

Auckland's city centre – good prospects despite recent challenges

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Summary

- The city centre has faced some challenges in recent times, visible in foot traffic and retail spending data
- It remains a highly productive location, and the level of private sector investment reflects confidence in the city centre's future
- Supportive long-term tailwinds include population growth, the shift towards services, and improved access enabled by the City Rail Link

The city centre has been affected by a fall in consumer spending in response to higher interest rates, following the challenges of the pandemic. We look at some of the impacts and consider the outlook for the city centre.

A workplace, a destination, and a home

As Auckland's commercial hub, the city centre attracts a range of service-focused businesses that value being near to other businesses and transport links that allow good access for employees. It is a highly productive location with a large number of businesses and knowledge-intensive jobs in a small area.

The city centre also has a range of amenities and events that make it a destination for residents and visitors to Auckland. Retail and hospitality businesses, visible at street level, rely on that foot traffic and custom as well as from workers and students. Access to jobs, amenities and transport has also attracted nearly 40,000 people who have made the city centre their home.

An economic downturn on top of disruption

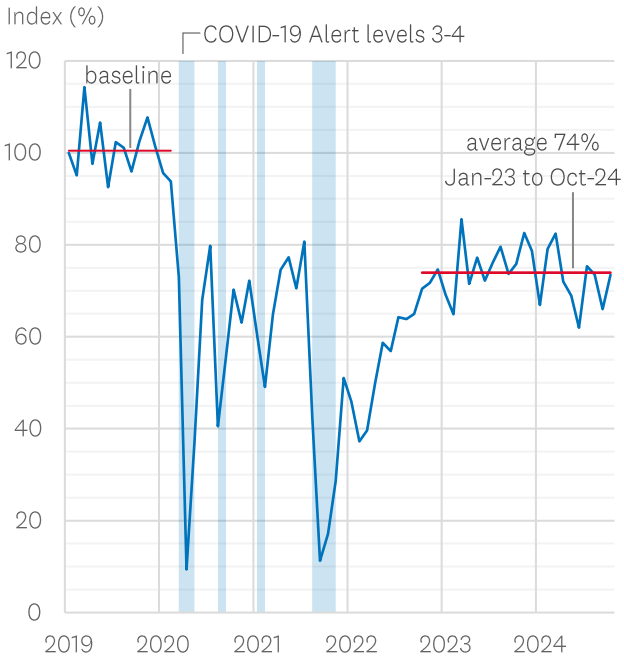
While the city centre has tended to grow at a faster rate than the region in terms of economic activity and jobs, it is clear that it has faced some challenges in recent times.

The city centre was significantly impacted by the disrupted international connections and lockdowns of the COVID-19 pandemic. The rise of working from home and increased competition from online shopping has increased flexibility and efficiency while also altering spending patterns. Fewer people have been coming to the city centre as a result.

Figure 1 shows changes in pedestrian counts compared to the year before the pandemic. Foot traffic in the city centre remains below pre-pandemic levels, despite some recovery. Over the two years to October 2024, monthly pedestrian counts have averaged 26% lower than those recorded in the year to February 2020.

More recently, foot traffic has been down on last year as higher interest rates have seen households pulling back on spending. From March to October 2024, monthly pedestrian counts in the city centre have averaged 6% lower compared with the same period in 2023.

