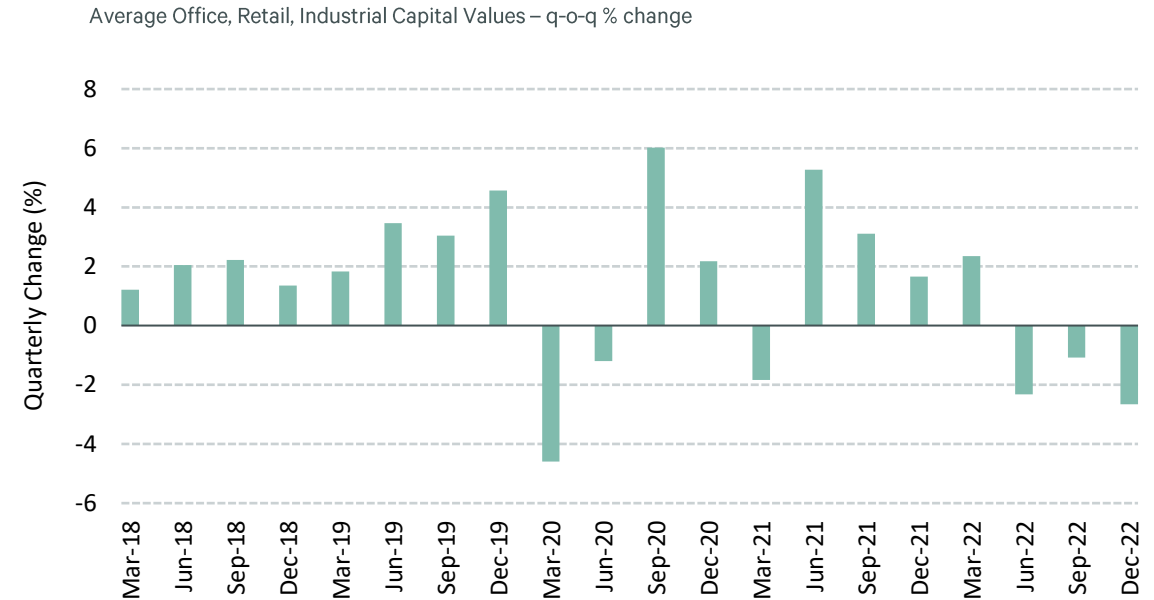


# Wellington Property Market Overview

## INSIGHTS

- During H2 2022, CBD office vacancy was largely stable at 7.5%. Premium grade remained very tight with less than 1,000 sqm vacant, but Grade A vacancy has increased due to relocations into new supply creating backfill as well as some occupiers rationalising their space requirements.
- The market witnessed the removal of several office buildings due to strengthening and refurbishment works. These were partly offset by the completion of new built and refurbished buildings.
- Office rent growth is positive. Prime office rents increased more than Secondary, driven mainly by the robust increase in the Premium submarket.
- Industrial vacancy remained stable at 2.4% although with material variation between precincts and grades. There is no Prime vacancy. Good rates of rental growth continued into Q4, resulting in a 10.3% annual increase for Prime grade.
- Low levels of transactional activity continue to hamper calls on pricing but CBRE’s assessment of market trends resulted in yield increases of 45-70 basis points in the past year across the various sectors.



## Market indicators

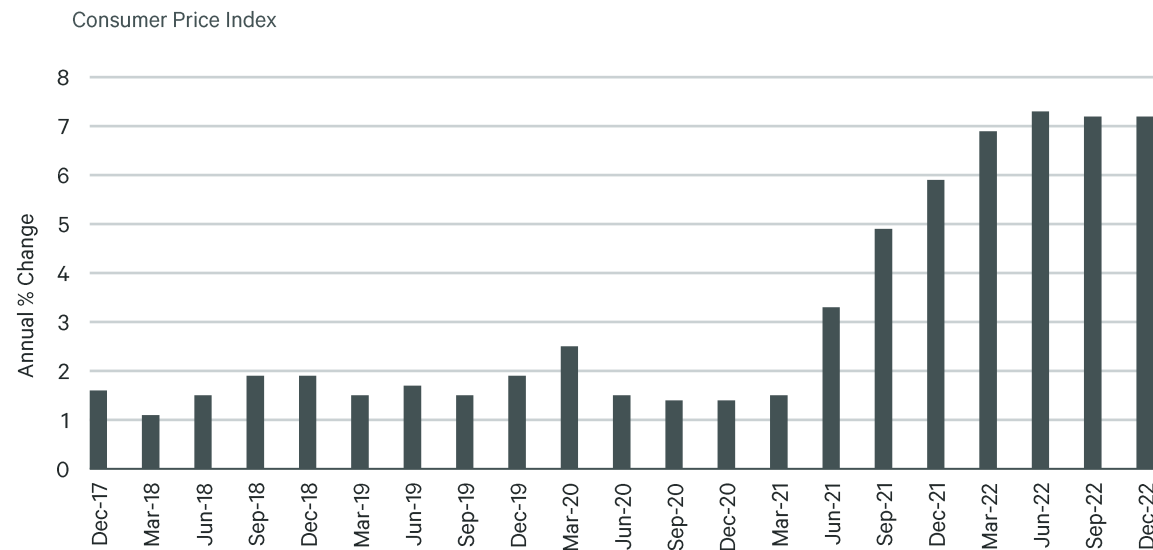
Market Sector	Stock (sqm)	Vacancy (%)	Gross Face Rent (\$/sqm/yr)	Incentives (%)	Yield (%)
Prime CBD Office	426,239	2.3	615 - 830	4 - 6	5.50 - 7.35
Secondary CBD Office	890,945	9.9	225 - 620	4 - 10	6.90 - 10.20
Prime Industrial	456,849	0.0	194 - 224	1 - 2	5.75 - 6.00
Secondary Industrial	1,716,795	3.1	124 - 164	3 - 4	6.50 - 7.55
Prime CBD Retail	-	-	2,200 - 2,500	5 - 7	6.41 - 6.81
Secondary CBD Retail	-	-	900 - 1,600	6 - 7	7.22 - 7.90

