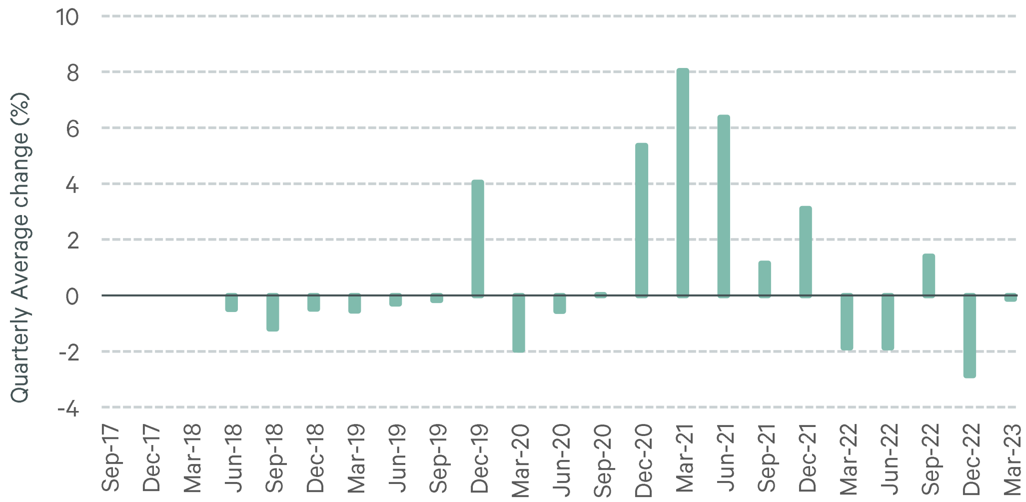
CBRE

Christchurch Property Market Overview

KEY MARKET CHANGES

- Retail spend in Christchurch was robust during Q1 2023, helped by the arrival of international visitors. Prime net effective rents have been stable at the benchmarks established earlier in 2022.
- The industrial market continued to show significant growth in recent quarters. High demand for new and existing buildings meant that vacancy decreased significantly from its already low levels, accompanied by strong rental growth, both in the Prime and Secondary submarkets.
- In H2 2022, there was a modest increase in office vacancy due to yet to be occupied stock additions and a few tenancy contractions.
- While the lack of transactional activity continues to hamper calls on pricing, the interest rate influence can not be ignored. CBRE's assessment resulted in indicative yield increases of 47-115 basis points since the end of 2021 across the various property sectors. The indicative market average capital value declined 0.1% in Q1 2023 compared to the previous quarter, lower than the drop during Q4.
- The market expects that CPI will be back within the 3% target ceiling by H2 2024, but uncertainty remains on how quickly inflation may fall in coming quarters.

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



Market indicators

Market Sector	Stock (sqm)*	Vacancy (%)*	Net Face Rent ($/sqm/yr)	Incentives (%)	Yield Range (%)
Prime CBD	220,466	5.9	360 – 420	4 – 6	6.00 – 6.55
Secondary CBD	70,586	8.9	325 – 375	8 – 10	6.60 - 6.95
Prime Suburban	73,395	10.0	235 – 280	5 – 10	7.55 - 8.60
Secondary Suburban	335,214	8.3	170 – 280	8 – 14	8.55 - 10.05
Prime Industrial	1,492,154	0.1	118 – 138	1 – 2	5.90 - 6.60
Secondary Industrial	2,921,859	1.2	77 – 122	1 – 2	6.60 - 8.85
Fringe & Strip Retail	-	-	240 – 600	4 - 8	5.50 – 7.25

* Stock and Vacancy figures are as of December 2022. Net Face Rent, Incentives and Yield Range figures are as of March 2023.

