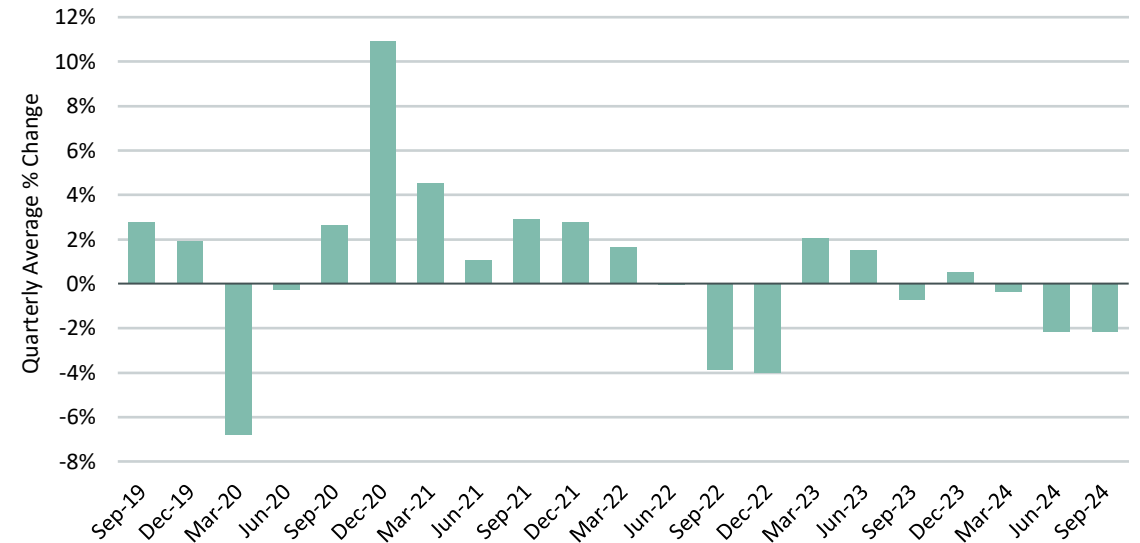


# Auckland Property Market Overview

## INSIGHTS

- Leasing brokers report improved occupier confidence in the wake of falling interest rates. However, current demand remains weak with net absorption generally negative in 2024 across the markets.
- The adverse rental impact (for net effective rents) of weaker occupier markets has been most evident and widespread for industrial property in Q3.
- The shopping centre and office markets also experienced higher incentives, but these increases were more concentrated in selected assets or submarkets (such as sub regional shopping centres and some suburban office precincts).
- The RBNZ’s OCR cuts, compounded with sizeable declines in medium-term interest rates, have refocused the market to a more transactional mindset. While this change will not immediately firm property yields or produce more sales, the market has reached the peak of the yield cycle.
- Q3 showed a general pattern of stable market yields across all sectors. Retail centres have had the most yield softening this year, by an average of 16 bps. However, in Q3, only a few regional shopping centres saw yield softening, with changes of no more than five basis points.

Weighted Average Office, Retail, Industrial Capital Values – q-o-q % change



Market Indicators

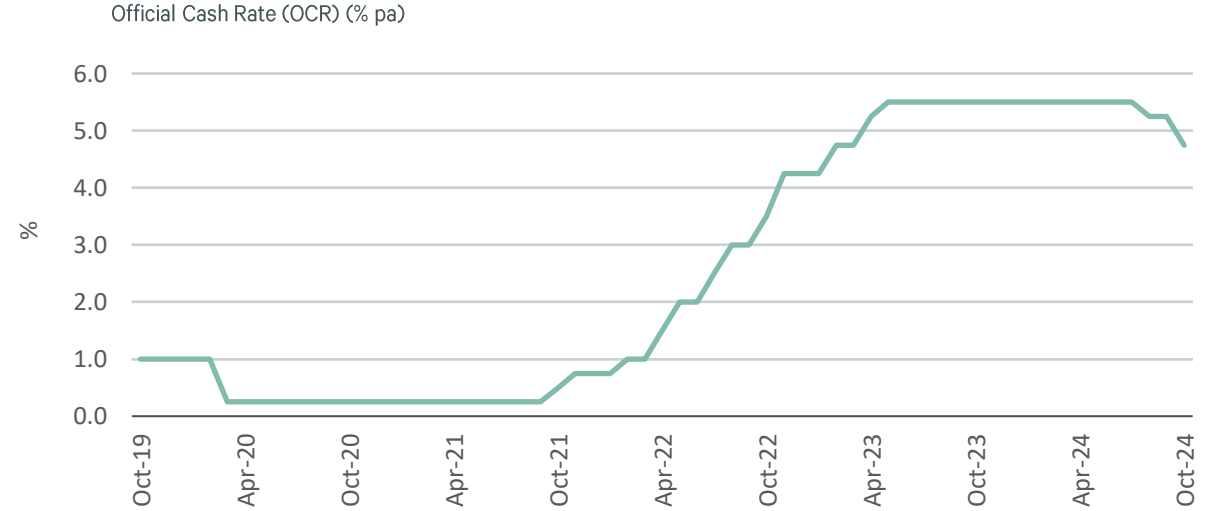
Market Sector	Stock (sqm)	Vacancy (%)	Net Face Rent (\$/sqm)	Incentives (%)	Yield (%)
Prime CBD Office	784,404	10.1	300 - 950	8 - 25	5.20 - 8.80
Secondary CBD Office	637,860	21.4	200 - 600	10 - 25	6.70 - 9.50
Prime Industrial	6,592,073	0.8	170 - 260	5 - 7	5.10 - 6.30
Secondary Industrial	7,459,695	1.3	120 - 220	5 - 8	5.35 - 7.00
Prime CBD Retail			2,500 - 5,500	1 - 3	5.35 - 6.50
Major Regional	294,628	1.5	700 - 2900	4 - 6	6.90 - 7.40
LFR Centre	474,053	1.0	180 - 550	4 - 6	7.10 - 7.90

