

Auckland Property Market Overview

INSIGHTS

- In our Q4 yield assessment, half of the 18 markets we monitor showed no change, reflecting, in our view, a narrowing of the divide between vendor and purchaser price expectations. This indicates that we are close to the top of the current yield cycle, although we expect selling pressure on some vendors to intensify over the next six months.
- Flight to quality continues to characterise the office market. Despite ongoing examples of occupier space rationalisation, expansion also remains a driver of new leasing activity. Due to differing impacts from new supply and occupier commitments, Prime office vacancy improved in H2 in the CBD but increased in the Non CBD.
- Retail centre vacancy dropped for 4 of the 5 centre typologies. Vacancy has tended to concentrate in a handful of locations under some significant competitive pressure in their catchments
- Industrial vacancy remained stable at 0.5% in H2. After substantial increases in the past two years, industrial rent growth slowed in the past six months. The 1.3% increase in Prime rents in Q4 2023 represents the spread of recent rental benchmarks for new builds into a wider mix of geographic locations.

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	781,689	9.0	275 - 900	8 - 21	5.20 - 8.80
Secondary CBD Office	658,386	20.6	190 - 575	12 - 25	6.70 - 9.50
Prime Industrial	6,270,993	0.6	180 - 270	2 - 6	5.00 - 6.30
Secondary Industrial	7,462,018	0.5	110-220	2 - 6	5.20 - 7.00
Prime CBD Retail			1,400 - 5,500	1 - 3	5.35 - 6.70
Major Regional	301,473	1.6	690 - 2,820	4 - 6	6.70 - 7.20
LFR Centre	490,571	0.8	170 - 530	4 - 6	7.00 - 7.60

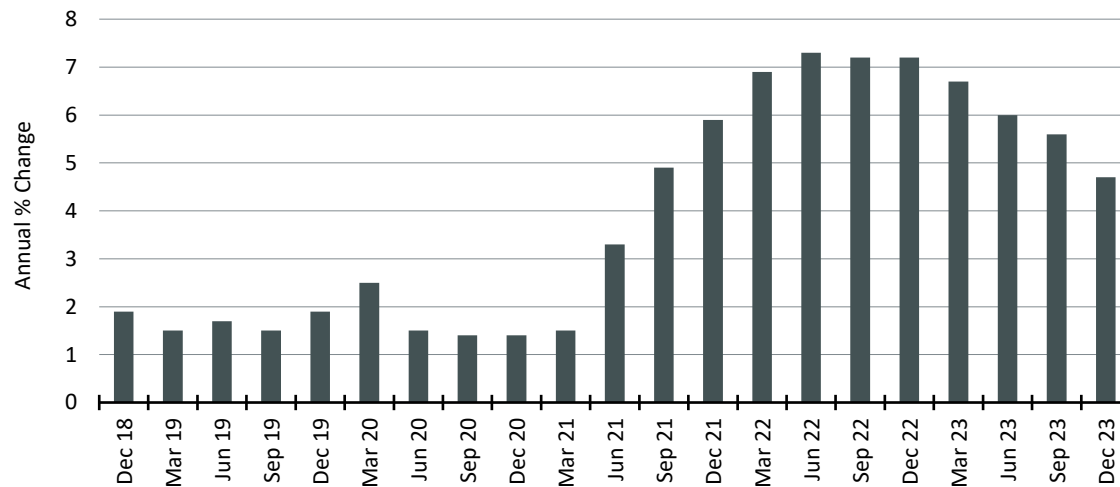
Economy

New Zealand’s economy has been cooling off in the last year. According to the latest published data, between Q4 2022 and Q3 2023 only one quarter registered a positive quarterly GDP growth, exposing a clear economic downturn. Economic growth during Q1 was revised down from zero to negative, which means that the country went into a recession between the end of 2022 and the beginning of last year. Also, GDP decreased by 0.3% in Q3 2023, much lower than what the Reserve Bank of New Zealand predicted. Weaker consumption and investment figures have translated into lower levels of aggregate demand. Both the market and the RBNZ predict that GDP growth will remain subdued until late 2024.

Despite headline inflation slowing down, annual non-tradable inflation in Q4 was higher than what the RBNZ forecasted in its Monetary Policy Statement (5.9% vs 5.7%). 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.

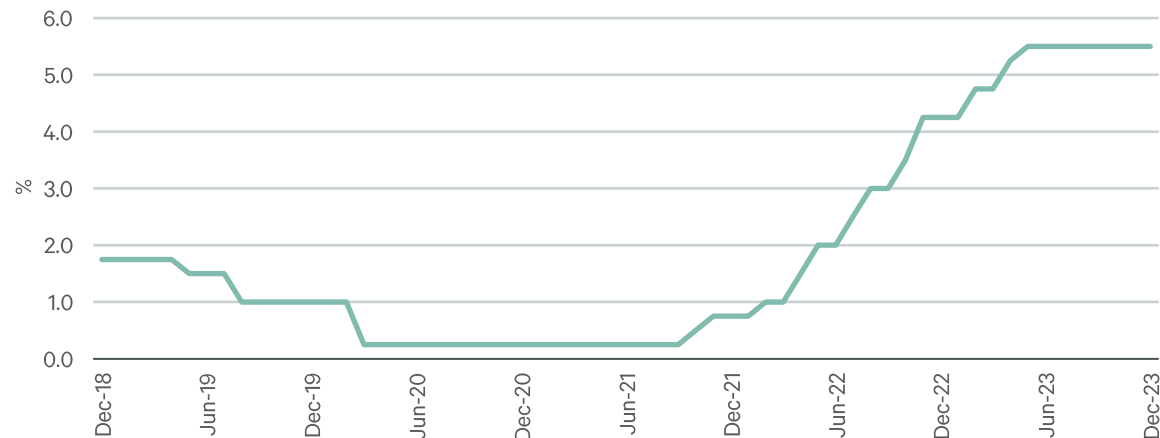
The RBNZ’s Monetary Policy Committee has held the OCR at 5.50% in the last four meetings. The last increase was in May 2023, in which the OCR was hiked by 25 bps. However, back in November the market was exposed to a hawkish rhetoric from the RBNZ regarding potential OCR hikes, adding more uncertainty to an already hazy investment market. This occurred during a period in which the overall market had started to see beyond the peak of the current interest rate cycle. Moreover, the Q4 unemployment rate figure released at the beginning of February was stronger than what both the RBNZ and the market were predicting (4.0% vs 4.2%). This prompted the market to consider the possibility of the RBNZ pulling once again the trigger of the quantitative tightening gun via a potential OCR hike, throwing a bucket of cold water over the market expectations of finally gazing some interest rates compression.