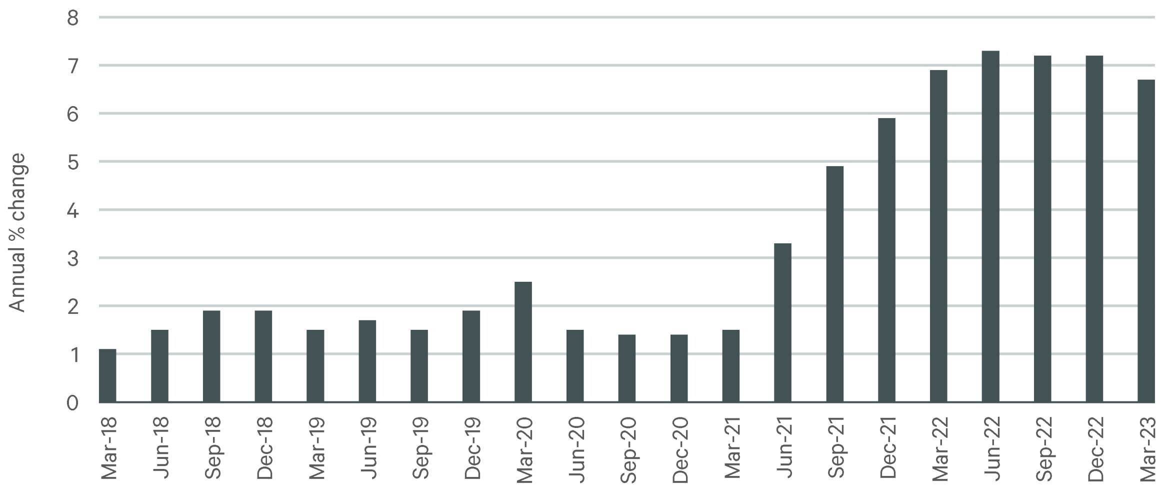
Economy

The economic environment became hazier during the first months of 2023. So far, inflationary pressures seem to be entrenched in the New Zealand economy, at least according to RBNZ, and its effects on the wider economy continue to be prevalent. This led the RBNZ to continue with its hawkish position despite the risk of forcing the local economy into a recessionary environment by trying to suppress aggregate demand. However, in its last session in late May, the RBNZ's Monetary Policy Committee increased the OCR only by another 25 basis points (from 5.25% to 5.50%), catching the market off guard, most of whom had pencilled a 50 basis points increase, especially after the presentation of the Budget 2023, which proved to be more spendy than expected. Even though the RBNZ now expects the OCR to stay (and peak) at 5.50% in the next 12 months, most economists still expect the OCR to peak around 5.75-6.00% during the same period due to the potential stickiness of non-tradable inflation.

During Q1 2023, annual inflation dropped to 6.7%, lower than during Q4 and Q3 2022 (7.2% on both quarters). However, non-tradeable inflation reached 6.8% in Q1, the highest level on record. Domestically generated non-tradeable inflation is an important measure because this is the inflation component that the RBNZ can directly influence through monetary policy.

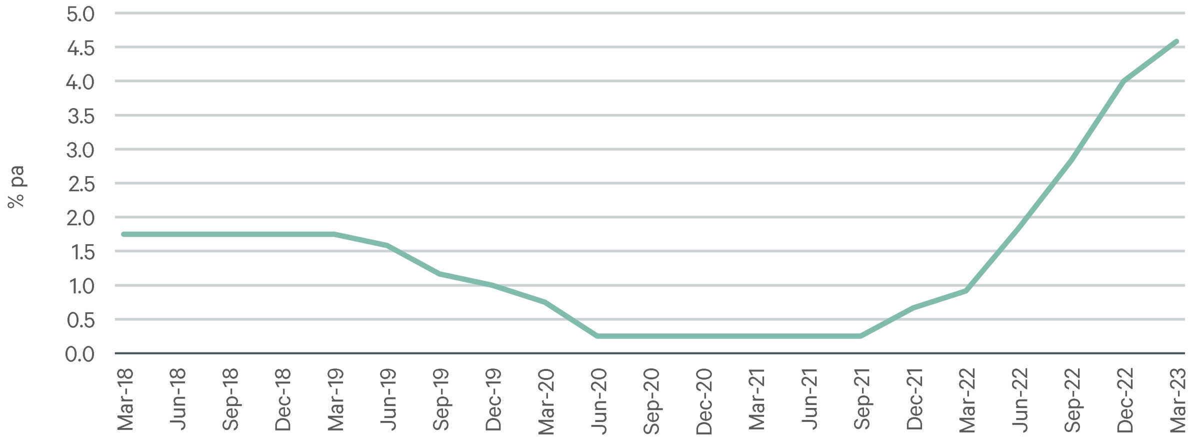
Both the market and the RBNZ are still expecting that CPI will be back within the 3% target ceiling by H2 2024, but a wide range of opinion remains on how quickly inflation will fall in the next few quarters, especially given the expansionary fiscal impulse presented in the latest governmental budget and migration pressures. 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 the rate of decline in 2023 is likely to be modest.

Consumer Price Index



Source: : Statistics New Zealand

Official Cash Rate (OCR) (quarterly average)



Source: Reserve Bank of New Zealand

Investment market

The hike of the OCR by 300 basis points during the last eight months came through with 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.