# Economy

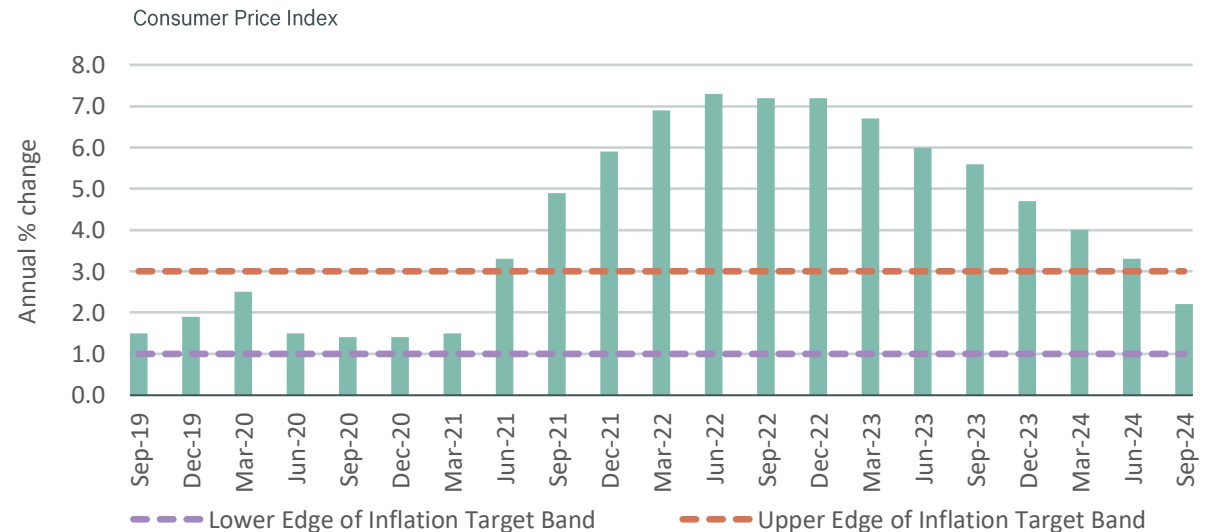
The effects of the tightening monetary policy implemented by the Reserve Bank of New Zealand from late October 2021 to August 2024 continue to be evident, especially regarding inflation. In Q3 2024, annual headline inflation decreased to 2.2%, landing within the 1-3% RBNZ target band for the first time since 2021. The previously sticky non-tradable inflation is also consistently coming down from its peak, while tradable inflation was negative for the first time since 2020, driven by lower petrol and vegetable prices.

The challenging economic conditions, compounded with decreasing inflation, have given the RBNZ enough justification to decrease the OCR at a faster rate than previously anticipated. Since mid-August, the Monetary Policy Committee has cut the OCR by 75 basis points, leaving the current OCR at 4.75%. Some economists believe that the RBNZ could be incentivized to cut the OCR by another 50 basis points in the next meeting in November, which would leave the OCR at the same level it was at in late 2022.

New Zealand continues to confront strong economic headwinds, with subdued economic growth and rising unemployment. Additionally, both the manufacturing and services industries remain in contracting territory. However, the lower-than-expected interest rates resulting from the RBNZ’s current easing monetary policy are beginning to signal the potential for an economic recovery in the medium-term.



Source: Reserve Bank of New Zealand



Source: Statistics New Zealand

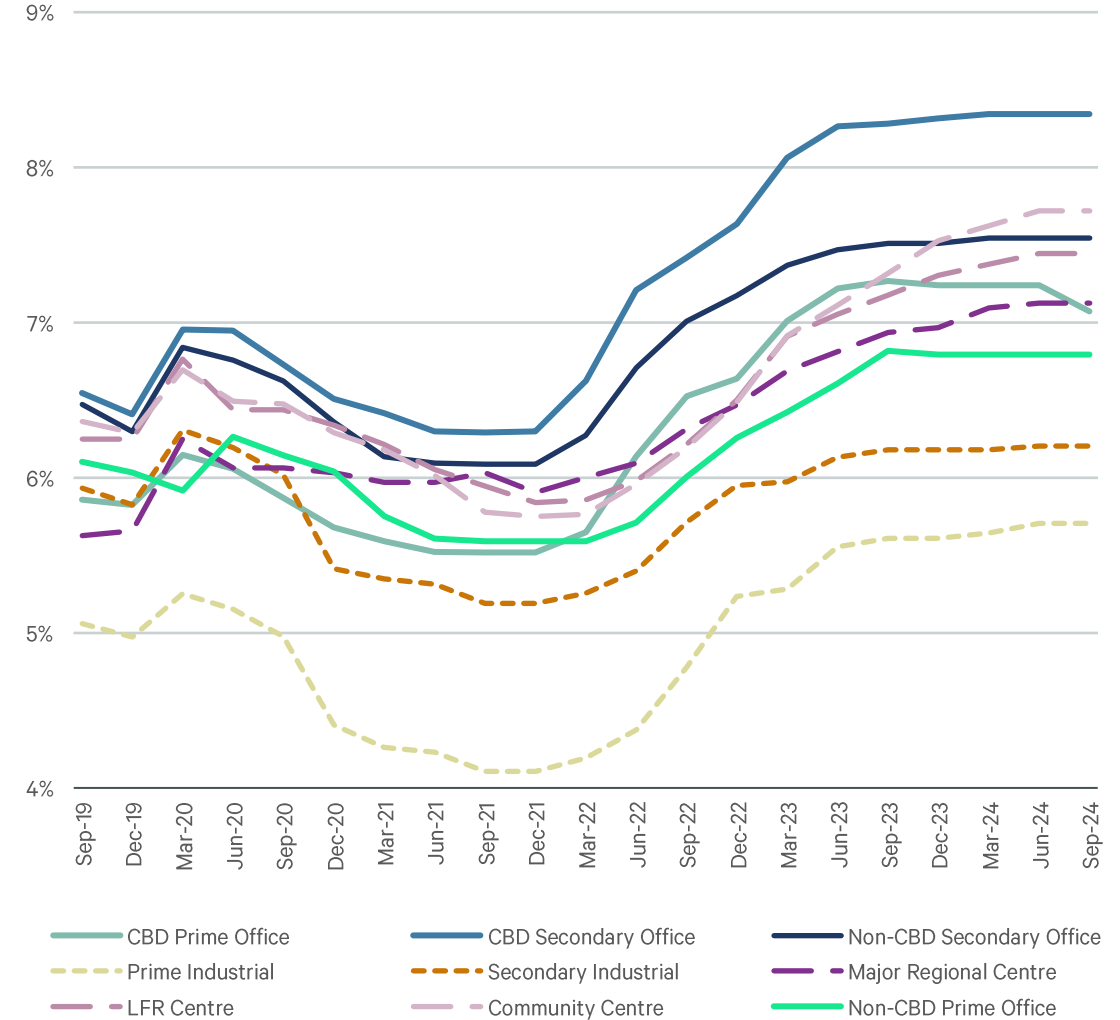
# Investment Market

The RBNZ’s OCR cuts, compounded with sizeable declines in medium and long-term interest rates, has refocused the market to a more transactional mindset. While this change will not immediately firm property yields or produce more sales, the market has reached the peak of the yield cycle. Furthermore, the 75 bps of OCR cuts to date, along with a further anticipated 150+ bps cuts over the next 12 months or so, is alleviating debt cost pressures on investors for both existing and newly acquired debt. This positive shift is fostering increased investor activity and appetite in the market.

