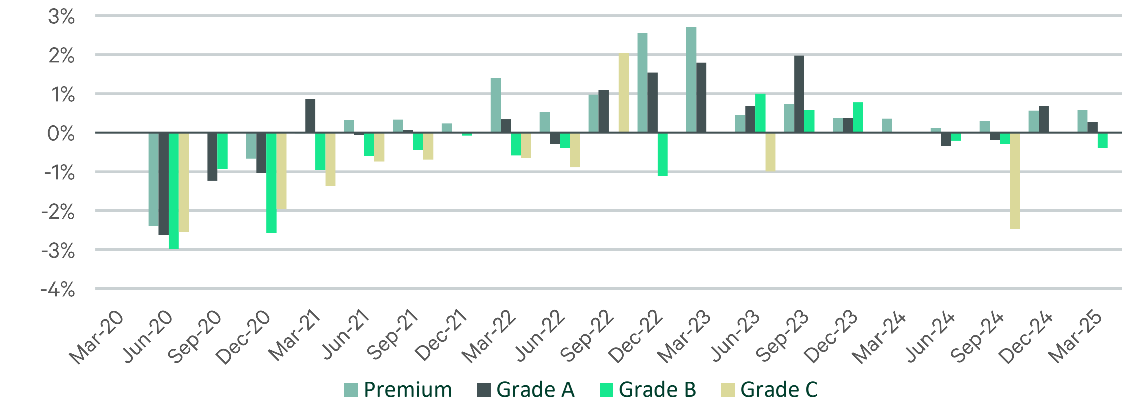
The Net Effective Office Rents graph (bottom) shows the absolute rental figure, with an increase in Prime rents from $459 to $461, with Secondary rents at $256, having slipped from $257 in Q4 2024.

Premium rents increased 0.6% in the first quarter of 2025, with upper end net face indicative rents lifting in two tower typology buildings located in the CBD core, while rents and incentives remained stable elsewhere.

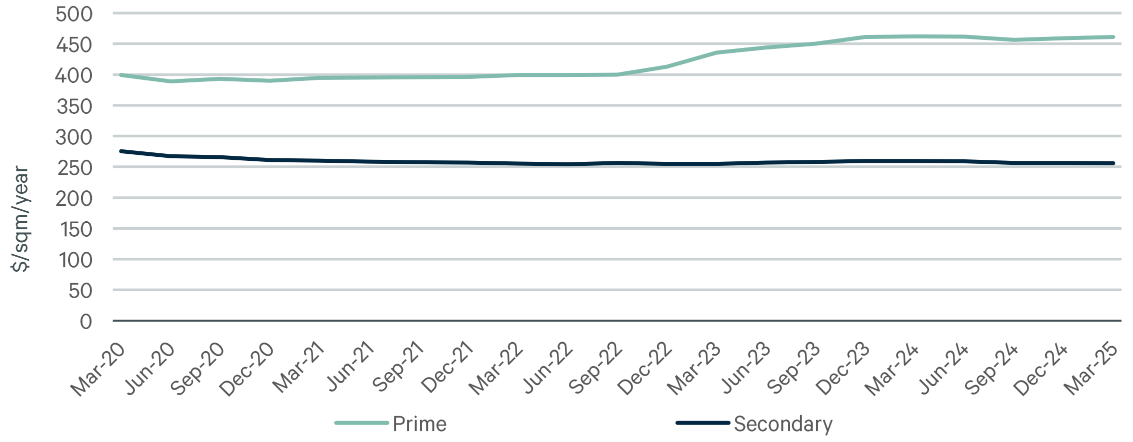
In Grade A, building-specific increases, generally driven by improving occupancies and less pressure on lessors to fill space, also nudged rents upward by 0.3%. These increases were confined to tower typology buildings in the CBD core. The Grade A rental situation was made more complex by a mixed picture in the CBD fringe, where some lessors in campus typology buildings are increasing incentives in response to sticky and rising vacancies. Examples include the Victoria Quarter submarket, where plenty of vacancy exists in campus typology A grade buildings. Grade B net effective rents were also nudged down slightly by an uplift in incentives in midtown.

From an environmental performance perspective, certified Grade A rents lifted, but across Prime stock there was more of a mix with overs and unders that were again building specific.

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.