Funding influence and bank support remain key, pushing the pendulum in favour of those with portfolio funding capacity. In the current environment, value-add, offering an ability to capture rent growth in parts of the market benefitting from higher occupier demand continues to be a key consideration. We expect sales volumes to increase through the rest of 2023 with more motivated sellers coming to the market driven by the need for greater liquidity as higher interest rates flow onto lower interest cover ratios and LVRs, and gearing covenants get impacted by revised valuations.

Even more prevalent than last year, the cap rate to debt cost margin offered by different property sectors continues to have a material effect on yield fluctuations. Yields have been adversely impacted by the significant reductions of these margins in the lowest yielding Prime office and industrial sectors despite strong occupier and rent growth profiles. In our assessment, Prime CBD office market yields were up by 54 basis points between Q3 2022 and Q1 2023 to an indicative average of 6.20%, with Prime Suburban office up by 25 basis points to 7.98%. Also, during this same period, the industrial submarkets saw their yields softening, on average, by 45 basis points.

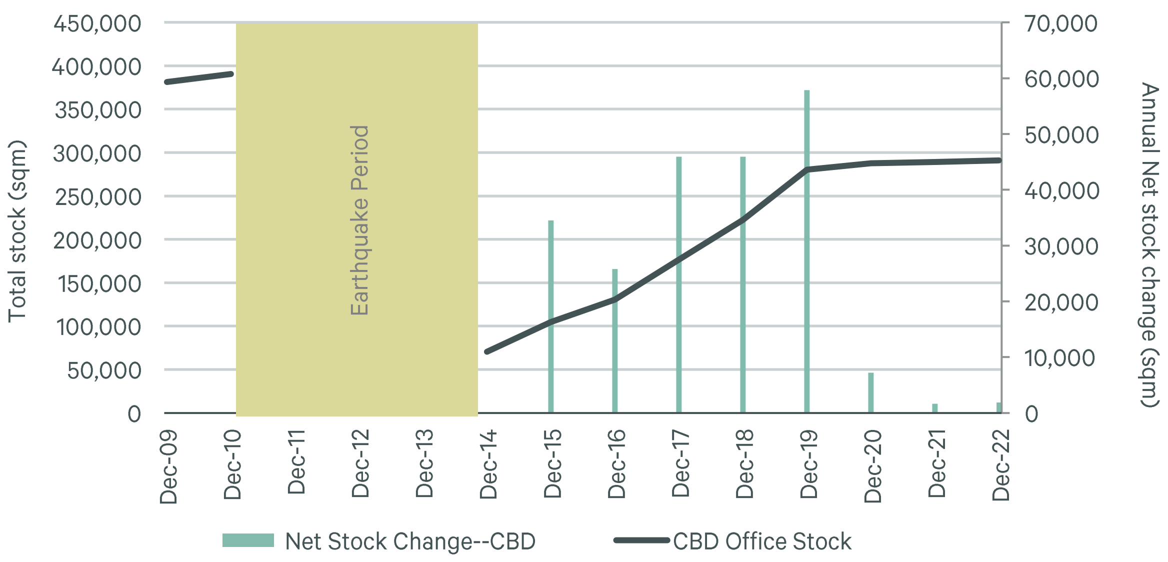
Christchurch Indicative Yields by Sector

CBD Office Stock

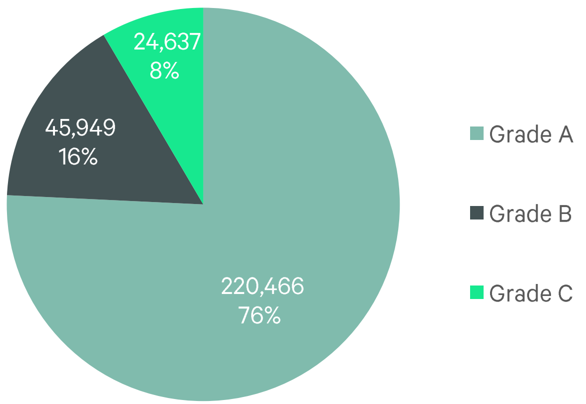
The Christchurch CBD office stock is 291,052 sqm, remaining unchanged during H2 2022. However, the stock increased by 1,850 sqm compared to H2 2021, mainly driven by an increment in Grade A stock and to a lesser degree by an increase in Grade B stock. In contrast, Grade C stock was unchanged during this period. 76% of the CBD office stock is Grade A, 16% Grade B, and the remaining 8% Grade C.