Consumer Price Index



Source: Statistics New Zealand

Official Cash Rate (OCR)



Source: Reserve Bank of New Zealand

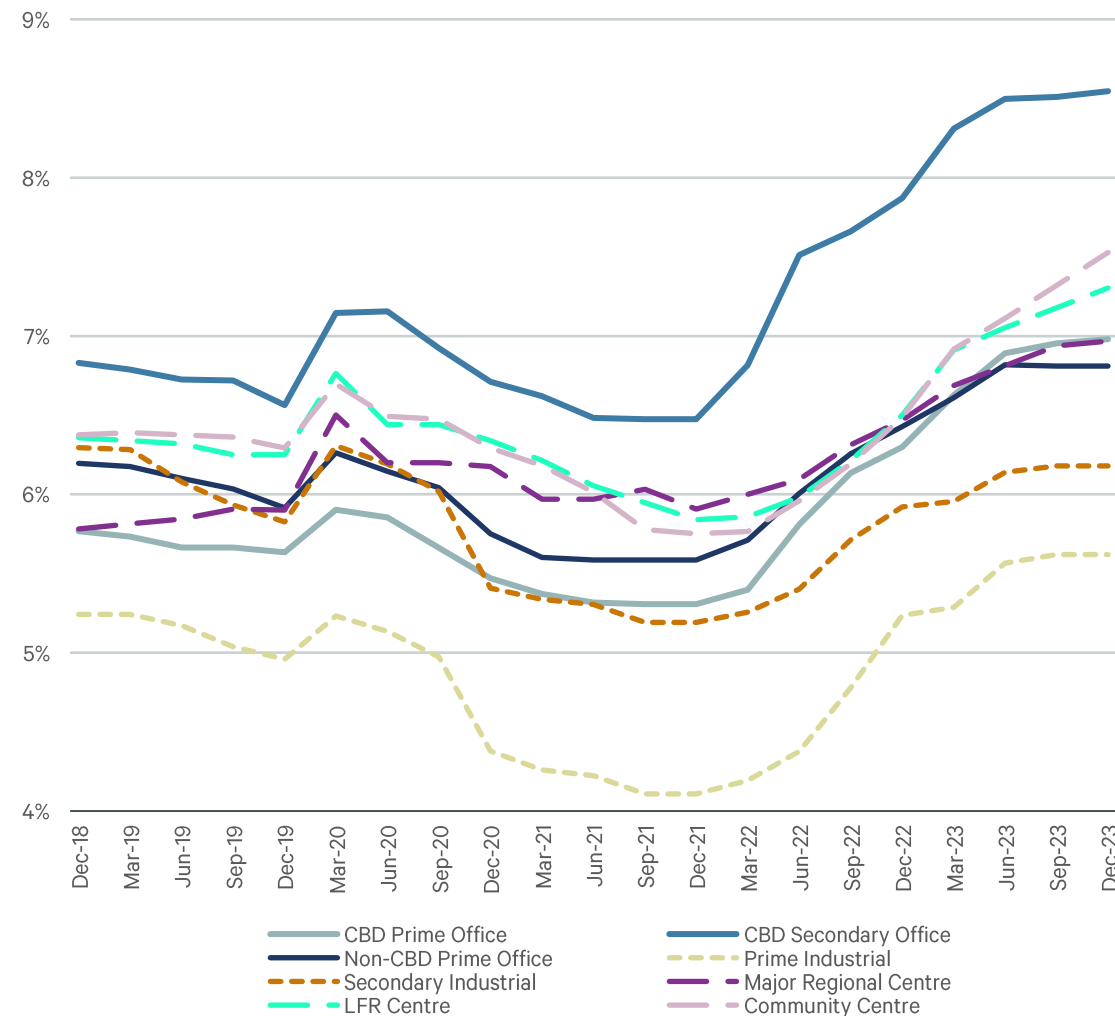
Investment Market

Our read on transaction market trends has not changed materially over the past quarter. CBRE’s engagement in sale campaigns continues to indicate elongated due diligence periods, buyers heavily scrutinising assets, and adverse findings tending to lead to material adjustments to price offers, with uncertainty about whether sellers are willing to let assets go at final offer prices. This process reflects the opportunistic approach of many buyers, buyers’ greater focus on asset-specific issues around capex compared to more normal market conditions, and the relative pressures faced by sellers to divest.

While the market remains illiquid, in our Q4 yield assessment, half of the 18 markets we monitor showed no change, indicating, in our view, a narrowing of the divide between vendor and purchaser price expectations. This result entrenched the slowing cap rate expansion trend that started in Q3 when we made the most minor changes since the easing cycle commenced in early 2022. This indicates that we are close to the top of the current yield cycle, although we expect selling pressure on some vendors to intensify over the next six months.

In Q4, we kept yields stable in the CBD retail and industrial sectors after easing them by 111 and 125 basis points respectively since the market peak of December 2021. Yields continued to increase, but only moderately, in the CBD office sector. The average move of 4 basis points across its submarkets represents a minor fine tuning of applicable yields across our basket of buildings rather than the previously more generic market wide changes. The yield increases across the retail centre sector were more systemic and focused on community and LFR centres that remain relatively low yielding, and thus more exposed to interest rate pressures, and on subregional centres that are more exposed to trading pressures.

Auckland Indicative Yields by Sector



CBD Office Vacancy

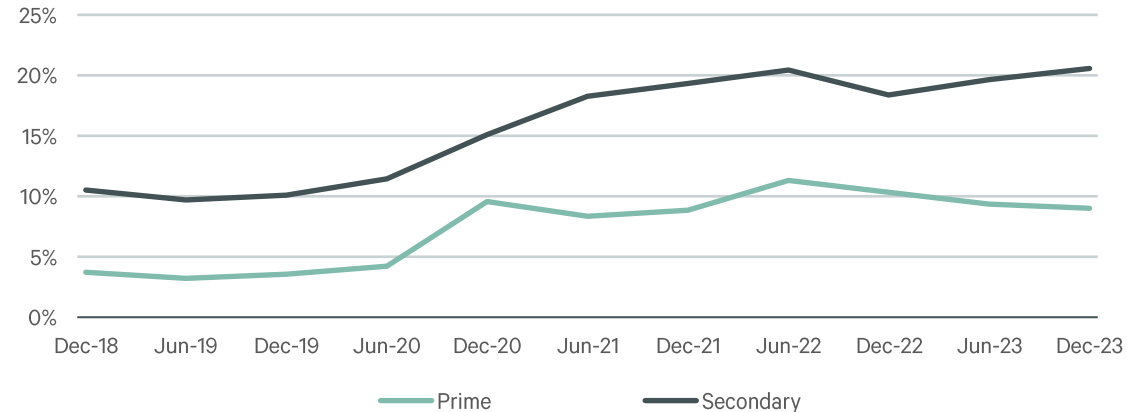
As in the first half of the year, in H2 2023, Prime grade buildings drew occupiers seeking high quality amenities and public transport, leading to a reduction in their vacancy levels from 9.3% to 9.0%.

Due to the limited stock (<200,000 sqm), in Premium Grade new supply can affect the vacancy rate more than they would in grades with larger stock, which occurred in H2 2023. Premium grade vacancy increased from 3.0% to 3.6%, despite strong take-up of 11,553 sqm. In late 2023 Precinct's mixed-use development at 1 Queen was finished, adding 13,900 sqm to supply. The development had strong precommitment, with only 1,500 sqm still available. Deloitte are in, with 7,500 sqm (and naming rights), along with PAG, Mitsubishi and Buffer. Bell Gully have committed to over 4,000sqm and will shift in mid-2024.

Grade A performed well in H2 2023, with positive absorption of ~2,500 sqm. Over 3,000 sqm was taken up in the character building at 131 Queen St. New occupiers here include business consultants Accenture and arts consultants Cultural Partners, who have each taken up a floor, and Montarne Capital Partners, who have taken 500 sqm. 66 Wyndham St has also had a positive second half year, with ICIB taking up over 1,000 sqm, along with Fairway Resolution Trust. This contrasts with the wind-down of FIFA's Women's World Cup operations at 45 Queen St, which generated almost 2,000 sqm of new vacancy, however the football organisation will keep their office on L39 of the ANZ Centre.