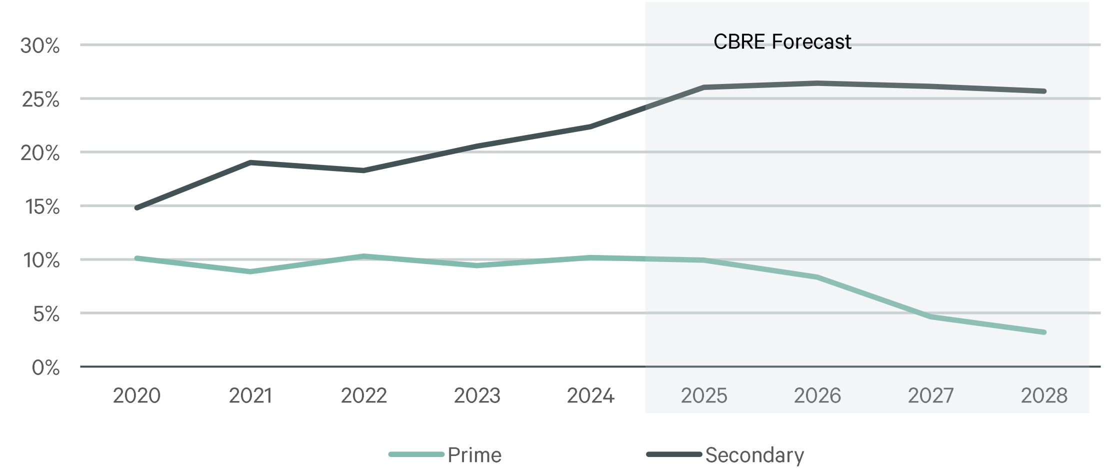
The forecast improvement in demand will be insufficient to offset what, in 2025, will be the biggest net increase in supply of the last 15 years, and as a result vacancy is forecast to deteriorate further this year. 2025 however will be the vacancy peak of the current cycle and we expect quite a rapid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

Rent

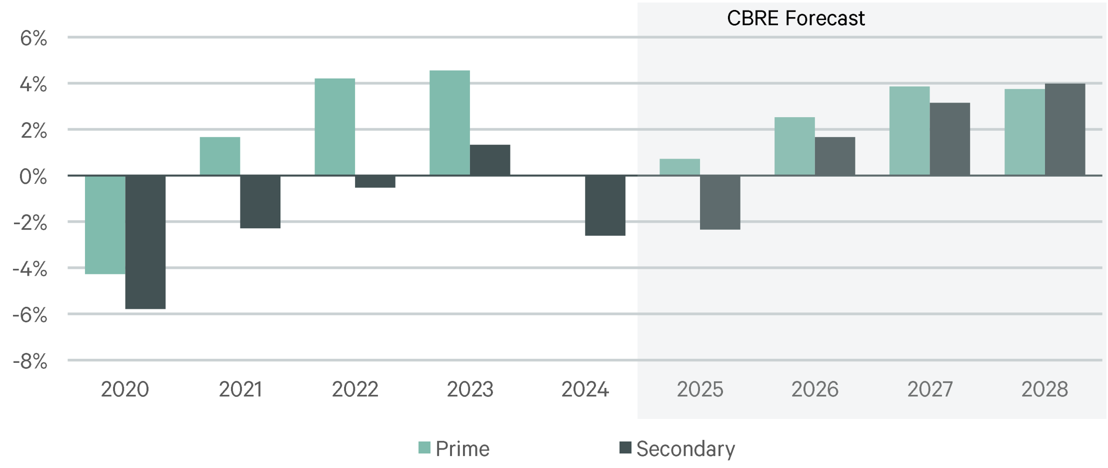
At the top end of the market, for Premium grade assets the more favourable demand environment expected for 2025 has led us to upgrade our rental projections and growth will further strengthen into 2026 and 2027 as the overall market improves.