Two new CBD office buildings are due to be completed in 2023 (159 Hereford Street and 173 Gloucester Street), adding 3,410 sqm of new stock. Several other refurbishment and new build office projects are also in the pipeline. Refurbishment works are expected to increase office stock by circa 18,000 sqm, the largest being 224 Cashel Street (14,000 sqm). Moreover, five new building are also in the planning and marketing phases, adding circa 22,000 sqm of high-quality office stock around 2024.

Christchurch CBD Office Net Supply Changes



Christchurch CBD Office Quality Composition (H2 2022)



CBD Office Net Absorption

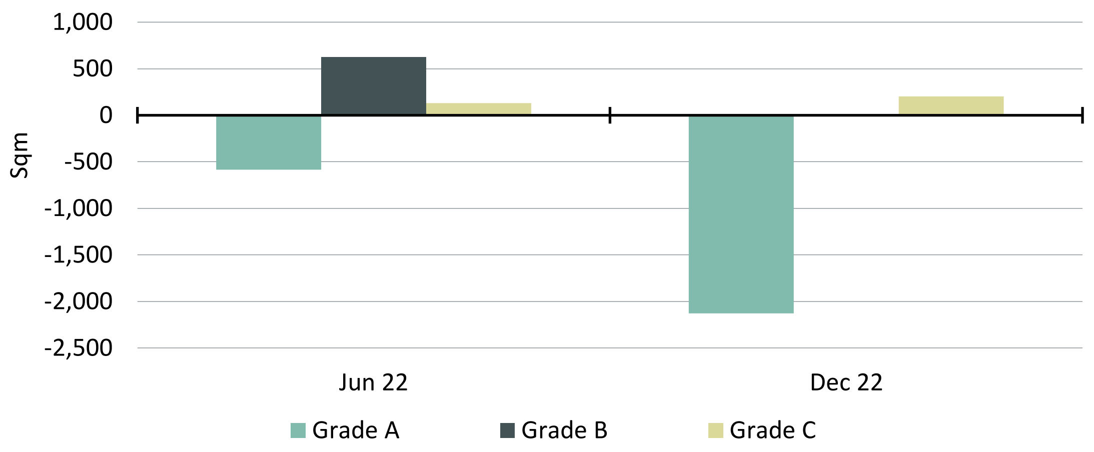
During H2 2022, Christchurch CBD office market absorption was less positive than in H1 2022. Net absorption during this period was negative (-1,926 sqm), down from 173 sqm in the previous six months.

This turn in fortunes represents a handful of occupancy changes in Grade A buildings. In contrast, net absorption in the Grade C CBD office submarket during this period was positive (203 sqm) due to a winemaking company moving into a previously vacant space in 307 Durham Street. There was no net absorption in Grade B during H2.

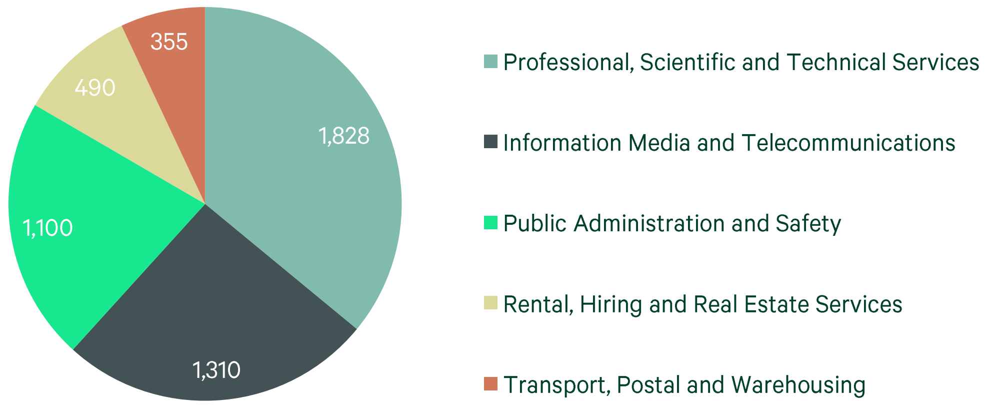
In relation to new take up (gross absorption), the larger new occupancies during H2 2022 were 1,310 sqm in 61 Gloucester Street by an information, media and telecommunications industry company, and 420 sqm in 167 Victoria Street by a professional services firm (both in Grade B buildings). Gross absorption reached 6,333 sqm during the second half of the year through 21 new occupancies.