# Economy

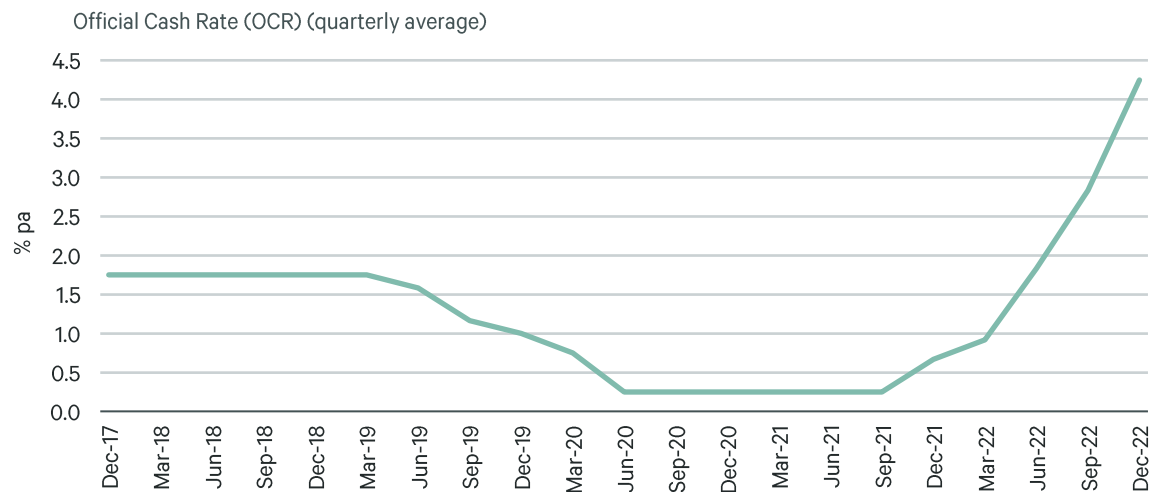
Despite headwinds, the economy has been resilient in recent quarters. Pending the Q4 data release, in Q3 2022 the New Zealand economy expanded by 2.0% compared to the previous quarter. This followed a 1.9% quarter-on-quarter increase of GDP during Q2 2022, rebounding from a contraction in the previous quarter. In terms of GDP growth by macro industry group, both the goods-producing and service industries registered a quarter-on-quarter increase during Q3 2022 (2.4% and 2.0%, respectively). The industry that contributed the most to growth was transport, which benefited from the borders opening to all visitors.

Inflation stabilised in the second half of 2022 but remains a risk. During Q4 2022, annual inflation remained at 7.2%, the same as during Q3 and close to the Q2 figure (7.3%), which was the highest in a 32-year period. Domestically generated non-tradeable inflation is an important measure because this is the inflation component that the RBNZ can directly influence through monetary policy. Importantly, this inflationary measure was unchanged in Q4 at 6.6%, and below the RBNZ’s 7.0% expectation.

The market has been 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, especially given the rebuild implications of the recent weather events. This uncertainty has imbued a cautious attitude from both the RBNZ and the market, with forecasts showing the OCR increasing by another 50-75 bps to 5.25-5.50% and remaining at this level through 2023. Longer term rates have also been volatile but should provide some relief to fixed mortgage interest rates and property cap rates before the OCR starts moderating although, reflecting the prevailing cautious attitude, the rate of decline in 2023 is likely to be modest.