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

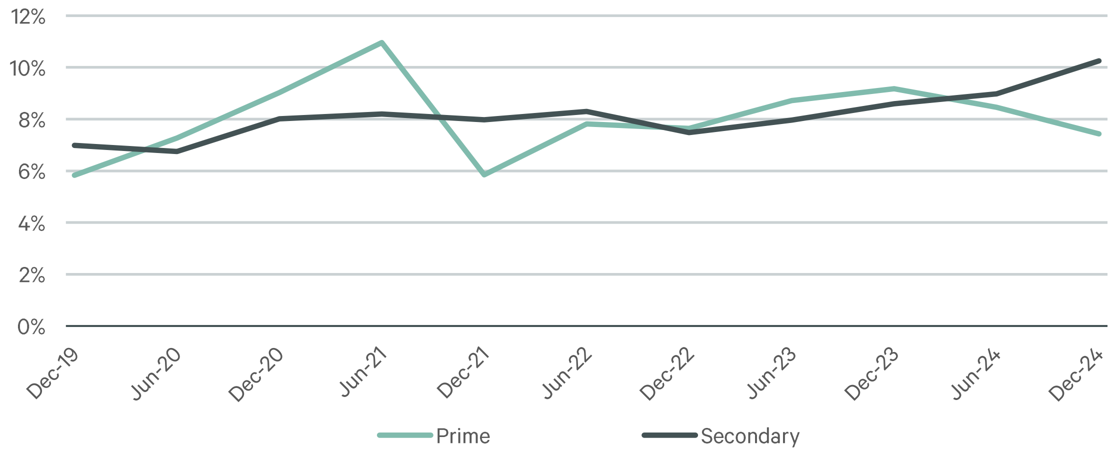
The Office Vacancy Change by Grade graph (top) shows the clear split between Prime and Secondary vacancy following 4 periods of alignment (Jun-22 to Dec-23). Prime vacancy has decreased from 8.5% to 7.4% that reflects the ongoing 'flight to quality' trend (and also helped by the lack of new supply) , 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., while Secondary grade dipped $1 to $258 psm p.a., although sub-markets within Auckland continue to be governed by differentiated stock levels, local demand and landlord resources to resolve vacancy. This was most notable in 5 suburbs where Grade A was impacted– Albany, North Shore, Ponsonby, College Hill, and Greenlane.

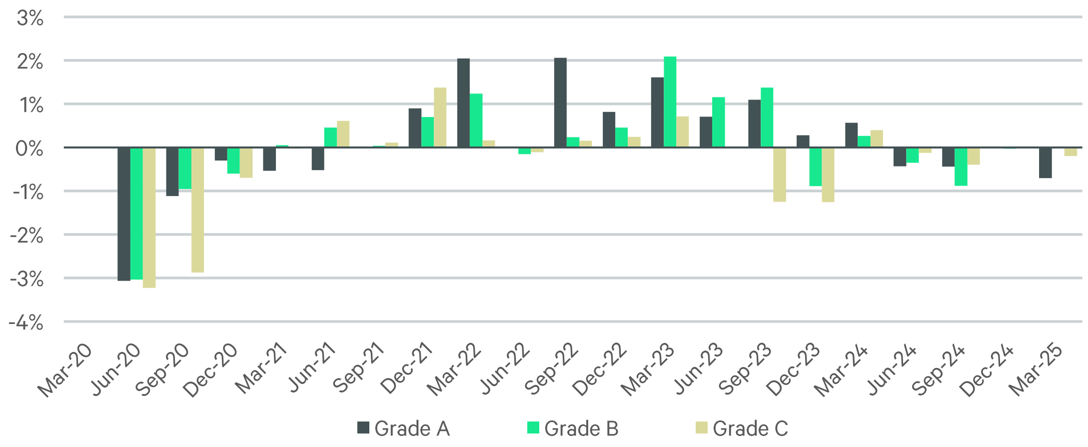
A Grade in Albany continues to have large vacancy levels and reduced demand, with a small number of high-quality buildings yet to be fully occupied years after construction. In the central North Shore precinct AIA's contraction and the impending departure of telco One NZ have created challenging market conditions and requiring landlords to adjust their rental expectations.

Ponsonby's market is stronger, although to achieve higher face rents landlords need to be generous with incentives, reducing the net effective rent. College Hill has building-specific challenges, with the recent departure of Zuru and impending departure of GHD driving higher incentives.