The industry that recorded the highest take up of space during H2 2022 in the CBD office market was professional, scientific and technical services, with a total of 1,828 sqm, followed by information, media and telecommunications (1,310 sqm), and public administration (1,100 sqm).

Christchurch CBD Office Net Absorption by Grade



New Take Up by Industry in H2 2022 (sqm of top five)



CBD Office Vacancy

Following the trend of H1 2022, the Christchurch CBD office market registered an increase during H2. The vacancy rate moved from 5.8% to 6.5%, a 1,925 sqm increase.

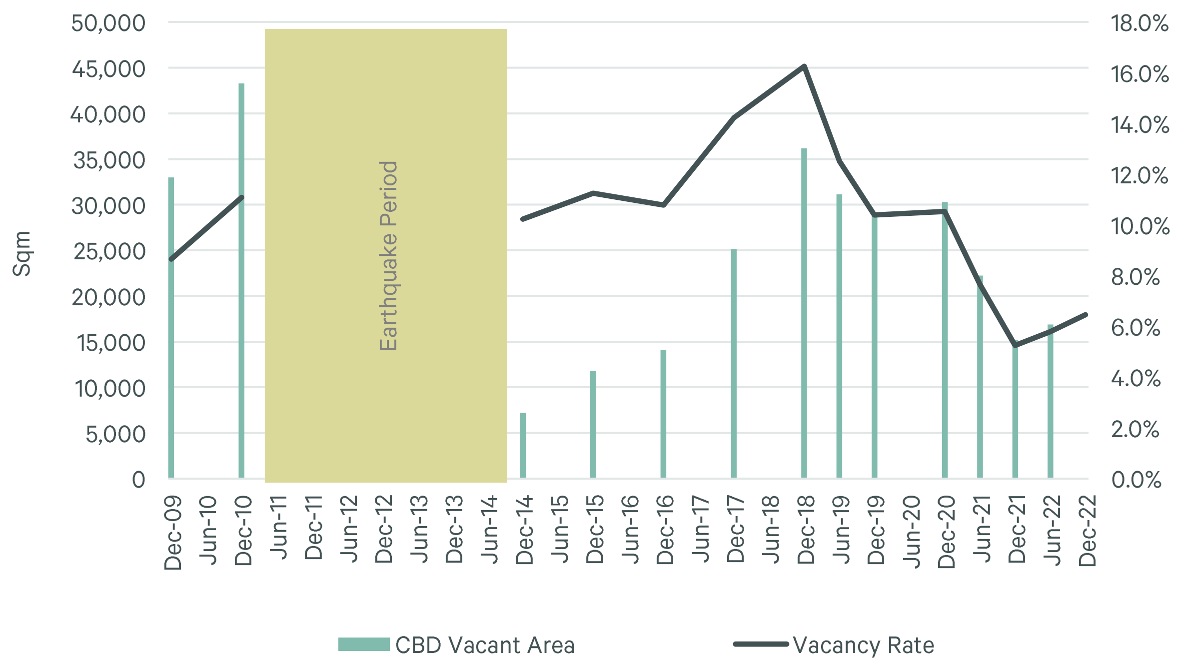
This increment was mainly driven by an increase in the Prime vacancy rate from 5.0% to 5.9% mainly due to a contraction of space of a telecommunications company and a financial services company vacating one floor (453 sqm) in 299 Durham Street. There were also small amounts of net absorption losses in 81-95 Cashel Street and 151 Cambridge Terrace.

On the contrary, vacancy in Secondary office buildings in the CBD decreased in this period, falling from 9.4% to 9.0%, benefitting from positive absorption in Grade C.

CBD Office Vacancy by Grade

		Grade A	Grade B	Grade C	Total
Vacancy at June 2022	%	5.0%	6.1%	12.6%	5.8%
	sqm	10,948	2,821	3,100	16,869
Vacancy at December 2022	%	5.9%	6.1%	11.8%	6.5%
	sqm	13,076	2,821	2,897	18,794