Source: : Statistics New Zealand



Source: Reserve Bank of New Zealand

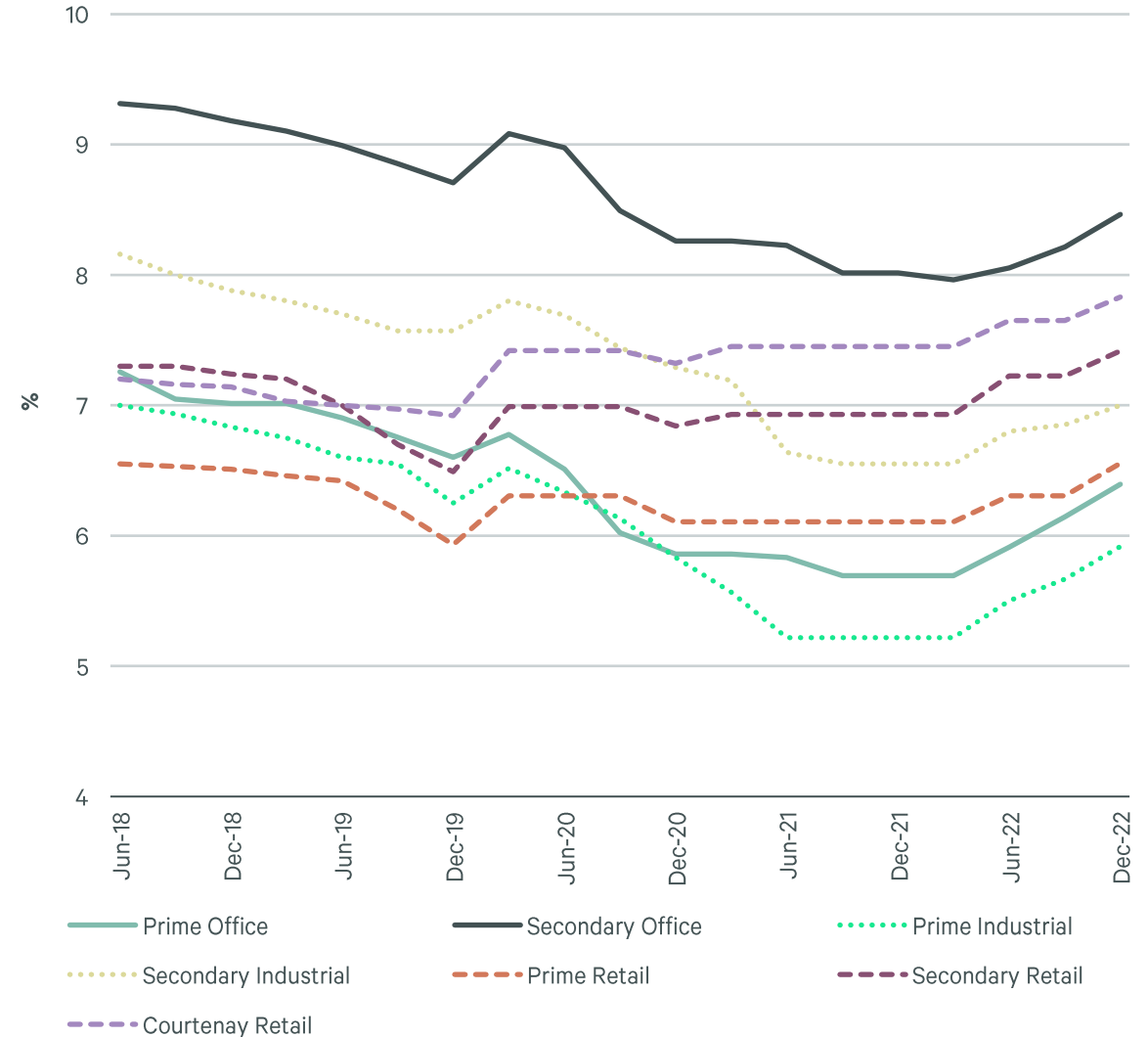
# Investment market

During Q3 and Q4 2022, yields continued their softening trend. The hike of the OCR by 225 basis points during the last two quarters of 2022 came through with greater force into the commercial real estate market in CBRE’s assessments of indicative yields. At the same time the lack of transactional activity means that yield assessments continue to heavily rely on CBRE’s market interactions and available bidding statistics rather than sales evidence and aim to find the middle ground between the diverging expectations of potential vendors and purchasers.

On the investment side, funding influence and bank support remain key, pushing the pendulum in favour of those with portfolio funding capacity. . In the current environment, investors are tending toward value add opportunities, which can still offer a positive carry. With liquidity concentrated on these, they remain relatively resilient from a buyer demand perspective. This bodes well for the top end of the Wellington office market with continued positive demand from both government and private sector occupiers, low vacancy, and relatively high rent growth.

Even more prevalent than when we published our last report, the cap rate to debt cost margin offered by different property sectors continues to have a material effect on yield fluctuations. As such, yields have been adversely impacted by the significant reductions of these margins in the lowest yielding industrial and office sectors notwithstanding their favourable occupancy and rental characteristics. In our assessment, Prime industrial market yields increased by 70 basis points during 2022, with Secondary up by 45 basis points. During this period, the CBD office and retail submarkets saw their yields softening, on average, by 60 and 44 basis points, respectively.

Wellington Indicative Yields by Sector



# CBD Office Vacancy

Wellington CBD office vacancy was largely stable during H2 2022, moving from 7.4% to 7.5%. The amount of total CBD vacant office area decreased from 99,200 sqm to 98,459 sqm in H2 2022, and the slight increase in the vacancy percentage was due to stock losses which had a denominator effect on the vacancy rate calculations. There also appears to be a spike in sub lease vacancy reappearing although not all this space is physically vacant,

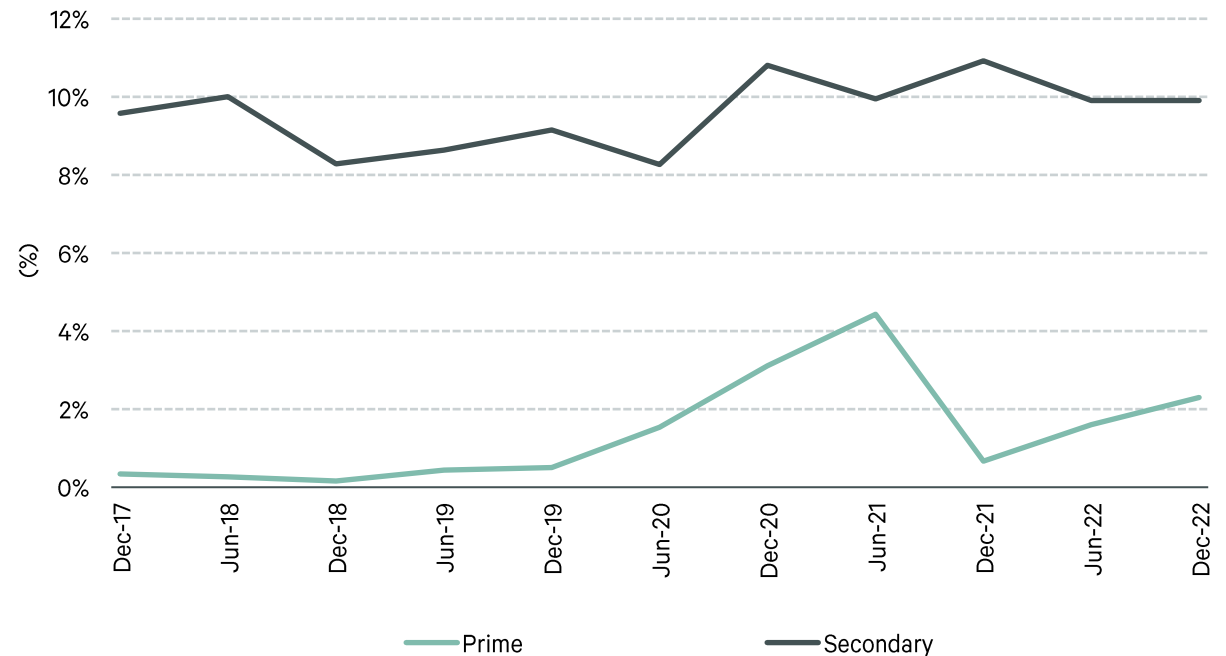
During H2, several buildings were taken out of the market including 33 Bowen Street from Grade B and 109 Featherston Street from Grade D in the Core CBD, one Grade B building (Environment House) in Thorndon, and one Grade D building (13-27 Manners Street) in Te Aro. These removals reduced the CBD office stock by circa 45,191 sqm. This reduction was partially offset by the introduction of circa 15,874 sqm of stock due to the completion of two new buildings (Site 9 and 40 Bowen Street) and one building that came back after being redeveloped (360 Lambton Quay).