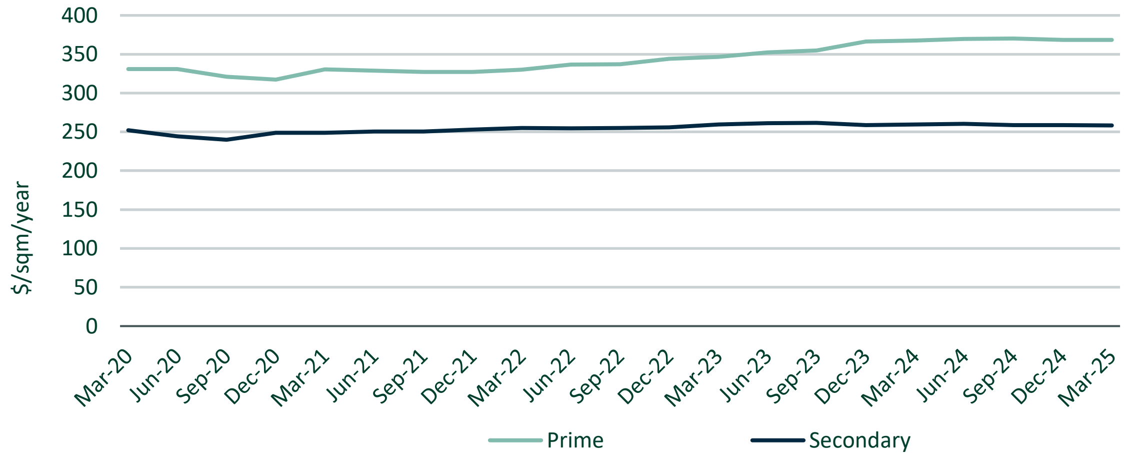
On the flip side, in Greenlane building-specific activity increased Grade A rents in a very competitive market, with occupiers appreciating the good value to be found. In Q1 an elevated level of occupier activity is noted by leasing agents across South Auckland, with Secondary grade SME occupiers looking to move, with a footprint contraction a driver for many recent moves, resulting in a mix of rental impacts depending on the building, some increases and some decreases.

In Grafton, long known for its good value/for money proposition, an uplift in grade C rent results from a renewed interest in offices within walking distance of Auckland hospital. This can be seen as an extension of the medical-related increase in demand seen in recent years across many suburban office markets.

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



Auckland non-CBD Net Effective Office Rents



Non-CBD Office Market Outlook

Vacancy

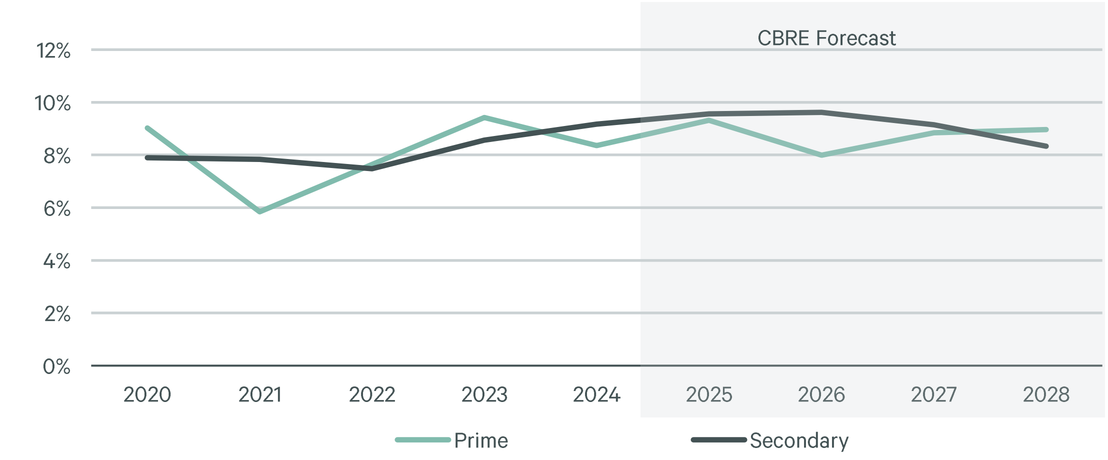
Challenging conditions persist in the Non-CBD office market although after a worse 2024 than previously expected, we now believe that in 2025 net absorption will contract less. Centralisation such as One NZ's move from Smales Farm into the CBD remains a concern. We still think that larger scale corporate 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.