Figure 1: Monthly pedestrian counts in the city centre



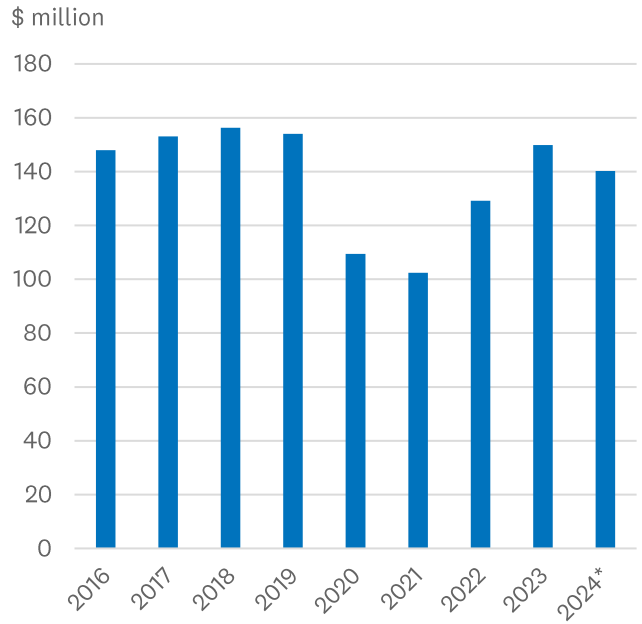
Sources: Heart of the City data; Chief Economist Unit chart¹

Similarly, consumer spending in the city centre also remains below pre-pandemic levels. Figure 2 shows average monthly retail spending across years. Spending began to recover in 2022 and 2023 after the disruption of the pandemic and its effects in 2020 and 2021.

However, in 2024, spending has been approximately 6% lower than in the same period in 2023, as higher interest rates have led to households cutting back and fewer visitors. Average monthly spending in 2024 still remains 9% lower than the pre-pandemic year of 2019, with the gap being larger in inflation-adjusted terms.

The city centre’s offering is weighted to hospitality and accommodation, which are more discretionary expenses rather than everyday essentials, like groceries and fuel. This means the city centre is more sensitive to changes in household spending than Auckland overall, which is down just 1% in 2024 compared to 2023. The city centre is not alone in this. Other centres with similar offerings have also felt the impact of the pullback in household discretionary spending.

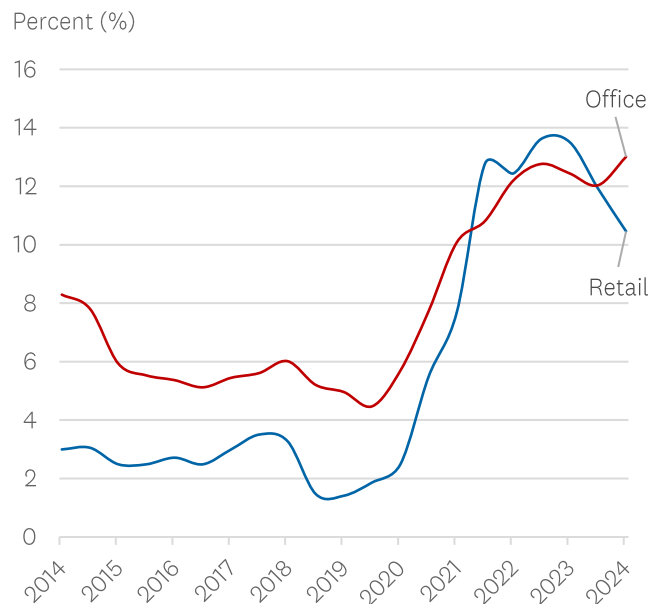
Figure 2: Average monthly spending in the city centre



Source: MarketView electronic card data; Chief Economist Unit chart; * comprises nine months of data, seasonally adjusted

The lower level of spending has seen the retail vacancy rate rise and remain at elevated levels. Figure 3 shows how the retail vacancy rate in the city centre rose from 2% just before the pandemic to nearly 14% in December 2022. Since then, the vacancy rate has decreased from that peak, and as of June 2024, it was just above 10%.

Figure 3: City centre vacancy rates



Source: Colliers NZ data based on Colliers’ CBD definitions, used by permission; Chief Economist Unit chart

¹ Data from monitoring sites with a long time series: 30, 45, 210 & 261 Queen St; 2 & 59 High Street; 7 Customs St; Te Ara Tahuu Walkway. Adding data from newer sites gives similar result.