CBD Office Vacancy

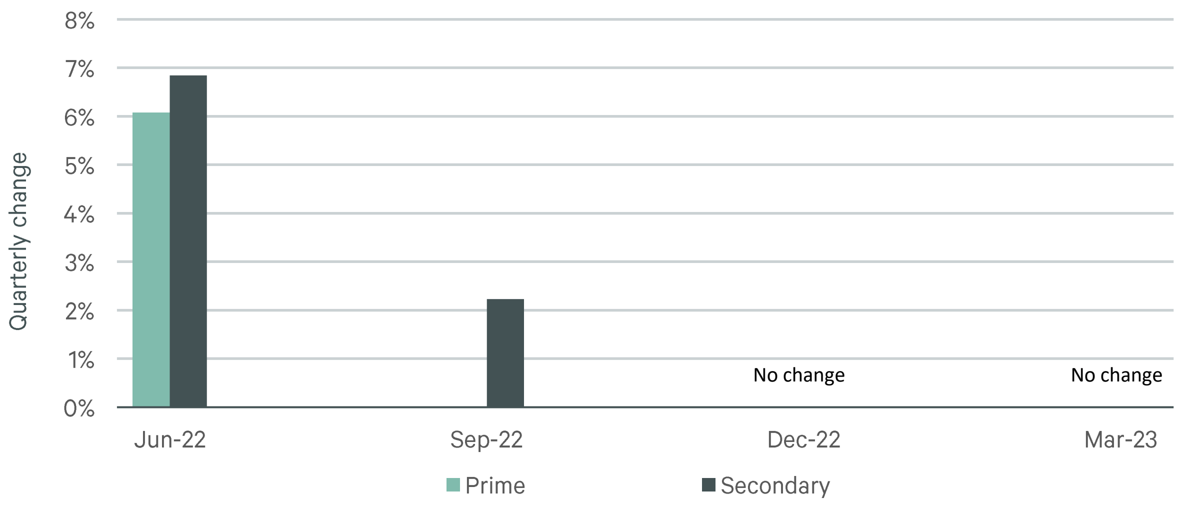


CBD Office Rents

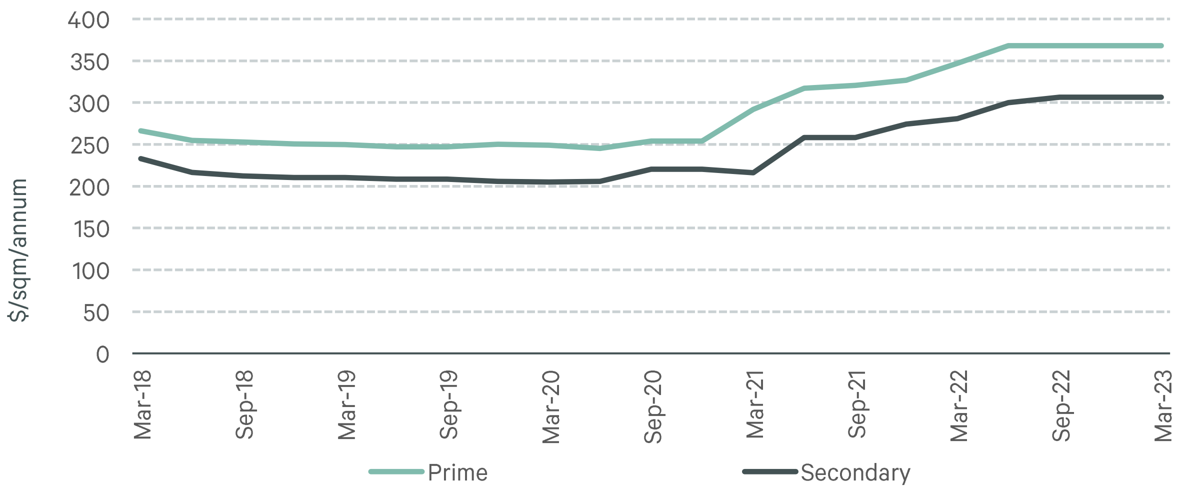
Market rents for CBD office did not change during Q1 2023, following the trend of the previous quarter. In Q3 2022, Secondary net effective office rents increased by 2.2% but Prime rents remained stable since mid year. This shows the market taking a breather following significant increases in the previous 12 months. Despite the market being less active, CBD office rents continued to be at record highs. CBD Prime net effective office rents at $368 per sqm in March 2023 were up by 6.1% compared to the same period of the previous year, whilst CBD Secondary net effective office rents at $307 per sqm in March 2023 were 9.2% higher compared to March 2022.

Incentives remained stable throughout Q1 2023. Based on CBRE's assessment, during Q1 2023 Prime indicative market incentives were 4.6% of face rents. Secondary indicative market incentives also remained stable during H2 at 9.0% of face rents.