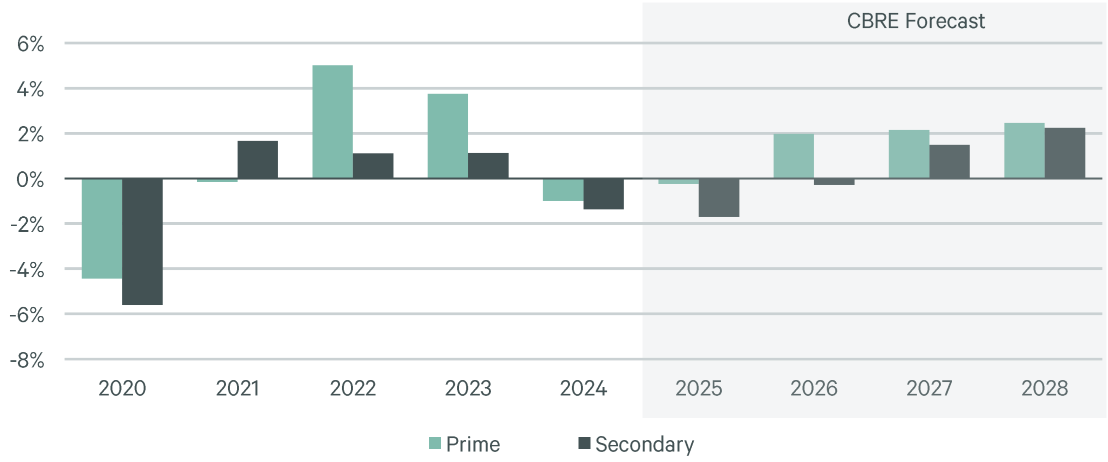
Rents

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



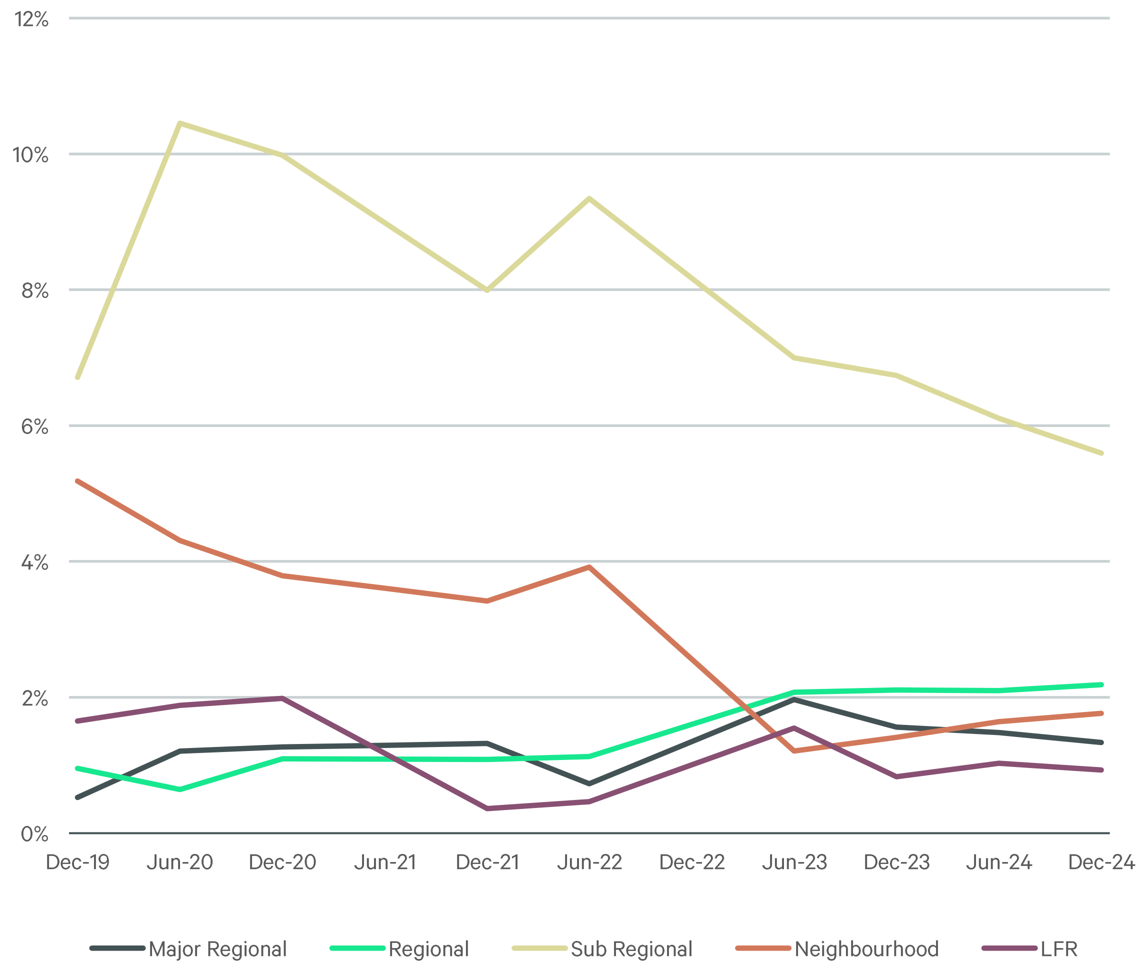
Retail Vacancy

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

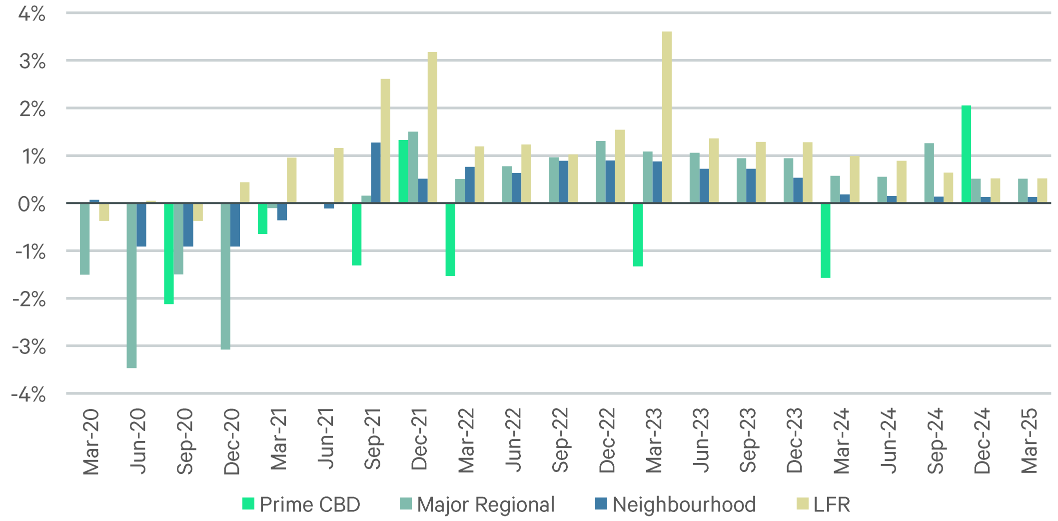


Retail Rents

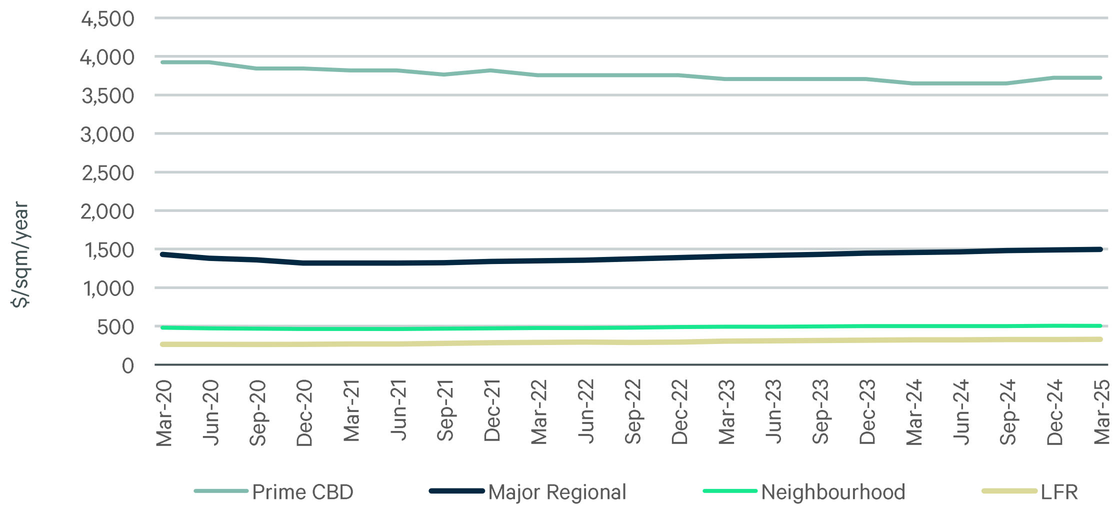
Retail centre rental growth is slowing in response to more adverse trading conditions and falling inflation. For centre-based retail rents, in Q1 the LFR and Major Regional categories led growth with a 0.5% quarterly increase for each, while sub regional centres' rents declined by 1%..