The vacancy rate for office space has also risen, from just over 4% to between 12% and 13% from June 2022 to June 2024. Vacancy rates in premium and high-grade buildings are lower as businesses with hybrid working models reduce their floor area in favour of quality. The future prevalence of hybrid working will depend on the extent to which it suits employees and businesses. In reducing employee travel time and costs, it offers the potential for improved job satisfaction and productivity.

A more promising outlook

In the near term, demand for retail should improve with the gradual reduction in interest rates. The disruption caused by the public works for the City Rail Link will ease as construction nears completion. Looking further ahead, the city centre can be expected to benefit from some supportive tailwinds.

- Growth – Auckland’s population is projected to continue to grow, driving demand for services and housing that should benefit the city centre.
- Services – the trend towards a more knowledge-intensive, service-based economy should support demand for commercial office space.
- Access – the City Rail Link will reduce the cost of reaching the city centre, with new stations, more frequent services, and shorter travel times.

The scale of private sector investment in the city centre reflects confidence in its future, with billions of dollars of development projects planned, under construction, or recently completed. Examples of more intensive use of valuable land include the planned redevelopment of the Downtown Car Park and the Symphony Centre above Te Waihorotiu station. Auckland Council is also investing in the enabling infrastructure and urban environment, including in support of the City Rail link.

Focusing on Midtown, Figure 4 highlights a number of recent and planned developments near the new Te Waihorotiu station. Comprising a mix of commercial, residential, retail and hospitality, these developments will benefit from access to the rapid transit network.

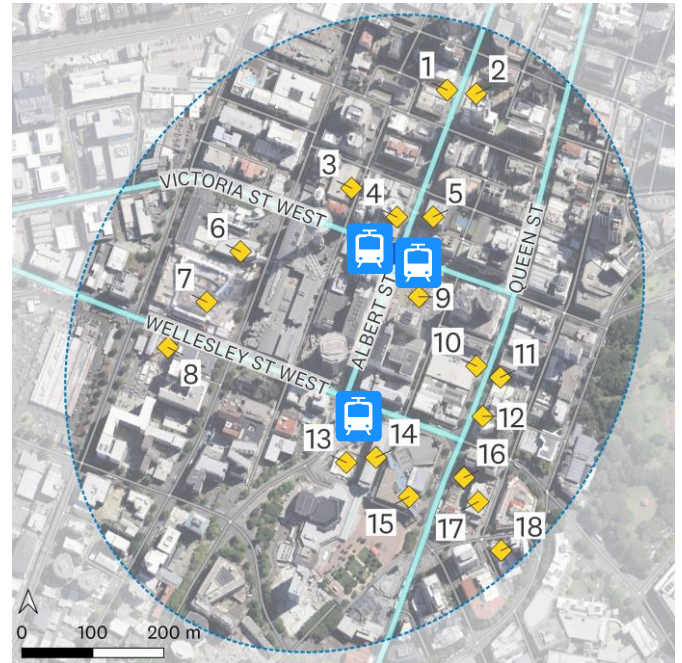
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While it may be natural to focus on the present, taking a longer view reveals the city centre’s potential. The combination of ongoing investment, improved access, and a growing population points to a more promising outlook for Auckland’s city centre.

Figure 4: Midtown developments – recent and planned



Notes: Te Waihorotiu station entrances. Map shows walking distance of approximately five minutes. Key: (1) 51 Albert (hotel & residential); (2) 50 Albert (commercial office); (3) 65 Federal St; (4) Formery; (5) DoubleTree by Hilton; (6) Horizon Hotel; (7) International Convention Centre; (8) Hotel Grand Chancellor; (9) NDG Auckland Centre; (10) Strand Arcade redevelopment; (11) 256 Queen St (student accommodation); (12) 280 Queen St (Radisson Red hotel); (13) The Symphony Centre (residential & commercial); (14) Bledisloe House redevelopment; (15) OnQ Entertainment Centre redevelopment; (16) St James Suites (residential); (17) St James Theatre restoration; (18) 64 Lorne St (student accommodation); Source: public announcements; Chief Economist Unit graphic