In this context, CBRE’s evaluation for Q3 showed a general pattern of stable market yields across all sectors. Retail centres have had the most yield softening this year, by an average of 16 bps. However, in Q3, only a few regional shopping centres saw yield softening, with changes of no more than five basis points. Yields for the remaining shopping centres and other sectors remained stable.

To enhance forecasting outcomes, we have refined our yield forecasting model through a closer analysis of cyclical turning points to predict yield movements in the next two years. CBRE’s econometric analysis indicates yields responded to changes in 2 year swap rates with a delay of two quarters in the last three major market turning points. Our model indicates that recent and anticipated future interest rate decreases will result in declines in market yields for Prime commercial and industrial property by c30 bps during Q1 next year even in a challenging occupancy and rental environment. An important point in the context of our market yield forecasts is how the declines in market yields may flow through to actual portfolio values.

Auckland Indicative Yields by Sector



Note: CBD Prime office yields firmed in Q3 2024 due to some non-market changes including introducing a few new buildings in this submarket. The market trend in Q3 was flat in this submarket.

# CBD Office Vacancy

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

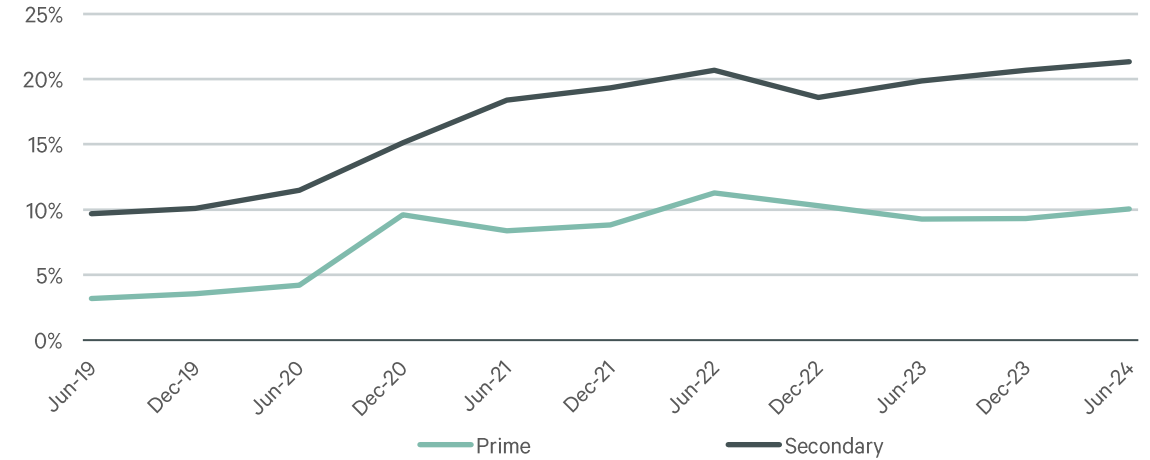
Premium vacancy remained stable at 3.6% in the six months to June 2024. Bell Gully moving to 1 Queen Street contributed most of the absorption loss and backfill vacancies in Vero Centre but this was balanced out by new occupants taking a large proportion of the backfill. There were other small new take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

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

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

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

Auckland CBD Office Vacancy



Auckland CBD Office Vacancy Change by Grade

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

# CBD Office Rents

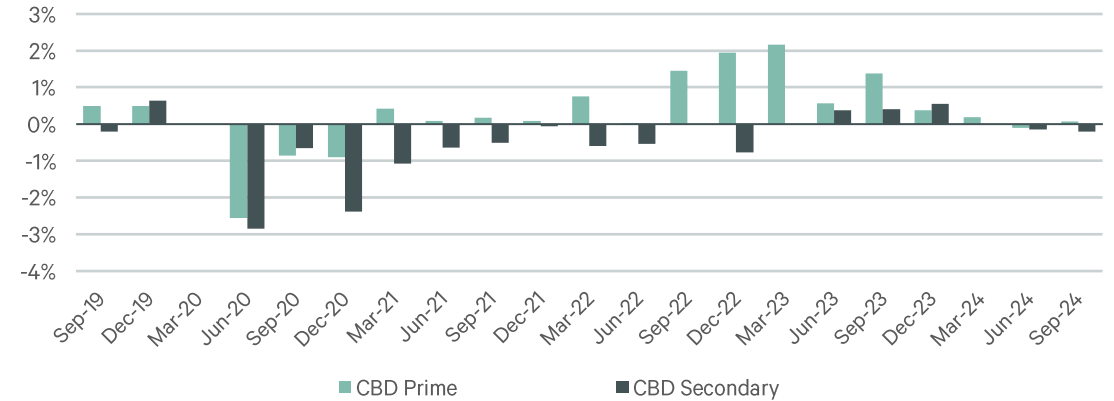
CBRE reviewed its grading criteria in Q3 2024 and applied this to the existing CBD stock, incorporating typology classifications as an additional lens. We have added tower/standard, campus and character typologies and adjusted buildings up or down grades to reflect their current condition. Premium grade is no longer limited to towers, but also includes highest quality campus and character buildings. Therefore, our rent changes this quarter reflect market changes within the new components and classifications.

The Net Effective Office Rents graph (bottom) shows the absolute rental figure, including the changes we have made to our ‘basket of buildings’, and shows a slight decrease in Prime rents from \$462 to \$456, while Secondary rents hold for the fourth consecutive quarter at \$259.

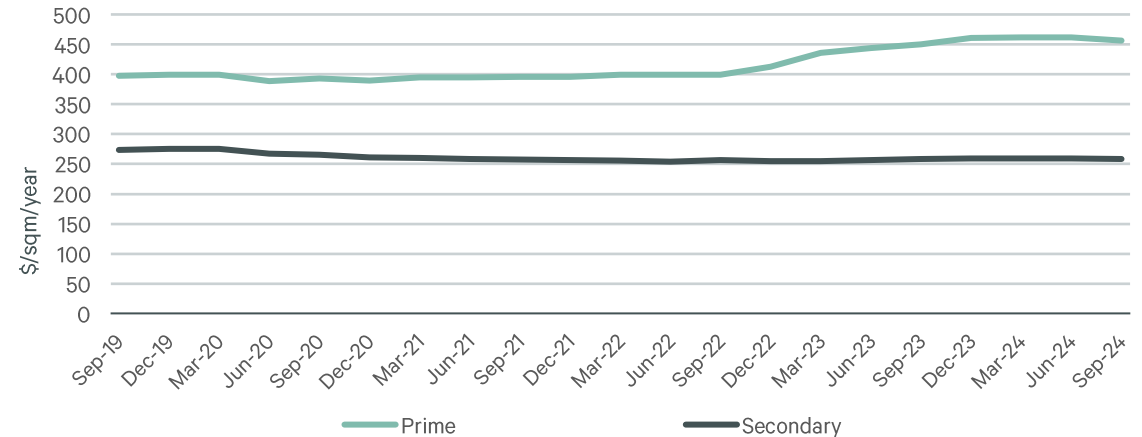
When we focus purely on ‘like for like’ market changes, the picture changes subtly (top bar chart). Premium Grade rents lifted slightly by 0.1%, while Secondary rents dropped by 0.2% in Q3.