Secondary grade vacancy rose in H2 2023, continuing the flight to quality trend, such as lawyers Haigh Lyon, who shifted from B to A Grade while staying on Shortland St and occupying a similar size space. The return of international students that we saw green shoots of in our H1 2023 occupancy survey, has sprouted in H2. NZ Language Centre having taken up ~4,200 sqm across 214-220 and 238-242 and Queen St, while still using their ~1,800 sqm Viaduct Basin premises.

Auckland CBD Office Vacancy



Auckland CBD Office Vacancy Change by Grade

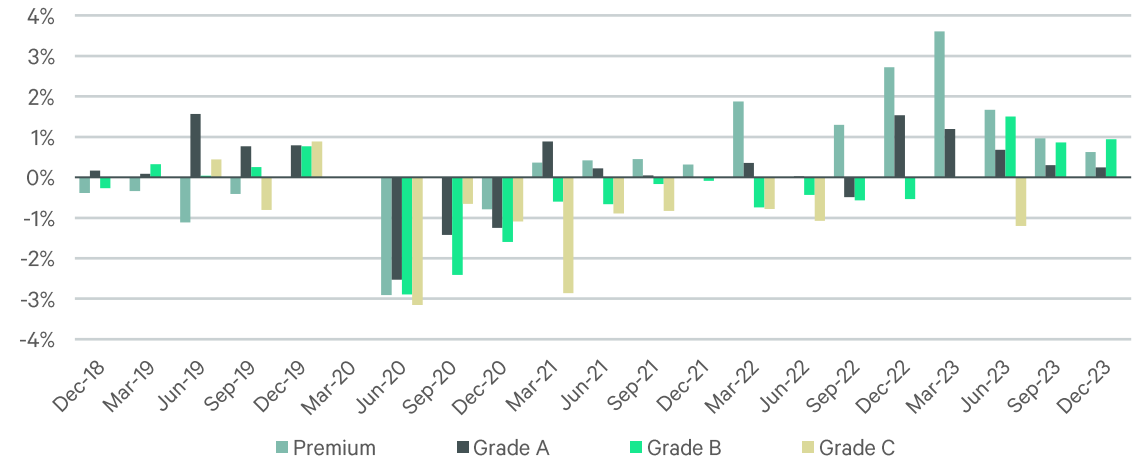
		PREMIUM	GRADE A	GRADE B	GRADE C	GRADE D	TOTAL
Vacancy at December 2023	%	3.6%	10.8%	18.1%	19.8%	33.5%	14.3%
	sqm	6,965	63,435	50,096	60,263	25,070	205,829
Vacancy at June 2023	%	3.0%	11.3%	17.9%	18.4%	31.8%	14.1%
	sqm	5,405	66,200	49,053	58,030	24,268	202,956

CBD Office Rents

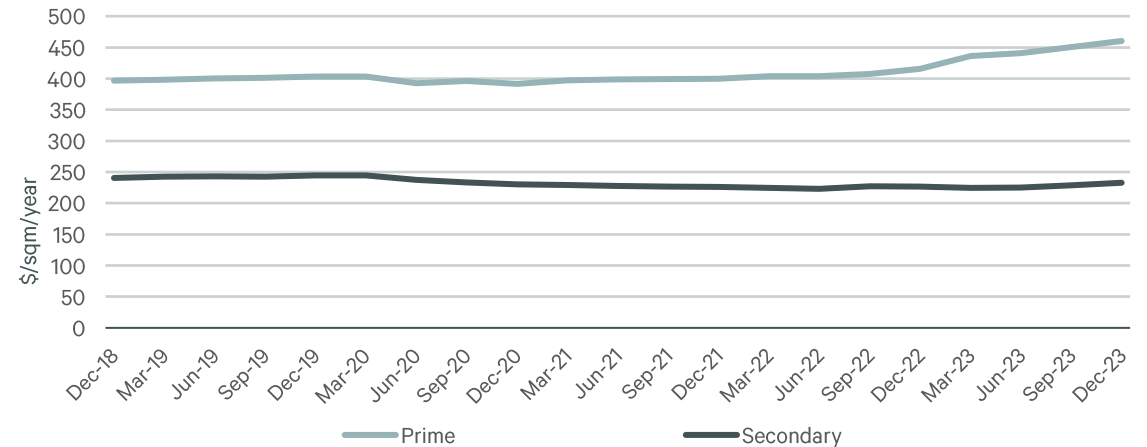
While the observed trend for occupiers to seek the highest quality space continues, rental growth has gradually slowed. Rents for Premium occupancies increased by 0.6% in Q4 2023, with a y-o-y uplift of 6.9%. Rents for Premium buildings have not decreased in the last 12 quarters. Rents for A Grade premises are still growing, but at a more moderate pace, in Q4 0.2%, with a y-o-y increase of 2.4%. A Grade rents have also progressed well despite ongoing uncertainty, with positive rental growth occurring for the last 5 quarters.

Demand for Grade B buildings with new fitout remains positive, with a y-o-y rent increase of 3.3%. Buildings at the upper end of the Secondary quality spectrum are experiencing encouraging occupier demand and showing rental growth, as landlords invest in improvements to appeal to price-conscious occupiers seeking better quality.

Auckland CBD Net Effective Office Rents by Grade – Quarterly Change



Auckland CBD Net Effective Office Rents



CBD Office Market Outlook

Vacancy

The occupier flight to quality trend is unlikely to abate over the forecast period, with occupiers focused on getting the best quality space in the right area. As recent trends indicate this can also encompass flight to quality within the Secondary market, not just Secondary to Prime. The vacancy increase forecast for Prime stock is due to the introduction of new developments such as the recently completed 1 Queen, the soon to be completed 50 Albert St, and in 2025, 123 Beaumont St. The strong actual and expected occupier precommitment for these developments will be creating backfill vacancy in existing Prime buildings and draws additional occupiers to those spaces over time. Therefore, we expect the rise in Prime vacancy will wane from late 2025 as supply moderates and occupier moves consume the backfill vacancies.

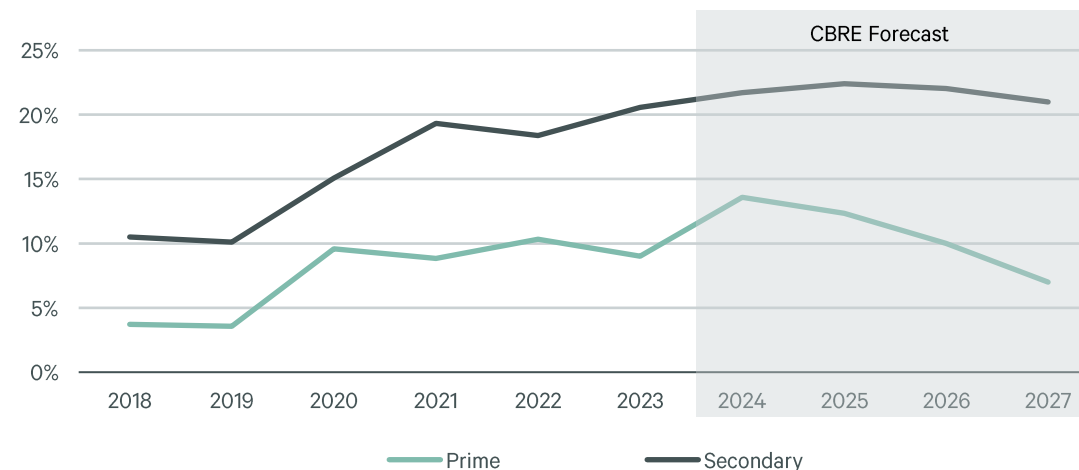
Demand for Secondary grade office stock is not sufficient to consume the available stock in the short term, and we anticipate vacancy levels remaining high, descending as owners remove stock for redevelopment, refurbishment, or repurposing as residential apartments.