While Secondary (Grade B to D) vacancy remained stable at 9.9% in H2 2022, Prime (Premium and Grade A) vacancy increased from 1.6% to 2.3% (a 3,498 sqm increase). Premium grade displayed a small increase in vacant space during this period, due to a financial services company leaving 420 sqm in the Deloitte Centre, which caused the Premium vacancy rate to increase from 0.7% to 1.2% during H2 2022. Also, Grade A vacancy increased from 1.8% to 2.6% in this period, mainly due to backfill vacancy implications (such as EY relocating from the Majestic Centre to 40 Bowen Street, providing 2,050 sqm more vacant space) and occupiers reducing their space footprint.

CBD Office Vacancy Change by Grade

		PREMIUM	GRADE A	GRADE B	GRADE C	GRADE D	TOTAL
Vacancy at	%	1.2%	2.6%	5.1%	12.6%	17.7%	7.5%
December 2022	sqm	954	8,995	21,577	37,265	29,668	98,459
Vacancy at	%	0.7%	1.8%	4.3%	10.9%	22.3%	7.4%
June 2022	sqm	534	5,917	19,667	32,469	40,613	99,200

Wellington CBD Office Vacancy



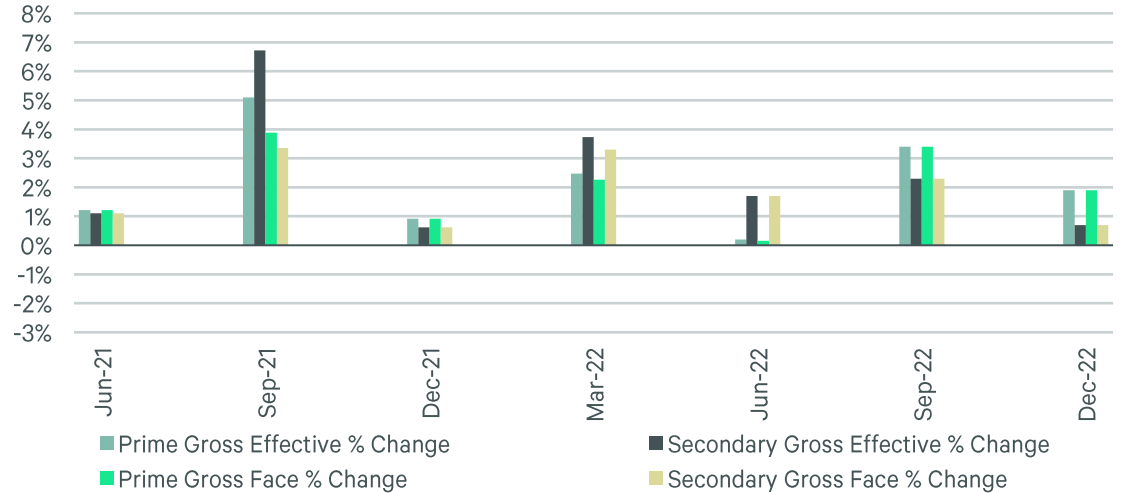
# CBD Office Rents

During Q4 2022, CBD Prime office rents experienced higher growth rates than Secondary. Rental growth for both Prime and Secondary office markets during this period was lower than during Q3 although, compared to our market rental assessments, actual transactions showed a lag with some leases occurring in Q4 showing a strong uplift.

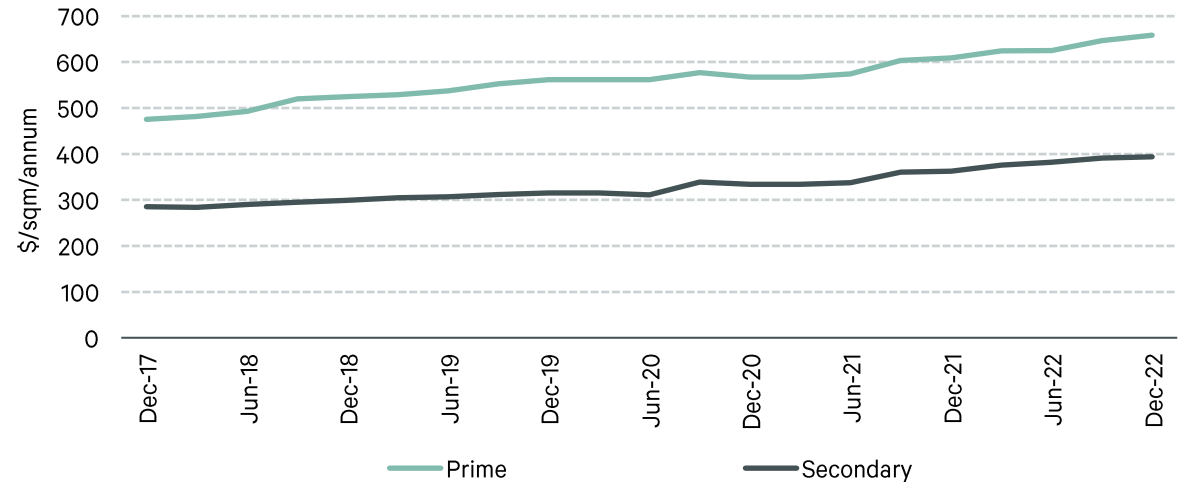
Both CBD Prime gross effective and Prime gross face rents rose by 1.9% during Q4 compared to Q3, averaging \$658 and \$699 per sqm respectively. Moreover, CBD Secondary gross effective and Secondary gross face rents increased by 0.7% during the same period, averaging \$394 and \$443 per sqm, respectively.

Based on CBRE’s assessment, during Q4 2022 indicative market incentives remained stable for both Prime and Secondary space, accounting for 4.0% and 8.6% respectively of face rents.