Corporates have remained quietly active over the past 18 months, considering spaces around 2,000 sqm, however this is quietening down. In comparison, smaller to mid-sized occupiers have been galvanised into action by the OCR rate change, lifting enquiry levels, especially for spaces the 600 sqm - 1,000 sqm range.

Auckland CBD Net Effective Office Rents by Grade – Quarterly Change



Auckland CBD Net Effective Office Rents



# CBD Office Market Outlook

## Vacancy

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

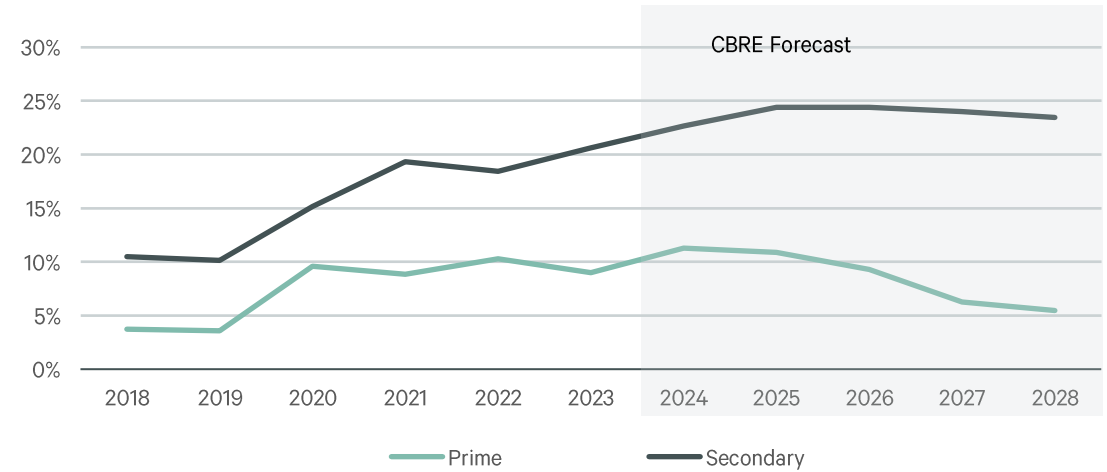
While we expect absorption to be negative in 2024, the overall outlook of five-year absorption rates are fairly positive. Supply and demand forecasts indicate that the vacancy pressure will peak in 2025, and afterwards will be trending downwards. Prime vacancy is likely to start declining from 2025 as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

## Rent

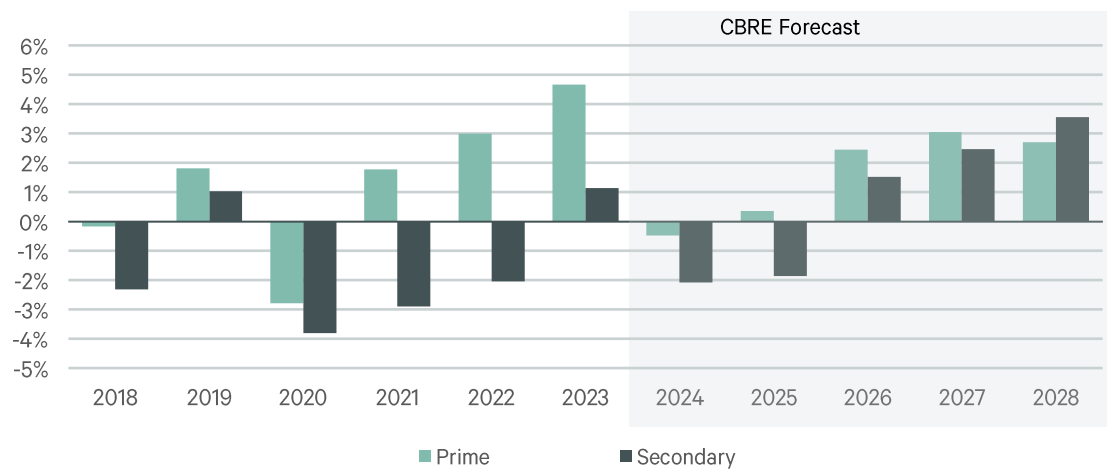
As we expected, this year is becoming more difficult for rent growth given the economic and vacancy backdrop. While there has been some positive momentum in the Premium market in the first half of the year, Grade A rents started coming under downward pressure. As a result, the overall Prime (Premium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