CBD Net Effective Office Rent – Quarterly Change



CBD Net Effective Office Rent



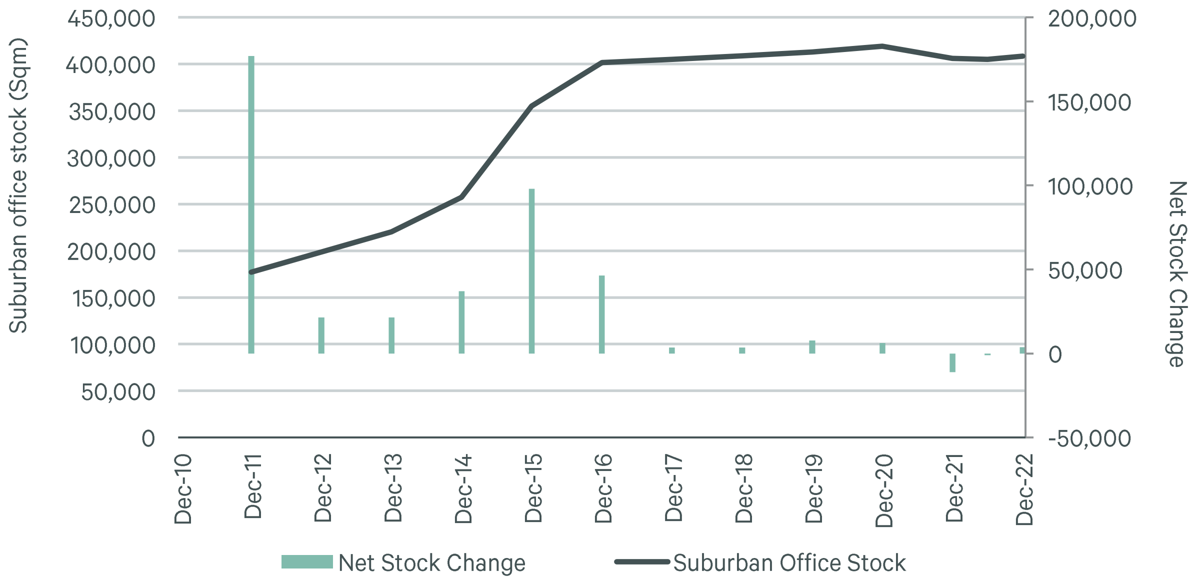
Suburban Office Stock

The Christchurch suburban office stock is 408,609 sqm, increasing by 3,655 sqm during H2 2022, mostly driven by an increase in Grade A.

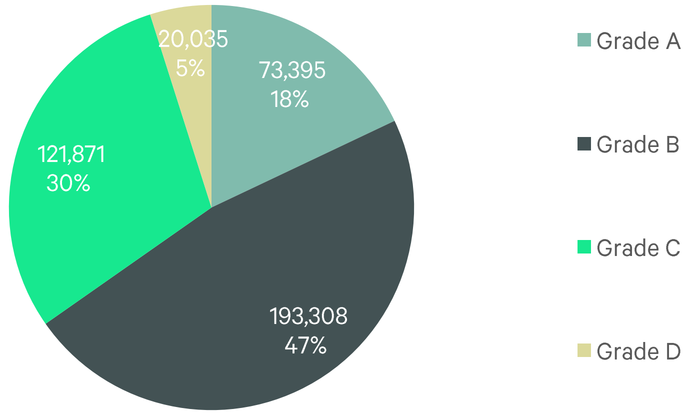
The most significant change during H2 2022 was 6 Hazeldean Road (in Hazeldean Business Park), a 5,939 sqm Grade A building, which came back into the market after undergoing strengthening works. In relation to stock removal, the most important change in this period was 116 Riccarton Road, a 1,400 sqm Grade C building temporarily taken out of stock due to refurbishment.

During H2 2022, 47% of the suburban office stock was Grade B, whilst 30% was Grade C, 18% was Grade A, and the remaining 5% was Grade D.