Wellington Office Rents – Quarterly Change



Wellington Gross Effective Office Rents

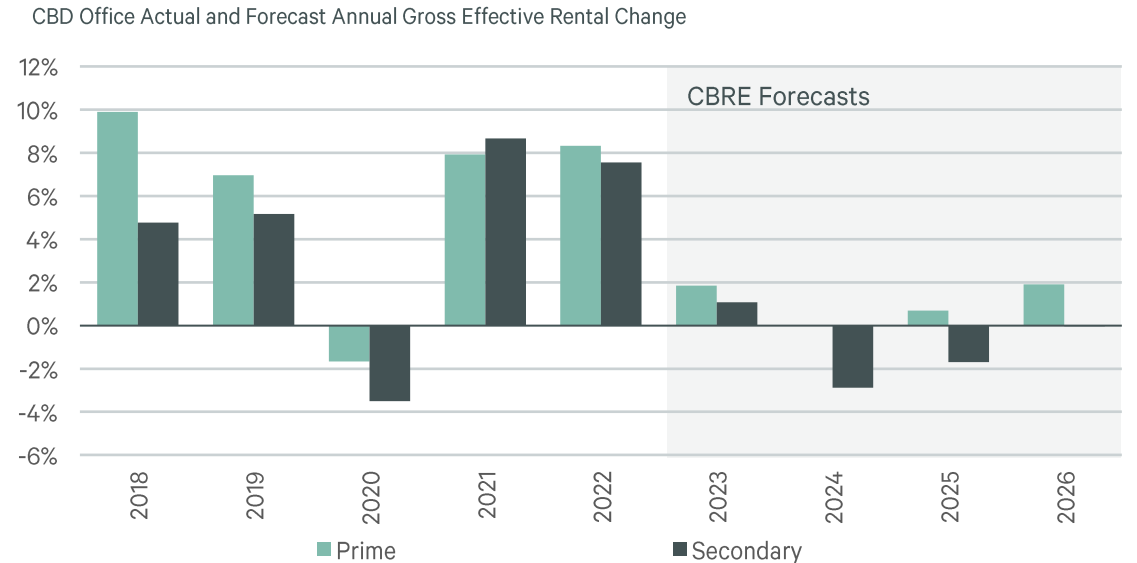
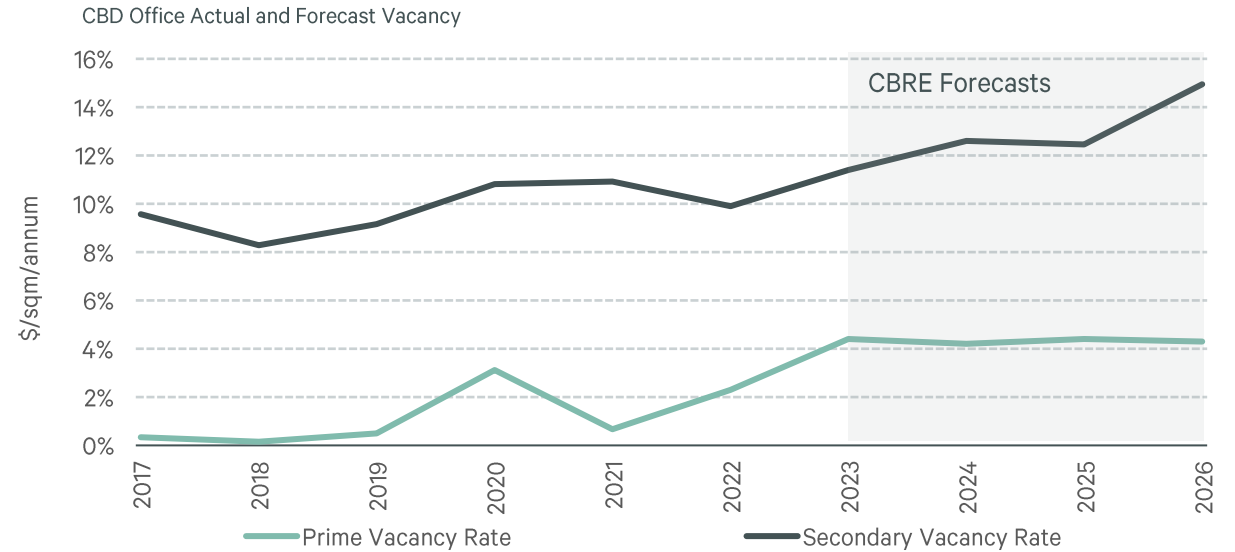


# CBD Office Market Outlook

Diminishing economic growth is forecast to flow through to lower market demand in 2023 and 2024 although actual absorption is forecast to be volatile year to year. Supply additions, and the take up of precommitted space in these, will have a material bearing on the expected annual fluctuations in absorption. CBRE expects moderately positive demand over the next four years at an annual average of just over 7,000 sqm in our base scenario forecasts.

In terms of stock, three new buildings are expected to be completed: Victoria Quarter (Stage 1), 44 Bowen Street (part of the Bowen Campus Stage Two project) and One Whitmore. The last two (both over 10,000 sqm) have a 100% pre-commitment level, although with backfill vacancy implications. Examples include NZTA moving out of Chews Lane to 44 Bowen Street and BNZ moving out of three existing buildings to One Whitmore. Also, three buildings are expected to finish their refurbishment work during 2023: 126 Lambton Quay, Bowen House, and Asteron Centre. Asteron Centre’s previous tenants are expected to come back in 2023. However, at the time of our latest vacancy survey circa 12,000 sqm of space remained available for lease, mainly because some major tenants (like IRD) will occupy less space than before.

We expect vacancy to increase in 2023 given the significant net supply pipeline. In our base forecast scenario vacancy will increase by 56,000 sqm. While the bulk of the vacancy increases will fall in Secondary grade, occupier relocations from existing Prime buildings into new build Prime will also create an overhang of Prime backfill vacancy in addition to a measure of speculative, yet to be committed, new supply. In a broader context however, the circa 4% vacancy expected for the Prime submarket remains modest.