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

CBD Office Actual and Forecast Vacancy



CBD Office Actual and Forecast Annual Net Effective Rental Change



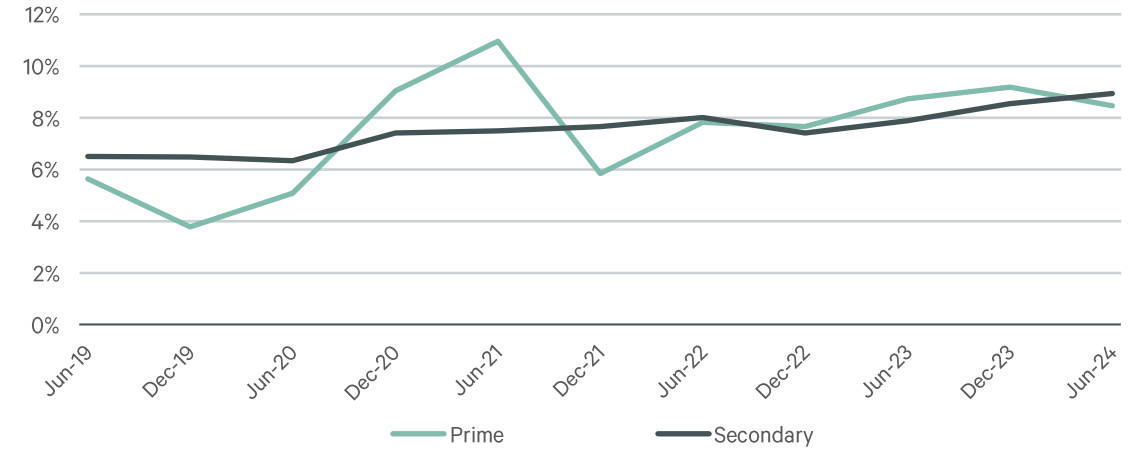
## Non-CBD Office Vacancy

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

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

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

Auckland Non-CBD Office Vacancy Change by Grade



Auckland Non-CBD Office Vacancy

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

# Non-CBD Office Rents

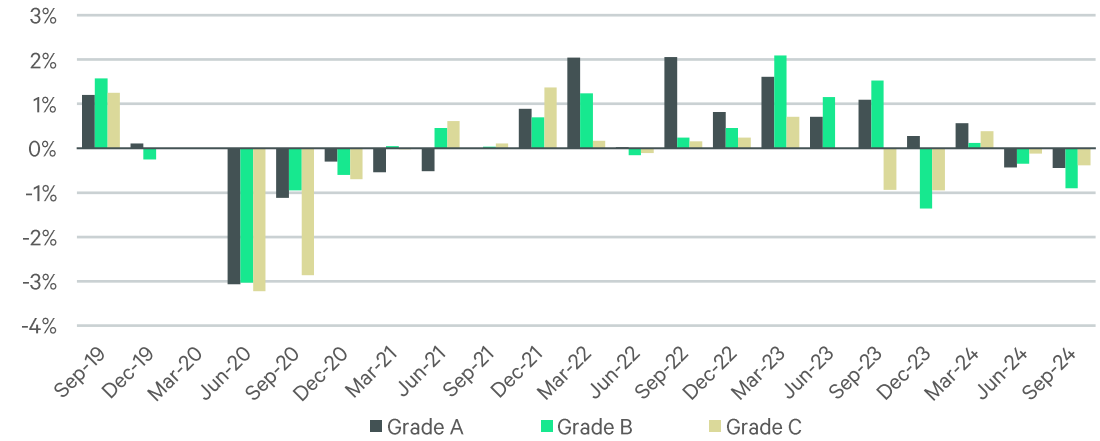
Non-CBD Prime net effective indicative rent is now \$369 psm p.a., while Secondary grade is now \$259 psm p.a., although sub-markets within Auckland continue to be governed by differentiated stock levels, local demand and landlord resources to resolve vacancy.

Newmarket rent remained for the most part stable, with two exceptions. Landlords acted to reduce asking rents in response to longstanding sticky vacancy in one building, and the impending departure of a large occupier leading a second to adjust their expectations meet the current market.

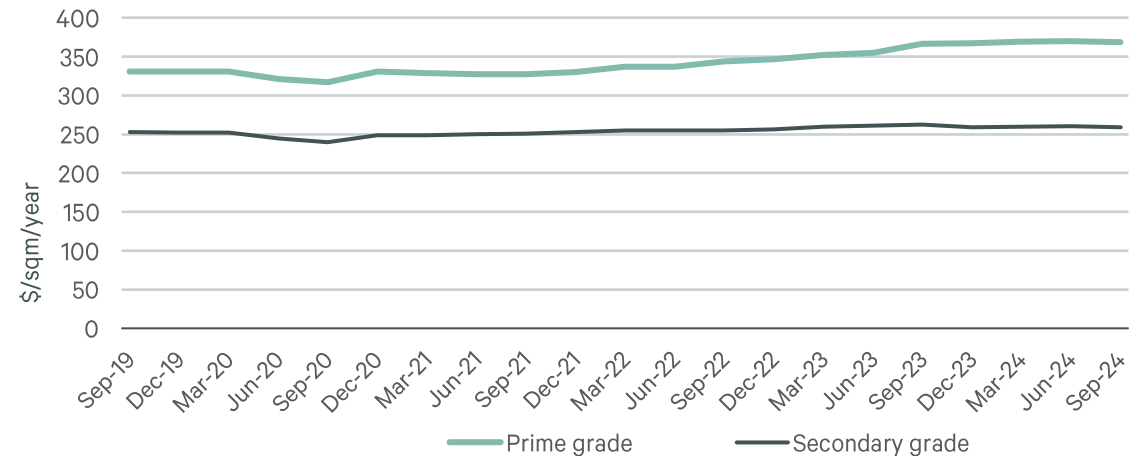
Near-CBD fringe and North Shore rents remained stable throughout Q3, although for the latter this was due to a lack of activity over the period. Fringe enquiries have lifted in Q3, as larger occupiers consider their next moves due to lease expiry, although many are eying up Wynyard Quarter as the current place to be.

In Q3 South Auckland net effective rents reduced slightly as pragmatic landlords looked to minimise vacancies by increasing incentives, primarily in the form of fitouts. Green shoots are starting to appear here, as enquiries have lifted in Q3, albeit from a low base.