Rent

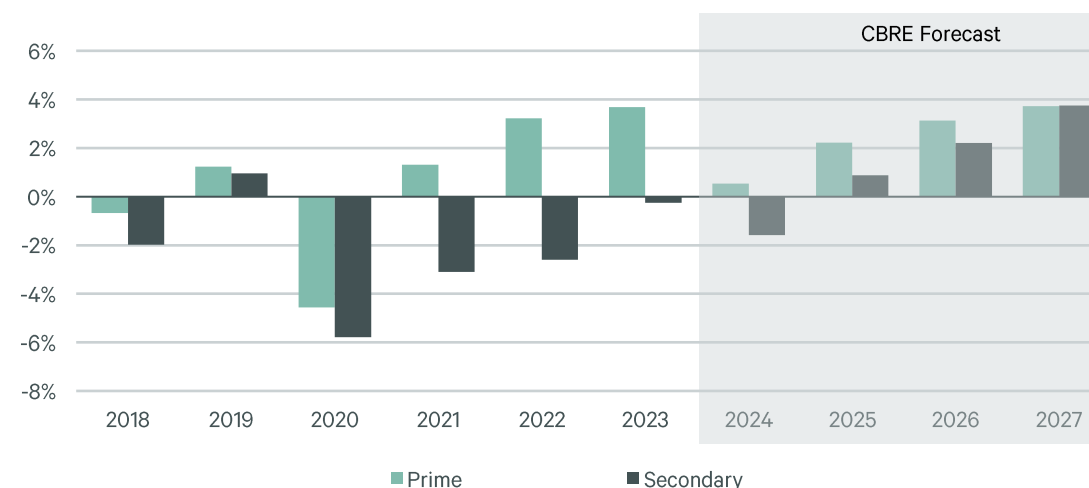
New stock completed in the next four years will meet continuing occupier demand for high quality space. While rents will not grow significantly for Prime grade in 2024, we expect them to recover gradually in the following three years.

In Secondary grade buildings for 2024, we anticipate a drop in net effective rents as occupiers negotiate favourable terms due to the large amount of vacant space available, and the cool economic environment. From 2025 onwards we anticipate stronger rental growth as demand grows on the back of a rising economy.

CBD Office Actual and Forecast Vacancy



CBD Office Actual and Forecast Annual Net Effective Rental Change



Non-CBD Office Vacancy

Prime (or Grade A) vacancies lifted slightly in the second half of 2023 by over 5,000 sqm to 35,000 sqm, or 0.9% to 9.6%. While Grade B kept stable at 9.4%, Grade C experienced a large increase of almost 9,000 sqm of new vacancy, lifting the vacancy rate from 6.8% to 8.1% over the half year. Grade D vacancy was relatively stable lifting only 0.6% to 7.7%.

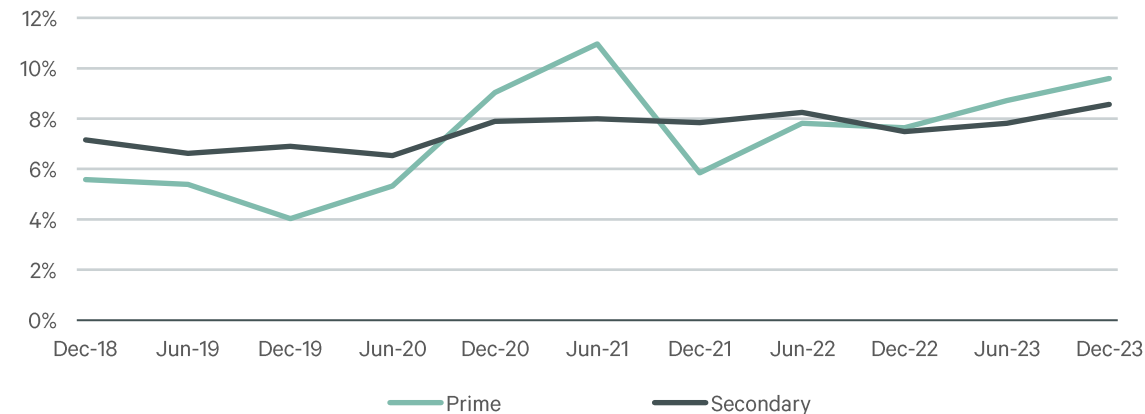
In A Grade, a major contributor to current vacancy is the new Munroe Lane building in Albany. Despite Auckland Council moving in, the building still has both direct- and sub-lease space available totalling 8,200 sqm, as local government looks to trim costs to balance its budget. Elsewhere on the North Shore, IRD took up 3,000 sqm, half of which was vacant, from One (Vodafone), at Smales Farm.

Within Ponsonby, the refurbishment and repositioning of previously Grade C stock into Grade B has worked well for 14 Maidstone St (1,140 sqm) and 202 Ponsonby Rd (1,580 sqm), both of which have been completely taken up in H2 2023.

A noticeable trend in H2 2023 was the shifting of predominantly digital media/advertising companies from the Eden Tce/Newton/Grafton area towards higher amenity precincts – destinations including lower Parnell, Ponsonby Rd, and the CBD – all of which are currently also less disrupted by the CRL project.

In Mt Wellington, backfill vacancies in Grade C increased as Geneva Finance left 1,500 sqm in Pacific Rise for the newly completed (and very striking) 3 Te Kahu Way. With the election over, the Electoral Commission has vacated their CBD and suburban locations, including 1,500 sqm in Greenlane’s Millennium Centre.

Auckland Non-CBD Office Vacancy Change by Grade



Auckland Non-CBD Office Vacancy

		GRADE A	GRADE B	GRADE C	GRADE D	TOTAL
Vacancy at December 2023	%	9.6%	9.4%	8.1%	7.7%	8.8%
	sqm	34,717	51,583	54,188	12,586	153,074
Vacancy at June 2023	%	8.7%	9.4%	6.8%	7.1%	8.0%
	sqm	29,463	51,725	45,873	11,688	138,749