# Retail Vacancy

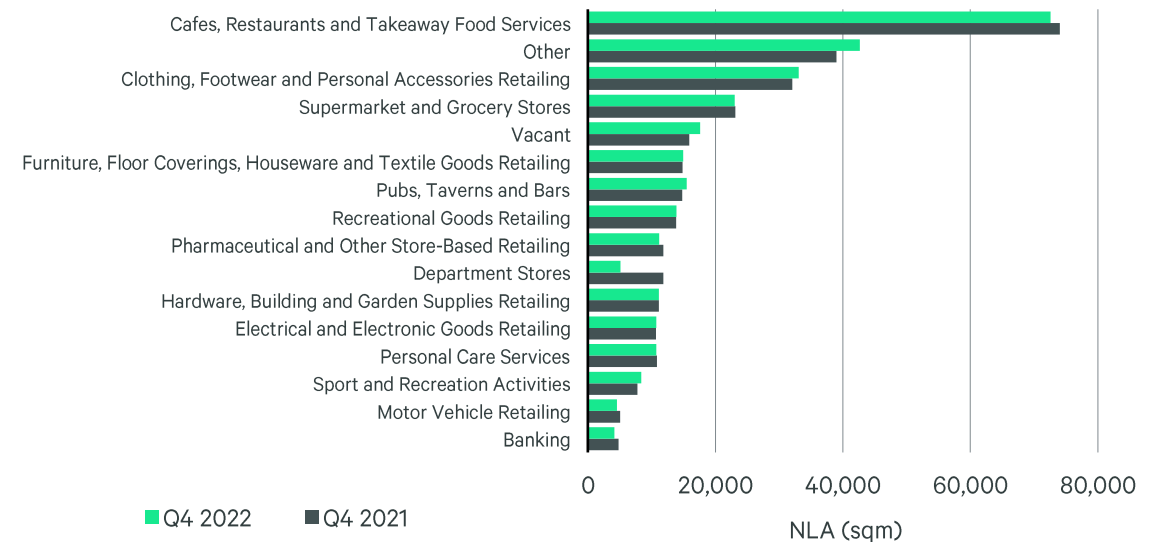
During 2022 Wellington CBD retail vacancy was relatively resilient. The vacancy rate increased from 5.2% to 5.7% compared to December 2021. David Jones has left the market resulting in a decrease of total department store space, but all their legacy retail space has now been leased to several brands. 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

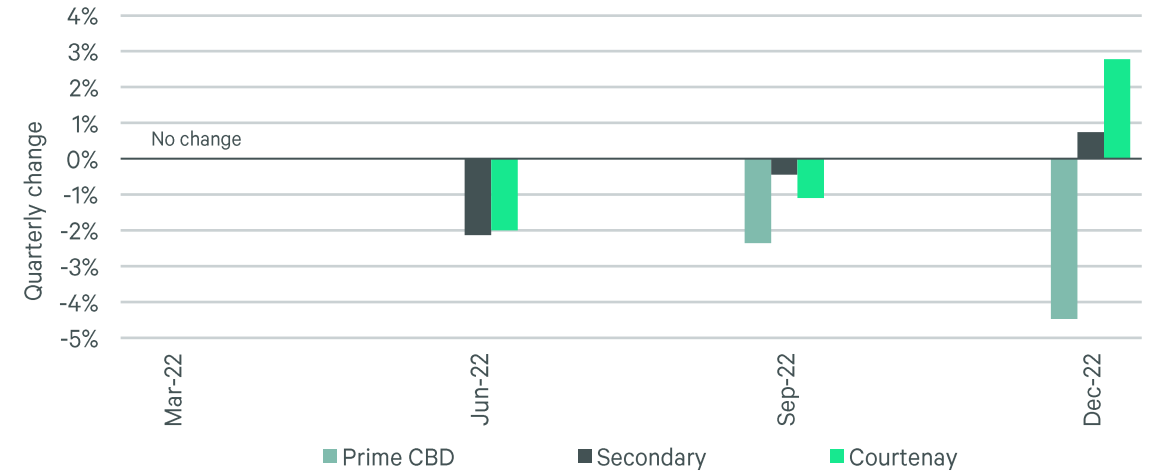


# Retail Rents

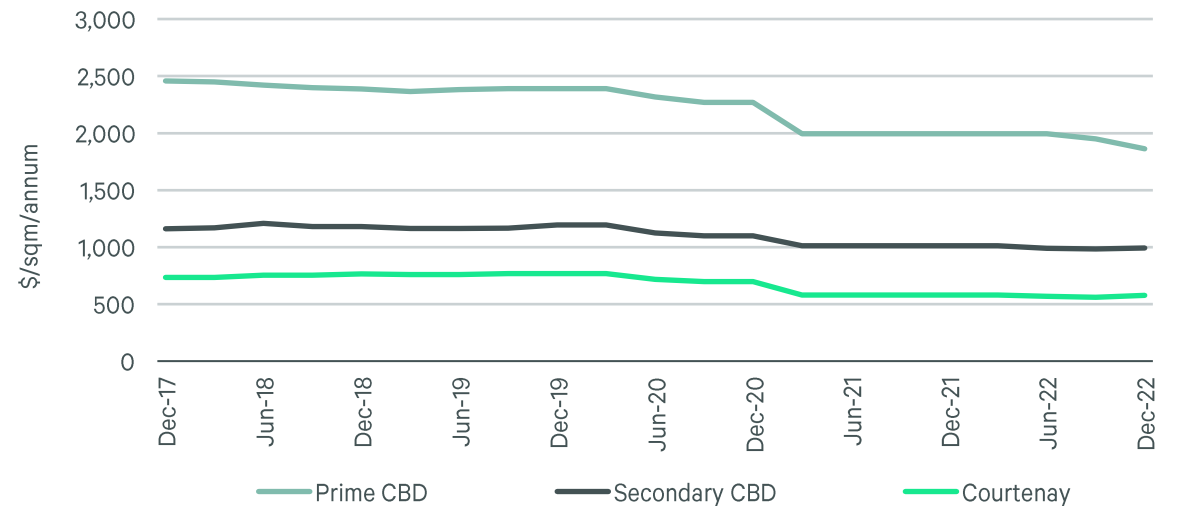
Following a two year period of subdued conditions, the Secondary CBD retail market witnessed some rental growth during Q4, mainly due to positive demand for retail space and increasing foot traffic levels around Willis and Cuba Streets. Similarly, Courtenay Place saw rental growth during Q4 compared to the previous quarter, due mainly to a drop in incentives.

However, some areas of the CBD remain subdued and challenging from a retail leasing perspective. In CBRE’s assessment the Prime CBD retail strip experienced some drop in effective rents due to an increase in incentives.