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



Auckland non-CBD Net Effective Office Rents



# Non-CBD Office Market Outlook

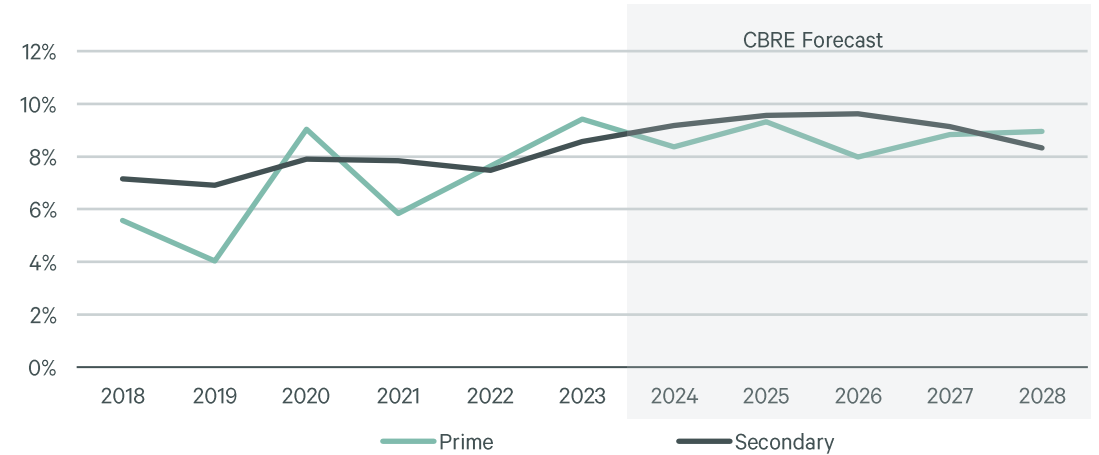
## Vacancy

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

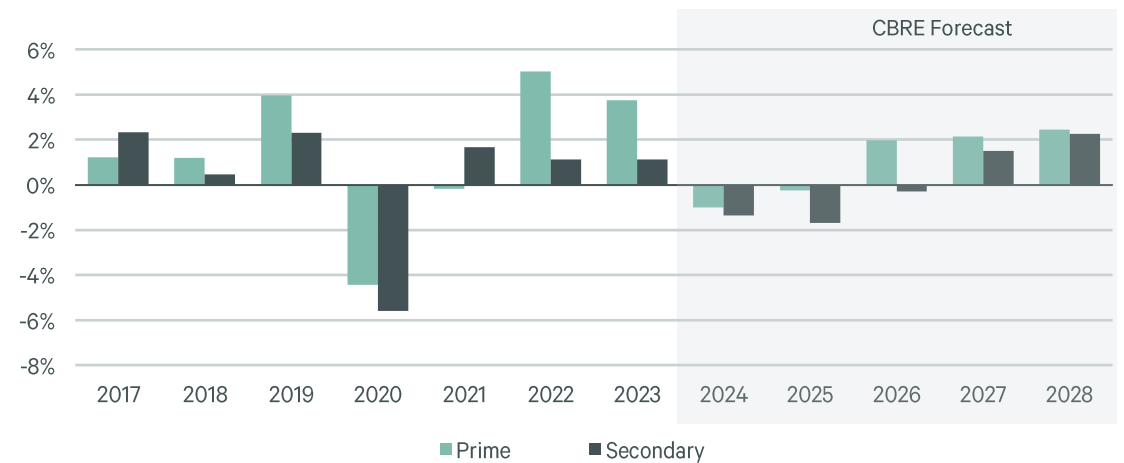
## Rents

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

Non-CBD Office Actual and Forecast Vacancy



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



# Retail Vacancy

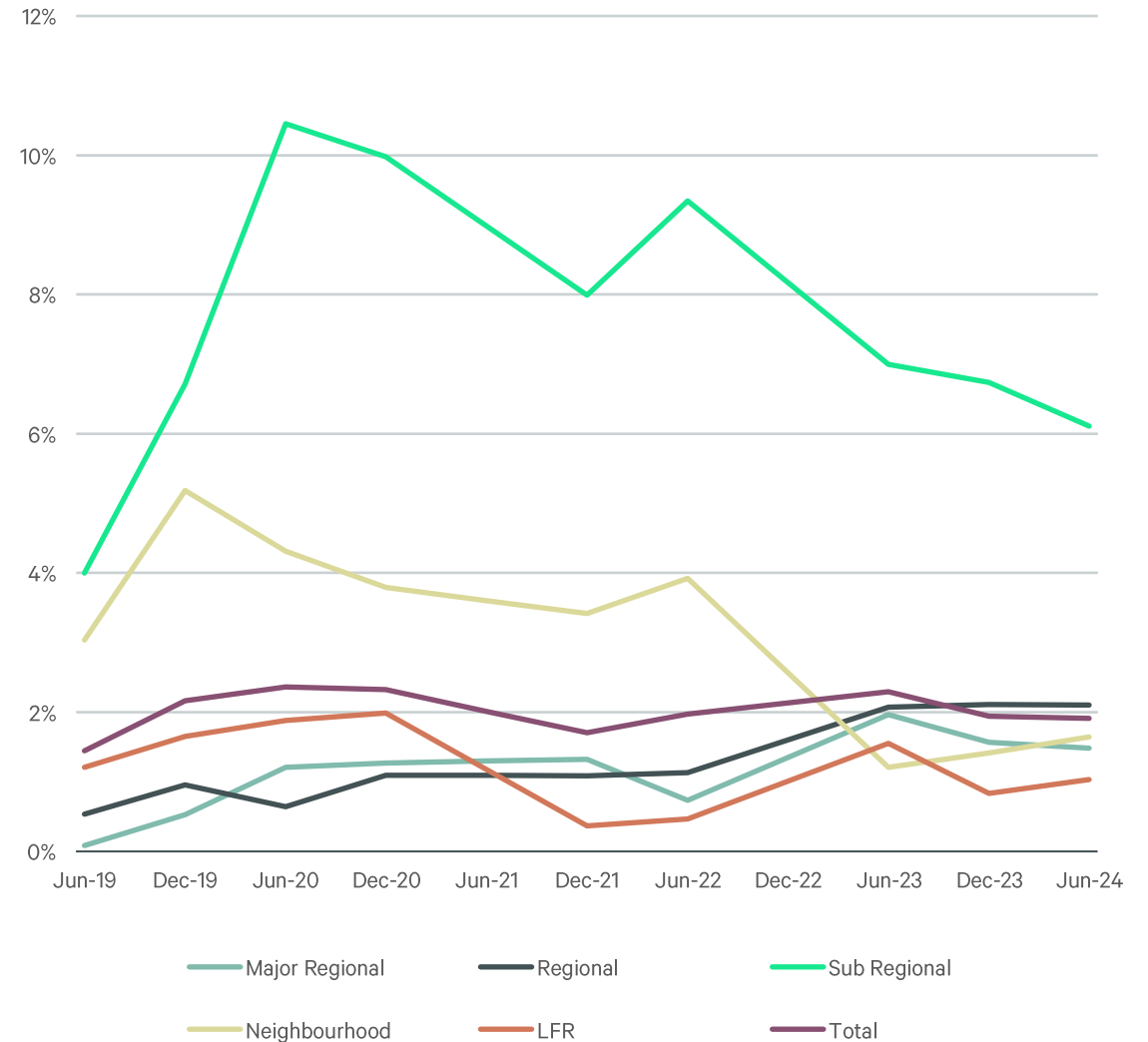
Vacancy levels have declined for 3 of the 5 centre typologies we monitor, contributing a slight reduction in total vacancy to 1.9% for Auckland. This is considered a good result given the current economic climate and elevated cost of living still dampening discretionary spending.

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

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

Looking forward, the new supply pipeline comprises mostly LFR typologies with scalable developments in Westgate and Sylvia Park. For Shopping Centres this indicates right-sizing of supply per capita which will support declining vacancy and yield compression furthered by improved discretionary spending and consumer confidence in 2025.

Auckland Retail Centre Vacancy



# Retail Rents

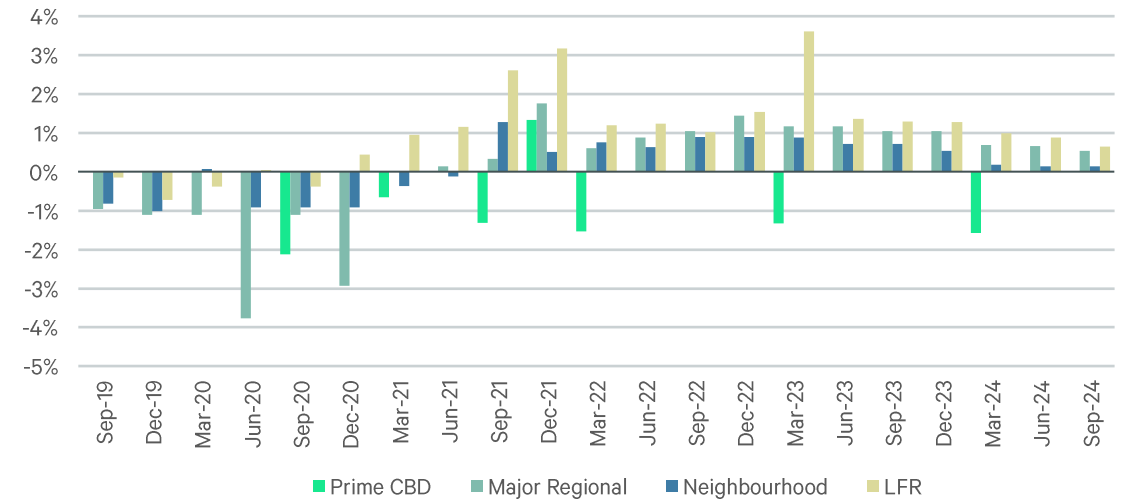
Rental growth has generally slowed over the past year which mimics the slowdown in inflation observed over the same period. Consequently, LFR rents increased by just 0.6% in Q3, followed by Regional and Neighbourhood Centres (0.5% and 0.1% growth respectively).