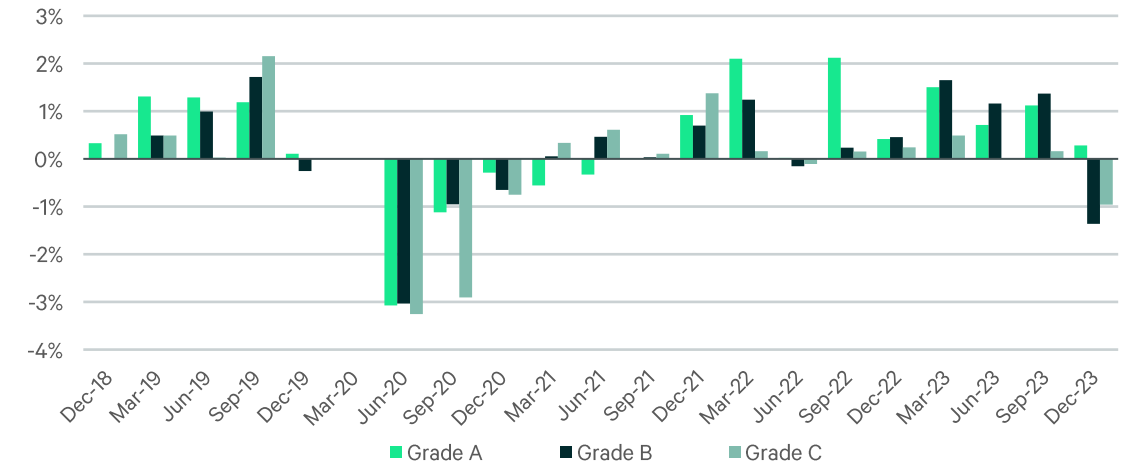
Non-CBD Office Rents

After a stronger run than the CBD, Non CBD office rents underperformed in Q4. Grade A office rents held in Q4 2023, following a five-quarter run of positive gains totalling 5.9%, with higher vacancies in two newer buildings as well as some older ones. Albany has experienced a mismatch between occupier demand and developer supply in the Prime office market, with more supply than the market demanded. Over time this will correct, as seen at 55 Corinthian Drive, which welcomed a half-floor take-up by Deloitte in H2 2023. In these scenarios owner flexibility on rent and incentives are vital to resolving the issue.

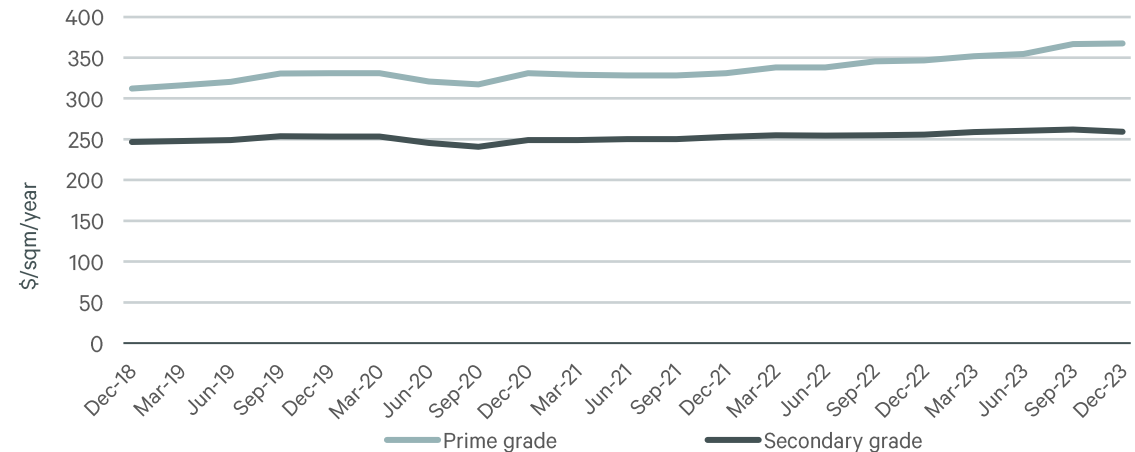
Secondary grade office rents declined in H2 2023, with Grade B dropping the most at 1.4%, while Grade C fell 1%. Occupiers coming to the end of their leases have been looking to see what else is on the market, before making space decisions – move to a better location or higher quality space; or negotiate with their landlord for improvements to their existing premises. The latter having an impact on net effective rents, as incentives are factored in.

Net effective indicative rents for Prime quality suburban offices now sit at \$368 per metre per annum, Secondary net effective rents are sitting at \$259 sqm per annum.

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



Auckland non-CBD Net Effective Office Rents



Non-CBD Office Market Outlook

Vacancy

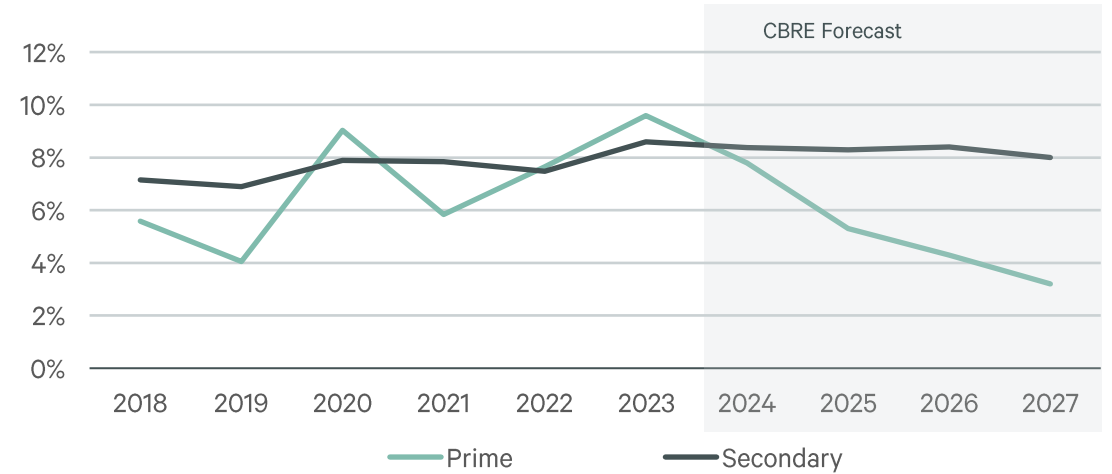
The timeframes of some of the projects in the suburban office supply pipeline continue to push out. Demand from healthcare remains a major factor in some projects such as those in Marewa Rd, Pacific Rise, and Manukau Station Road. Given the moderate supply pipeline, we expect Prime vacancy to improve steadily through to 2027.

Within Secondary grade stock, vacancy levels are expected to hover around the 8% mark, reflecting a mixture of negative absorption and stock losses with some periods benefitting from the interplay of low supply in the higher grades to drive tenant losses, combined with improving economic conditions.

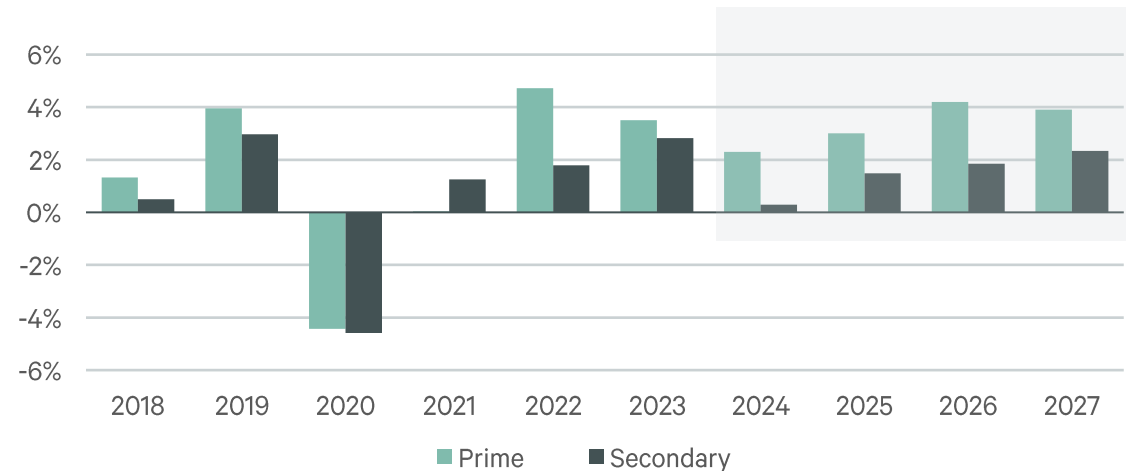
Rents

On the back of declining vacancy we anticipate Prime rents to increase by ~2% in 2024, then lift by 3% - 4% annually from 2025 - 2027. Secondary grade rental trends will be weak in 2024, and subsequent increases in rents are likely to lag behind Prime grade.