Wellington Retail Rents – Quarterly Change



Wellington Net Effective Retail Rents



# 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).

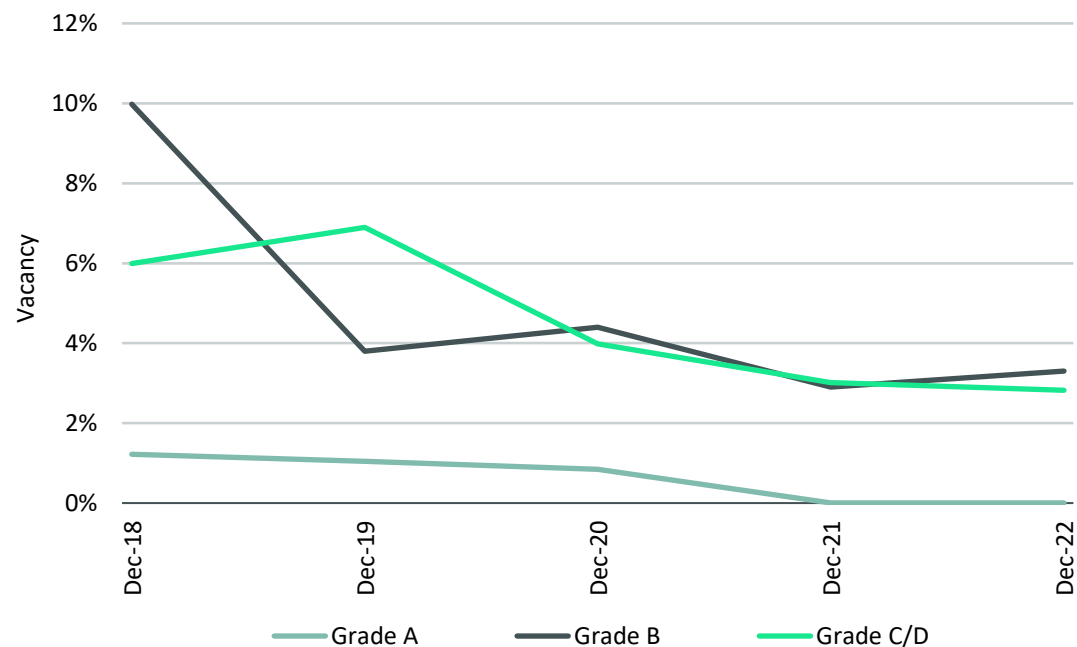
Circa 27,750 sqm were added to the market as new stock. Also, 11,350 sqm were withdrawn from the market, out of which 1,940 sqm were from a vacant Grade C building in Naenae.

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

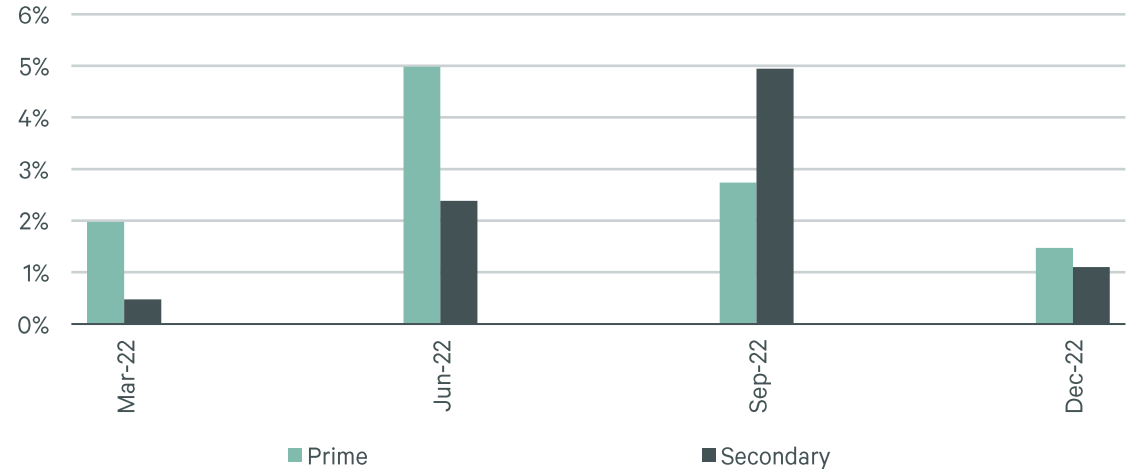


# Industrial Rents

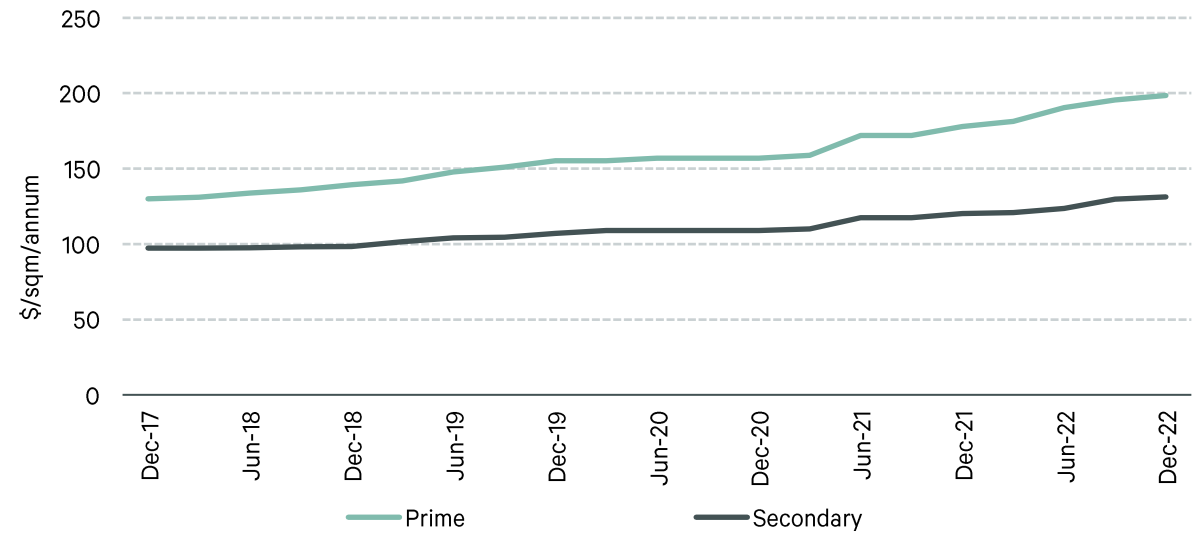
Regardless of some negative sentiment emerging due to economic headwinds and higher costs, in Q4 the rental growth trend registered in previous quarters continued for both the Prime and Secondary submarkets, although at a slower pace. Industrial Prime gross effective rents reached \$199 per sqm in Q4, up by 1.5% compared to the previous quarter. Also, during the same period Industrial Secondary gross effective rents reached \$131 per sqm, up by 1.1% compared to Q3.