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

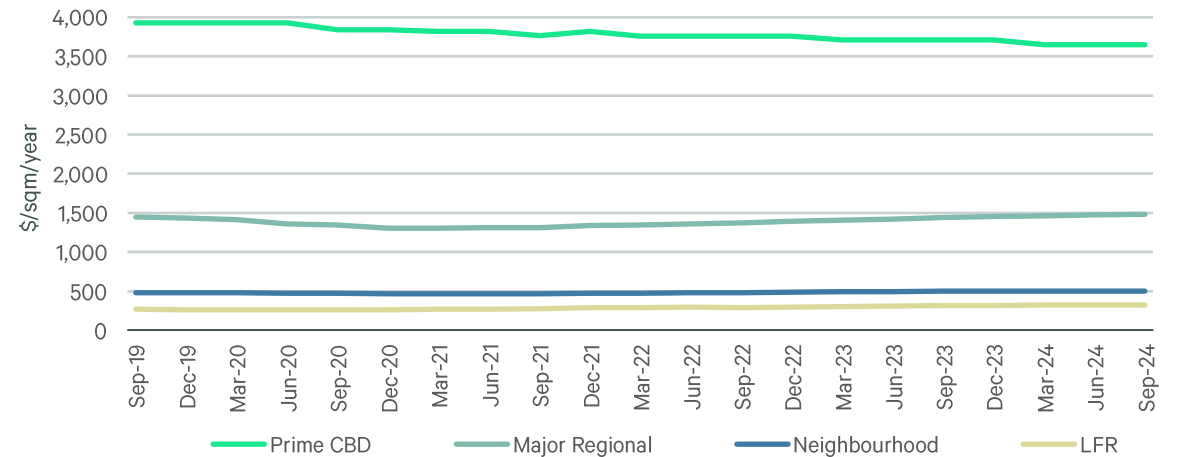
Leasing agents report improved appetite for space among larger retail chains although apprehension is persistent when finalising new leases. Well capitalised retailers look beyond the short term when considering future space options and can see through the recent softening in retail spending.

Midtown CBD rents remain low consequent of street scape changes in Victoria and Albert Street corridors. Incentives are running high in these areas as smaller stores previously blocked off are becoming available. Over the next 12 months these stores will be absorbed by entry level retailers improving demand and face rents for midtown particularly as the CRL becomes operational.

Auckland Retail Rents – Quarterly Change



Auckland Retail Rents



# Industrial Vacancy

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

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

Auckland Industrial Vacancy



Auckland Industrial Vacancy Change by Grade

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

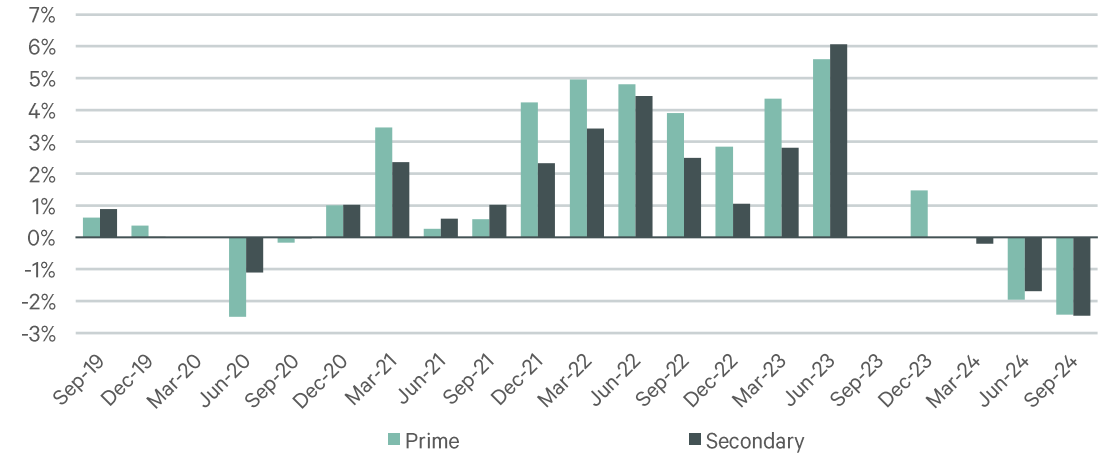
# Industrial Rents

Industrial face rents have been largely stable so far this year, edging forward slightly driven by top-quality warehouses. However, the growth was counteracted by higher incentives being offered more extensively in Q2 and Q3, leading to an overall decline of both Prime and Secondary effective rents. Both Prime and Secondary’s incentives increased by two months on average since Q2. The average Prime incentive stood at 6.5% and Secondary at 6.9%.

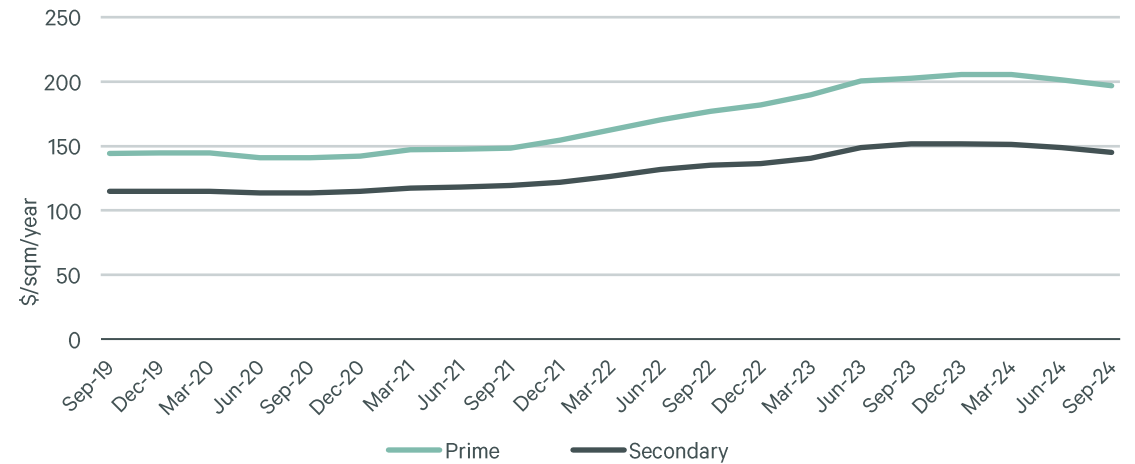
While remaining low in an absolute sense, industrial vacancies are increasing and this, along with softer occupier demand, is the main reason for increasing incentives during the past two quarters in a more competitive leasing market.