Non-CBD Office Actual and Forecast Vacancy



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



Retail Vacancy

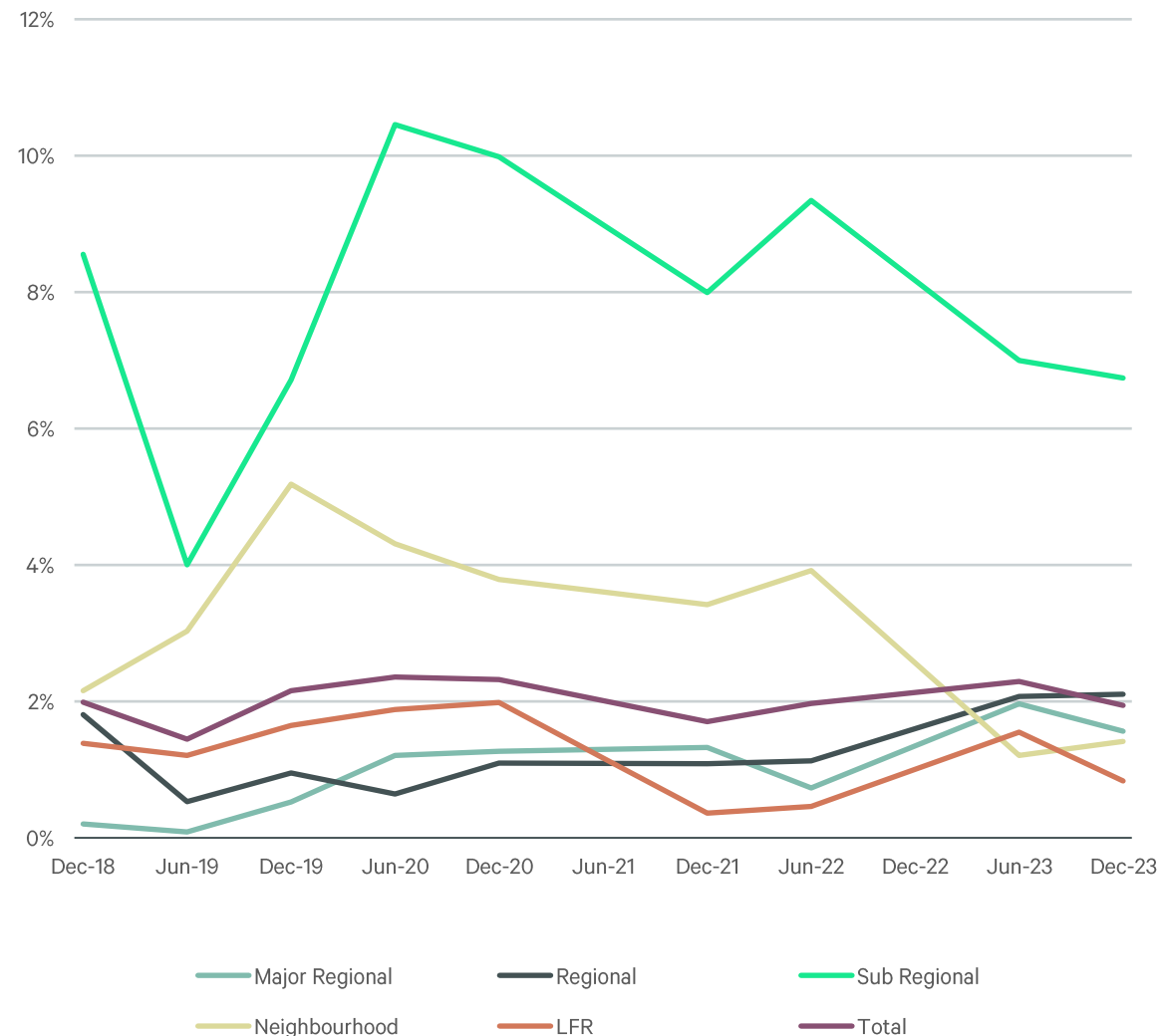
Vacancy levels have dropped for 4 of the 5 centre typologies we monitor, a good result during the current economic climate. The improvement in vacancy levels indicates that landlords are taking a pragmatic approach and working to ensure their centres are bright, lively, and positive.

Vacancy has tended to concentrate in a handful of locations under some significant competitive pressure in their catchments, centres with recent upgrades and activations performing better than those that need refurbishment.

Neighbourhood centres' vacancy levels rose to 1.4% in the second half of 2023; however, this figure is skewed by a small number of older centres having high vacancy levels. LFR centres returned to their usual position in H2 2023, with the lowest vacancy level of 0.8%, having recovered well from their pandemic peak of 2.0% in H2 2020. Major Regional centres also experienced a drop, their vacancy levels now sitting at 1.6% as landlords react to the current market conditions.

Looking forward, 2024 – 2025 will be a period of growth with expansion of Westgate's retail precinct which will include more LFR, an Asian supermarket, and multiple F&B offerings at the northern end of the precinct. In Mt Wellington IKEA's store is due to open in late 2025, with the promise of flatpucks and meatballs along with complimentary LFR offerings to link up the existing Major Regional centre. Auckland Airport's new outlet-focused shopping centre Manawa Bay (currently under construction) is due to open in late 2024 and is already promoting a dozen aspirational brands (including Under Armour, Converse, Kate Spade, Swarovski, FILA, COACH, & Calvin Klein), which is likely to impact on occupancy rates and rents in other outlet centres in the Auckland region.

Auckland Retail Centre Vacancy



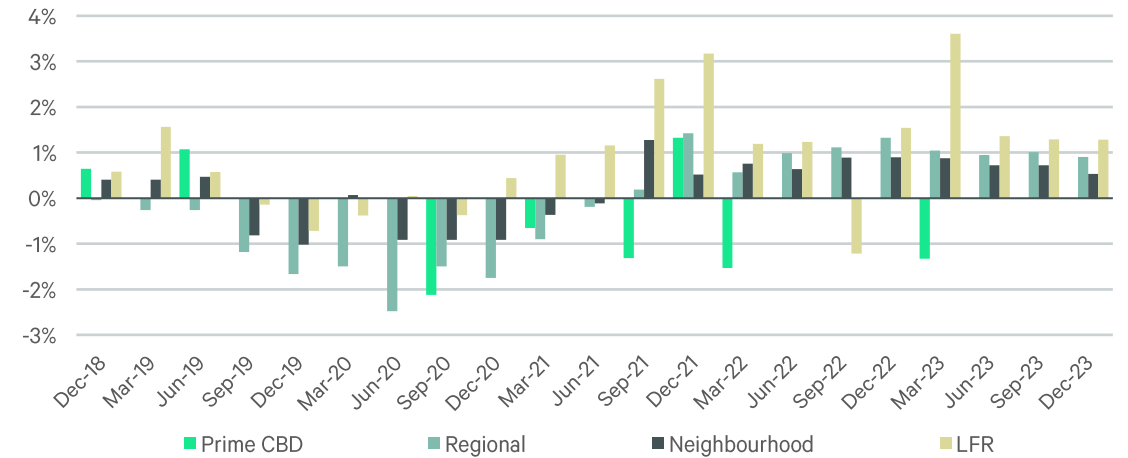
Retail Rents

Retail centre rents continue to benefit from the inflationary impacts of CPI based rent review mechanisms even as retail sales have started to soften. Large Format Retail (LFR) rents increased by 1.3% in Q4 of 2023, closely followed by Regional and Neighbourhood shopping centres (1.1% and 0.9% respectively).