In the Prime CBD submarket rents are stable, though leasing sentiment is notably stronger in the luxury precinct and upper Queen street than midtown. The view of fair market rent is still yet to reset in Midtown, reflective of persistent high vacancy.

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

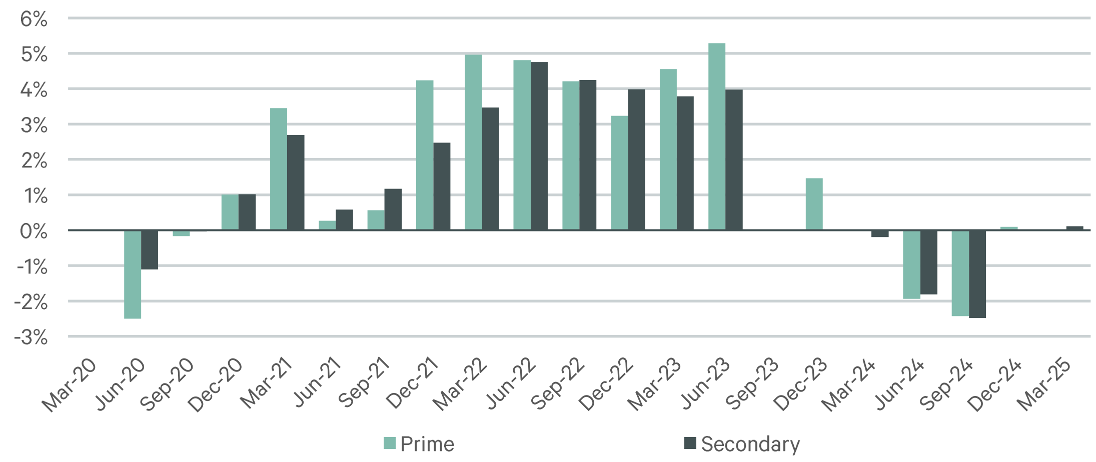
		GRADE A	GRADE B	GRADE C/D	TOTAL
Vacancy at December 2024	%	1.5%	1.4%	1.9%	1.6%
	sqm	98,896	55,979	67,971	222,846
Vacancy at June 2024	%	0.8%	1.3%	1.2%	1.0%
	sqm	51,666	50,535	43,099	145,300

Industrial Rents

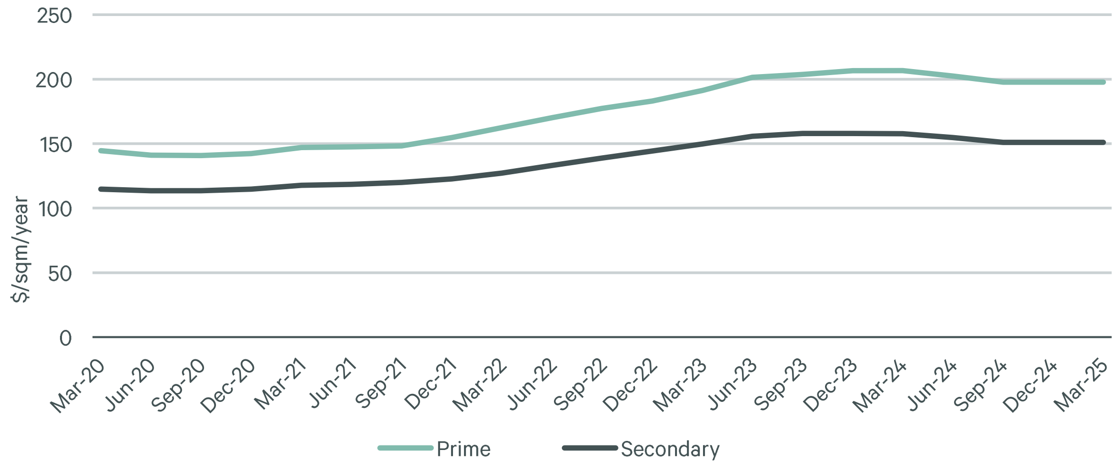
There are indicators of an improving industrial leasing market based on recent leasing evidence of more inquiries and a new benchmark rent in Grade B. This resulted in a 0.1% increase in Secondary (Grades B and C combined) rent after a 0.1% Grade A rent increase in Q4 2024.