Recent asking rents indicate that net face rents in some suburbs may still experience slight growth, given some major spec/uncommitted buildings coming to the market presenting opportunities for the current stock to achieve new benchmark rents. However, these potential increases in face rents are limited and insufficient to lift net effective rents, as incentives will either increase or remain high in the next two to three quarters.

Combined (office and warehouse) Net Effective Industrial Rents



Auckland Industrial Net Effective Rents – Quarterly Change



# Industrial Market Outlook

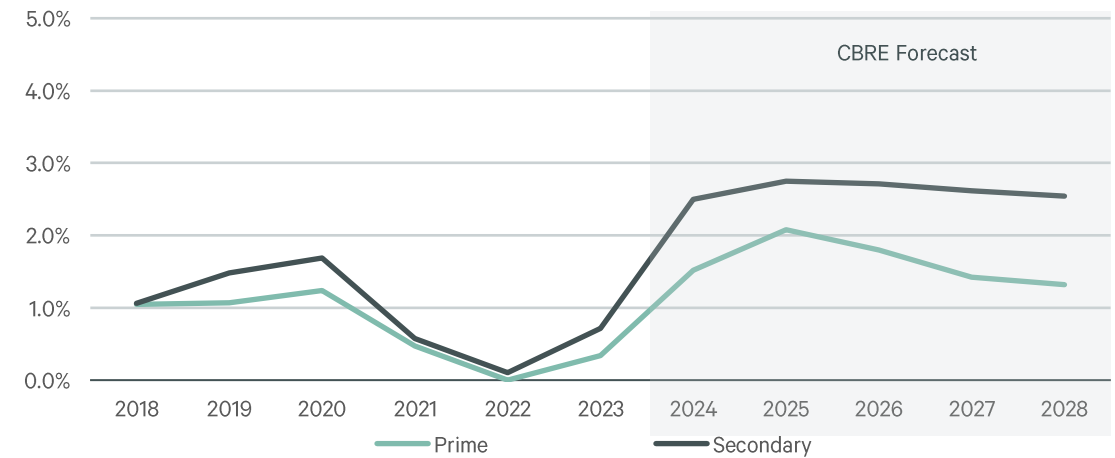
## Vacancy

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

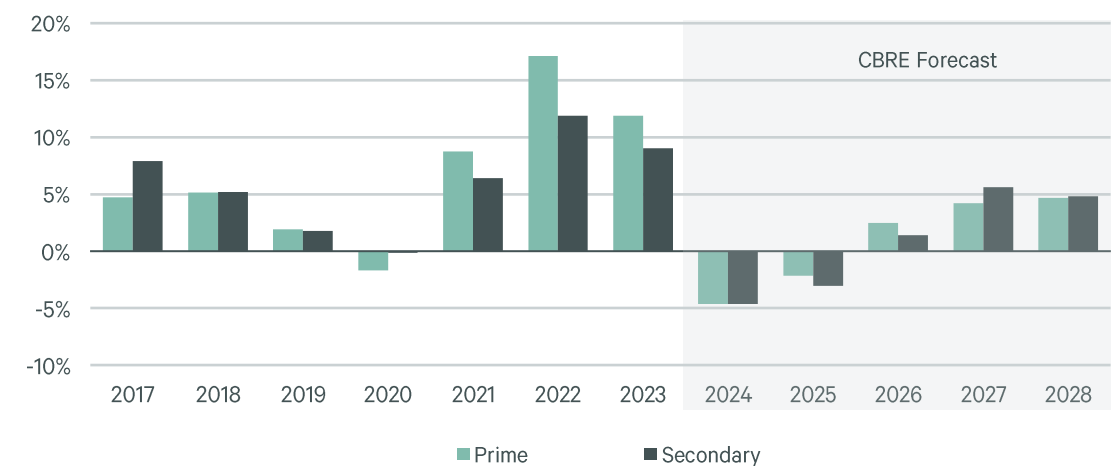
## Rents

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

Auckland Industrial Actual and Forecast Vacancy



Auckland Industrial Actual and Forecast Annual Net Effective Rental Change



## Definitions

### Office building grades

**Premium:** Top quality landmark space which is generally the pacesetter in establishing rents and includes the following general attributes: prestige lobby; high architectural merit; prominent location; prestigious occupiers; the latest or recent generation of building services; ample natural lighting; good views and outlook; quality access to and from an attractive street environment; large size - +20,000 sqm. **Grade A:** High-quality modern space including many but not all Premium features. **Grade B:** Good quality modern space with some but not all Grade A features and to a lower standard. **Grade C:** Average quality air-conditioned space. **Grade D:** Older style poor quality space. **Prime:** Combination of Premium and Grade A. **Secondary:** Combination of Grade B and C.

### Industrial building grades

**Prime:** Industrial space used for general warehousing or logistics with stud heights of 9 metres or more, largely column free. Lettable area will exceed 1,500 sqm. The property will be of a high specification and well maintained. The grade encompasses properties from the current generation of design build premises to buildings built over the previous cycle. **Secondary:** Industrial space generally built prior to the mid 1990s, inferior to Prime space in terms of building quality and specifications being lower stud (generally between 6 and 9 metres) and in some cases lacking Capex and having deferred maintenance issues although still providing functional industrial accommodation. Lettable area will exceed 500 sqm.

### Rents and yields

CBRE uses the “basket of buildings” methodology to determine market yields and rents. For each property sector covered, a group of representative buildings are nominated and a panel containing senior members of appropriate departments within CBRE convenes to assess the market level of yields and rents for these buildings. Based on this, CBRE’s indicative average rental and yield figures reflect our view of the market after considering available appropriate evidence. Yields represent initial yields based on market rents. Rents are net effective. The industrial rents presented are a combined warehouse and office figure.

## Contacts

### Zoltan Moricz

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

### Shang (Roger) Du

Senior Research Analyst - Industrial  
roger.du@cbre.com

### Bianca Cornforth

Senior Research Analyst – Office & Retail  
bianca.cornforth@cbre.com

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