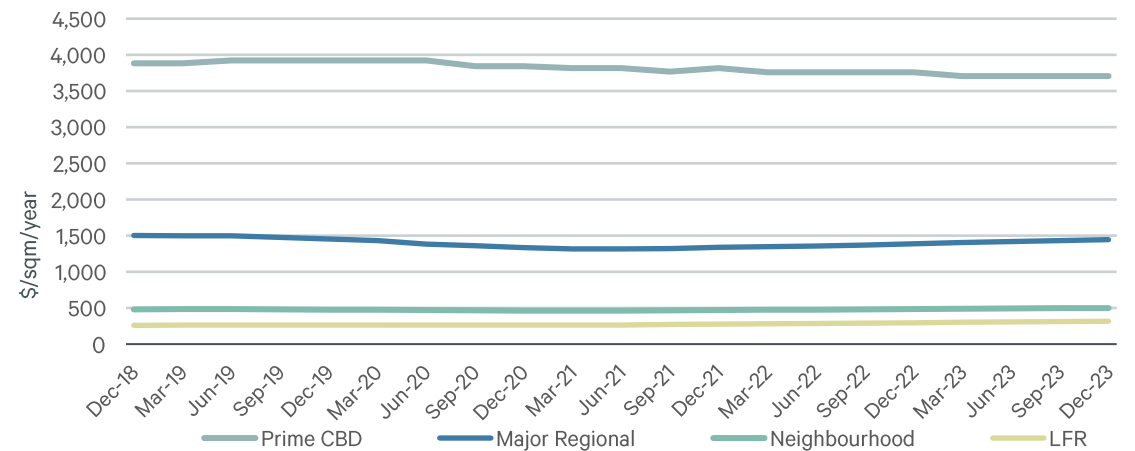
CBD retail rents continued to remain stable for the third consecutive quarter after dipping in Q1. While brokers are reporting positive retailer inquiries in available well-located space options, they remain price sensitive leaving lessors with limited ability to drive rent growth until occupancy improves.

Retail spend in the waterfront areas of the CBD continues to improve, driven by a busy events calendar, staff returning to offices, returning tourists and cruise ships, and the hospitality sector which points to positive medium term rental prospects.

Auckland Retail Rents – Quarterly Change



Auckland Retail Rents

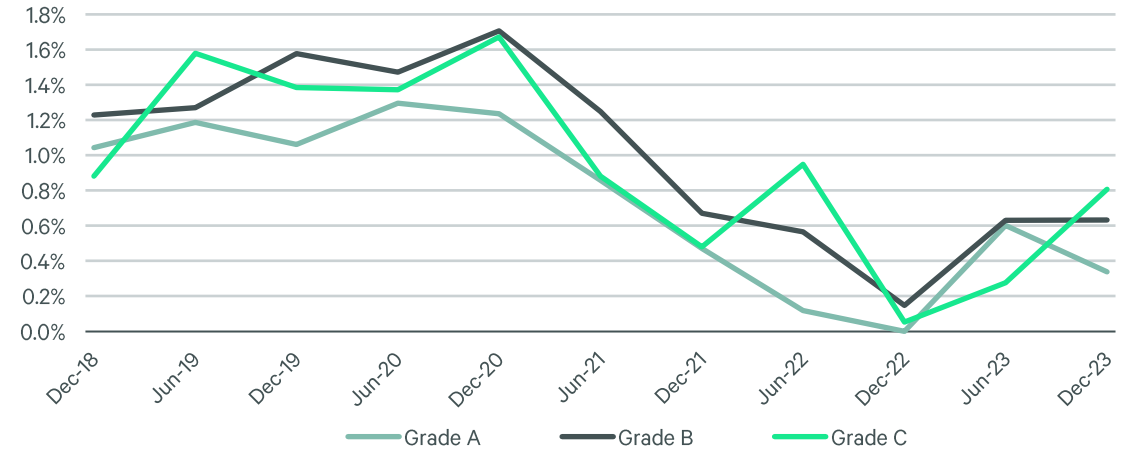


Industrial Vacancy

The vacancy rate remained stable at 0.5% in the second half of the year and total vacant space only increased by circa 3,000 sqm. Grade A shows some improvements since June 2023, vacancy dropping by 16,000 sqm or 0.3%. In contrast, Grade C/D vacancy increased by a much larger 19,000 sqm. This trend is expected to continue in 2024 with a sluggish economy exacerbating volatility in the Secondary market compared to Prime.

Demand remained robust but has moderated slightly from the Covid induced boost of the past three years. Total net absorption was 132,000 sqm in H2 2023, slightly lower than the average net absorption of 136,000 sqm between H1 2020 and H1 2023. The uptake of new developments was a major contributor to Grade A absorption. Although net absorption in the Secondary market was -26,000 sqm, this shows an improvement compared to H1 2023 where net absorption was -66,000 sqm. Turners & Growers’ departure from their Monahan Road building contributed a large part of Grade C/D negative absorption and new vacancy.

Auckland Industrial Vacancy



Auckland Industrial Vacancy Change by Grade

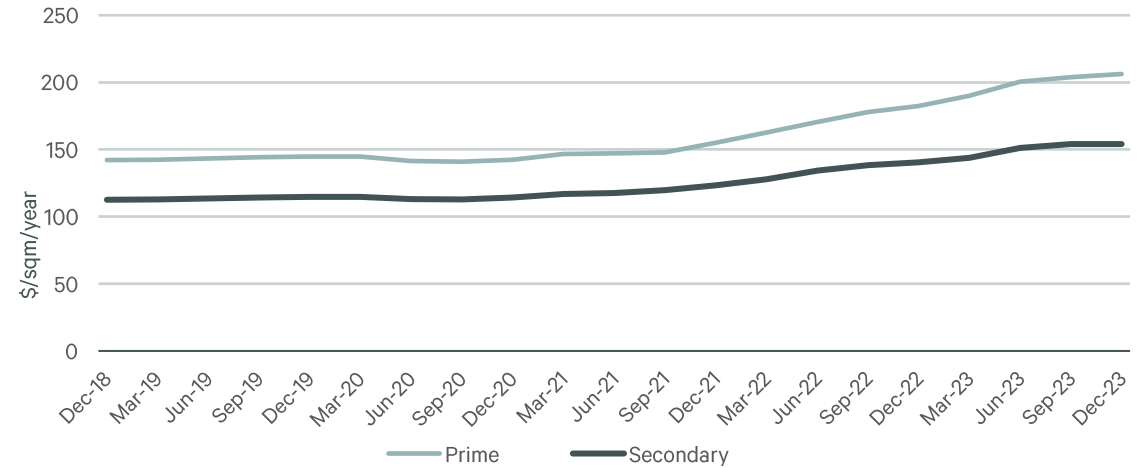
		GRADE A	GRADE B	GRADE C/D	TOTAL
Vacancy at December 2023	%	0.3%	0.6%	0.8%	0.5%
	sqm	21,758	24,647	28,729	75,134
Vacancy at June 2023	%	0.6%	0.6%	0.3%	0.5%
	sqm	37,785	24,589	9,823	72,197