We have kept Grade A rents stable in Q1, although we understand that a recent new build leasing deal indicates a new benchmark for upper-end face rents.

Combined (office and warehouse) Net Effective Industrial Rents



Auckland Industrial Net Effective Rents – Quarterly Change



Industrial Market Outlook

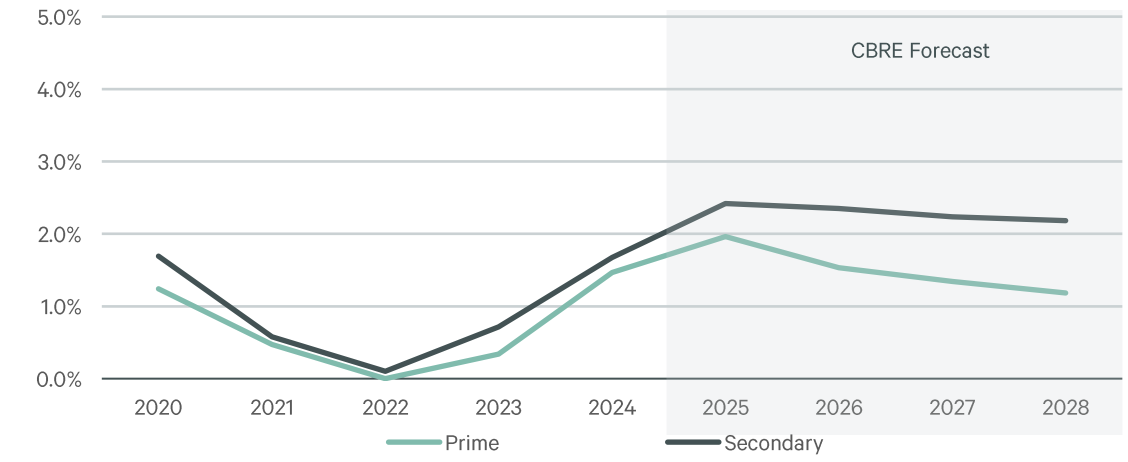
Vacancy

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.

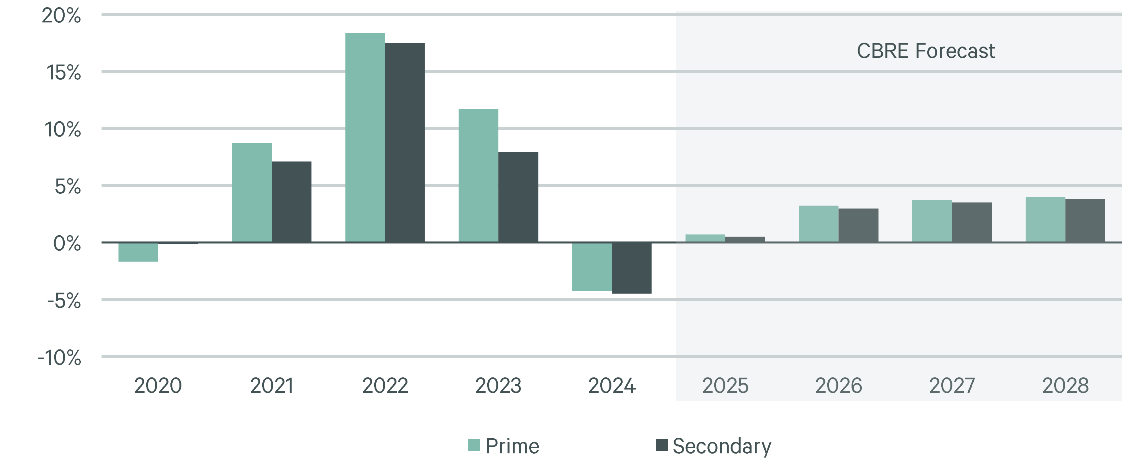
Rents

Recent market evidence shows the industrial market has been improving and more robust than we forecasted last year. Therefore, we expect both incentives and face rents to firm in H2. This results in a slight net effective increase in both Prime and Secondary submarkets in 2025.

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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