Based on CBRE’s assessment, indicative market incentives remained unchanged in Q4 2022. 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

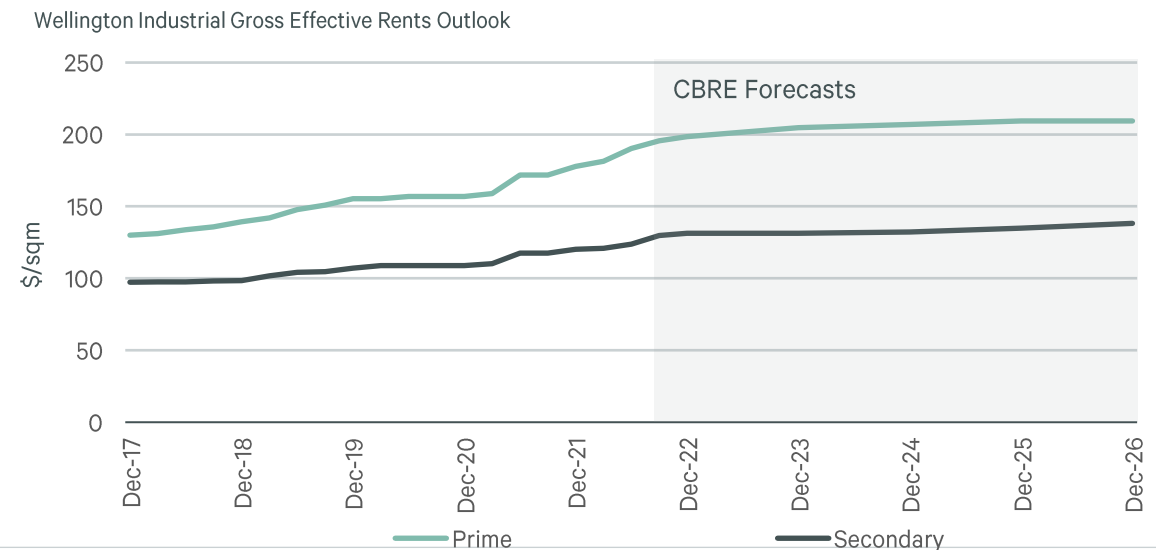
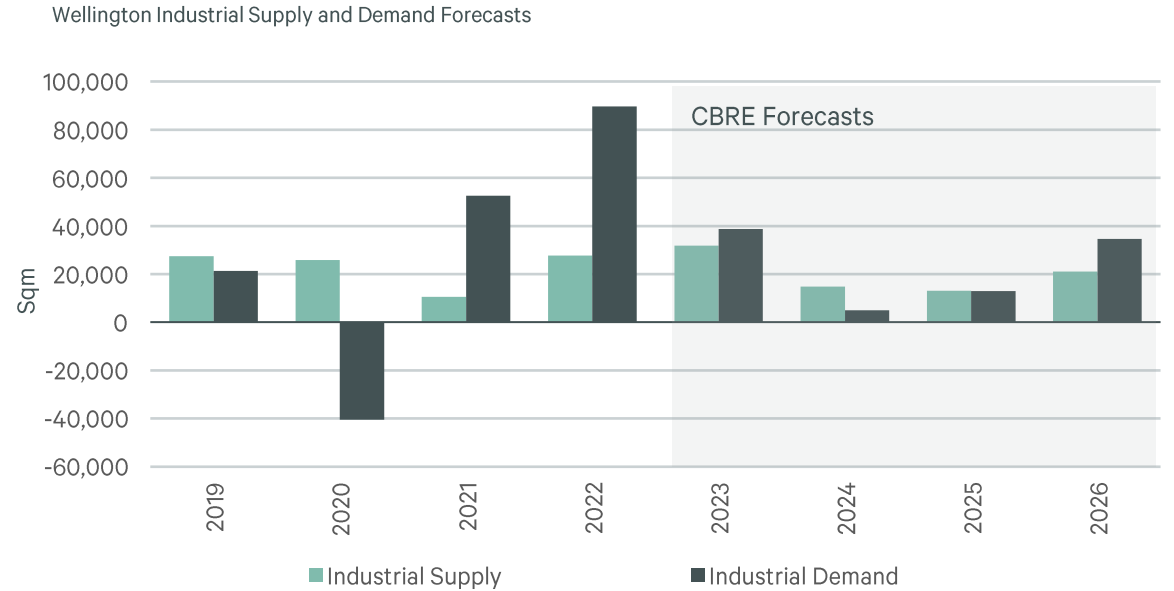


# Industrial Market Outlook

Weaker economic conditions could translate into lower demand for industrial space in the next two years. However, compared to previous cycles, we feel that the bottom of the current cycle will remain relatively resilient.

The supply pipeline remains 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. CBRE expects new industrial supply to increase over the next four years at an annual average of just over 20,000 sqm in our base scenario forecasts.

The strong rent growth momentum experienced in 2021 continued into 2022. However, this year we expect growth rates to ease. Positive momentum should carry into the first half of 2023, but the growth rate is forecast to weaken over the calendar year. It's likely that Prime will outperform Secondary.



## 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.

## Contacts

### Zoltan Moricz

Executive Director, Head of Research  
New Zealand  
zoltan.moricz@cbre.co.nz

### Matthew St Amand

Managing Director, Wellington  
t: +64 27 562 2244  
e: matt.stamand@cbre.co.nz

### Graeme Lundie

National Director, Property Management  
t: +64 21 586343  
e: graeme.lundie@cbre.co.nz

### Duncan Watts

Director, Valuation & Advisory Services  
t: +64 27 414 0174  
e: duncan.watts@cbre.co.nz

### Jorge Chang Urrea

Research Manager  
  
jorge.changurrea@cbre.com

### Matt Hince

Director, Office Leasing  
t: +64 21 333 005  
e: matt.hince@cbre.co.nz

### Martin Veale

Senior Director, Valuation & Advisory Services  
t: +64 27 448 6825  
e: martin.veale@cbre.com

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