Industrial Rents

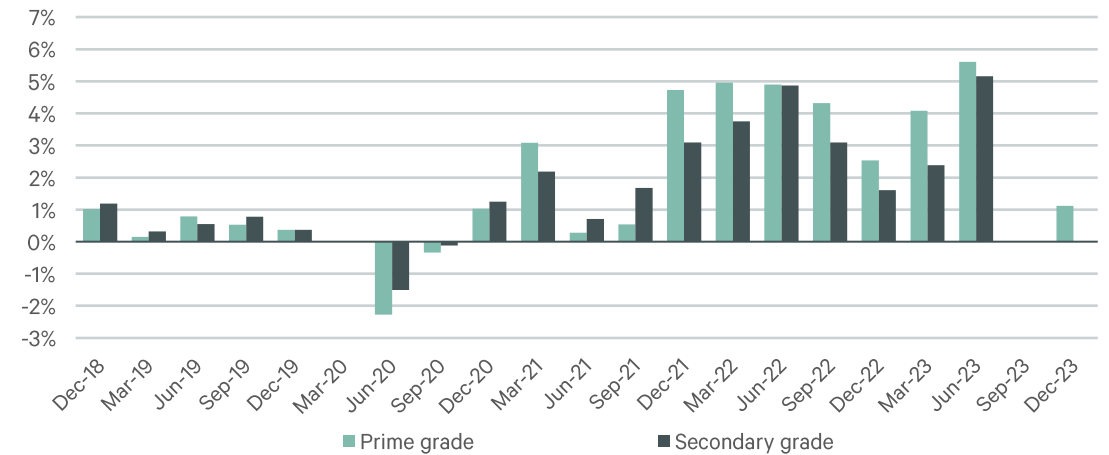
Industrial rents have been largely stable in the past two quarters, which reflects a slowing leasing market. Since Q3, there has been an increase in available space for leasing, particularly in the Secondary submarket, even though most of it is not physically vacant. This influx of available space has led to a more competitive market compared to the previous two years.

The 1.3% increase in Prime rents in Q4 2023 represents the spread of recent rental benchmarks for new builds into a wider mix of geographic locations. As such, while our methodology shows this as market rent growth, it does not feel so given the higher rent does not represent the achievement of new benchmarks which has been the main growth driver of the past two years. Given strong growth in Q1 and 2, annual growth in 2023 was elevated though; Prime rents increased by 11%, Secondary by 8%.

Combined (office and warehouse) Net Effective Industrial Rents



Auckland Industrial Net Effective Rents – Quarterly Change



Industrial Market Outlook

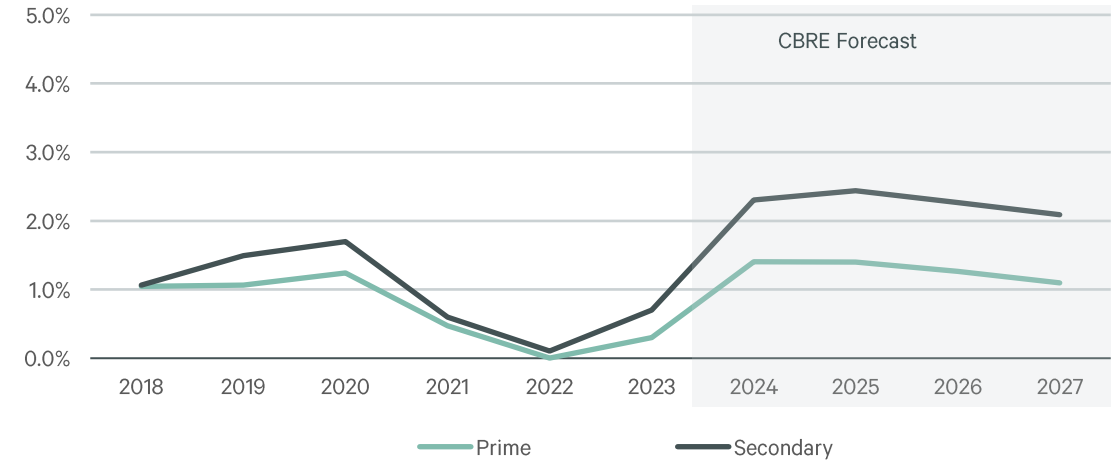
Vacancy

After the completion of nearly 300,000 sqm in 2023, the anticipated new supply for 2024 is projected to exceed 400,000 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 2024 and stabilise in 2025. The Secondary submarket, known for its historical volatility, is expected to be more adversely affected than Prime in 2024 as the economy weakens. Despite an overall increase in vacancy across the market, its peak is still expected to be lower than the 10-year average.

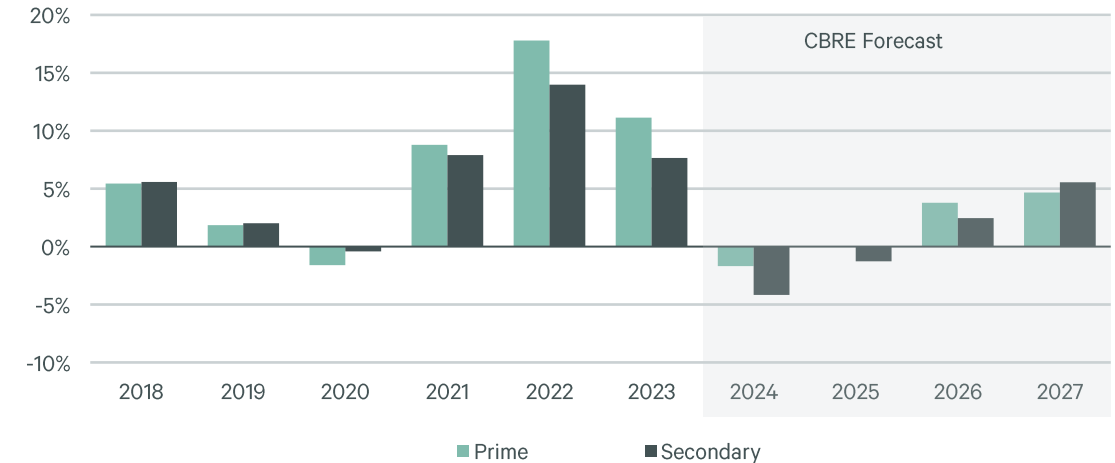
Rents

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 can still achieve higher rent benchmarks, while the remaining Prime buildings' effective rents are likely to keep stable or experience slight drops due to higher incentives. However, historical data indicates that rents are more sensitive to economic weaknesses. The outlook for 2024 and 2025 indicates a less sharp but more sustained decline in Secondary rents compared to Prime rents.

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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