Christchurch Suburban Office Net Supply Changes



Christchurch Suburban CBD Office Quality Composition (H2 2022)



Suburban Office Net Absorption

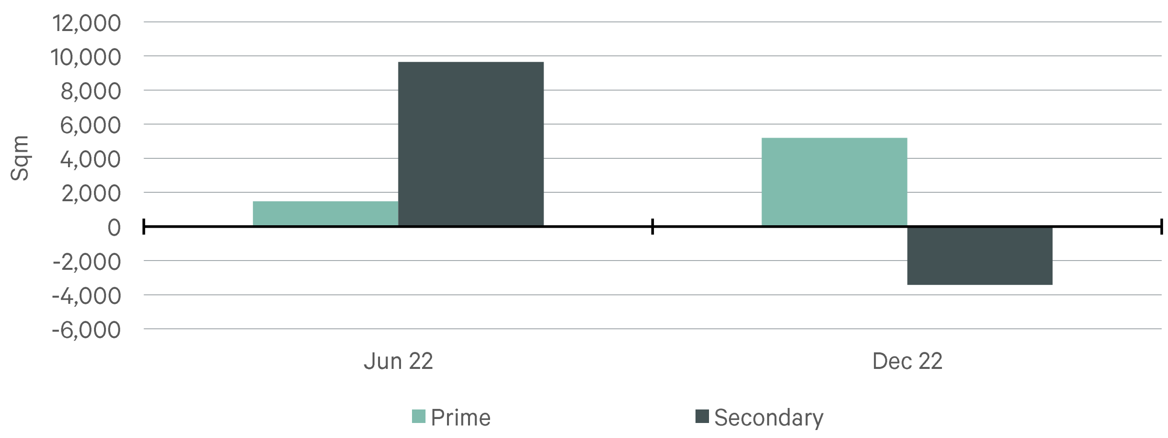
During H2 2022, the Christchurch suburban office market was less active compared to the first half of last year. Net absorption during H2 2022 was 1,771 sqm, lower than in H1 2022, which experienced a net absorption of 11,117 sqm.

Grade A suburban office buildings registered positive net absorption during H2 2022 (5,190 sqm). On the contrary, net absorption was negative in the Secondary suburban office market. During this period, negative net absorption of Grade B suburban office buildings was -2,222 sqm, followed by Grade D suburban office buildings (-758 sqm) and Grade C suburban office buildings (-440 sqm).

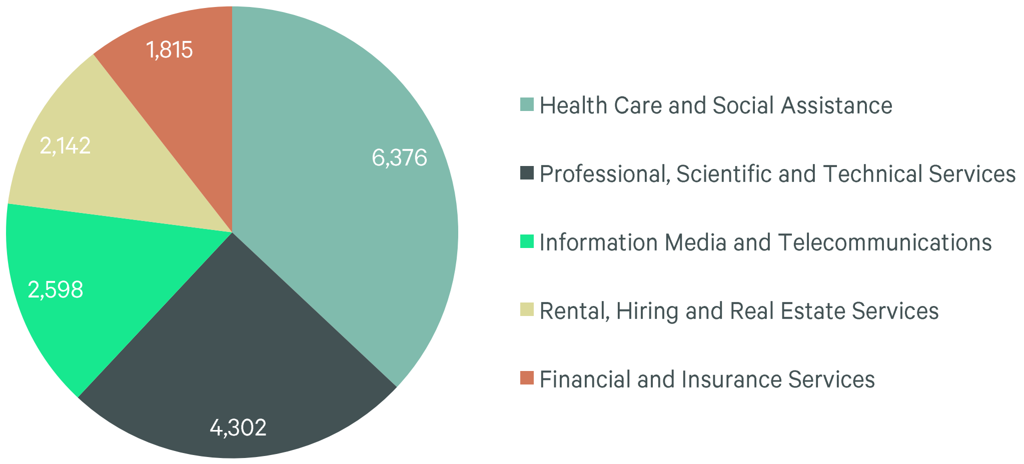
In relation to new take up (gross absorption), the largest take up during H2 2022 was 1,640 sqm in 289-311 Tuam Street, in a Grade C building, by a health care and social assistance industry company.

The industry that recorded the highest take up (gross absorption) of space during H2 2022 in the suburban office market was health care and social assistance, with a total of 6,376 sqm of new take up, followed by professional, scientific and technical services (4,302 sqm) and information, media and telecommunications (2,598 sqm).

Christchurch Suburban Office Net Absorption by Grade



New Take Up by Industry in H2 2022 (sqm of top five)



Suburban Office Vacancy

After experiencing a steady decline in vacancy since late 2019, the Christchurch suburban office market registered a slight increase during H2 2022. Total vacant space increased by 1,884 sqm, moving the vacancy rate from 7.4% to 7.8%. This was mainly due to an increment in vacant stock in the Secondary suburban office market, which caused an increase in the vacancy rate from 6.9% to 7.3% in this segment.

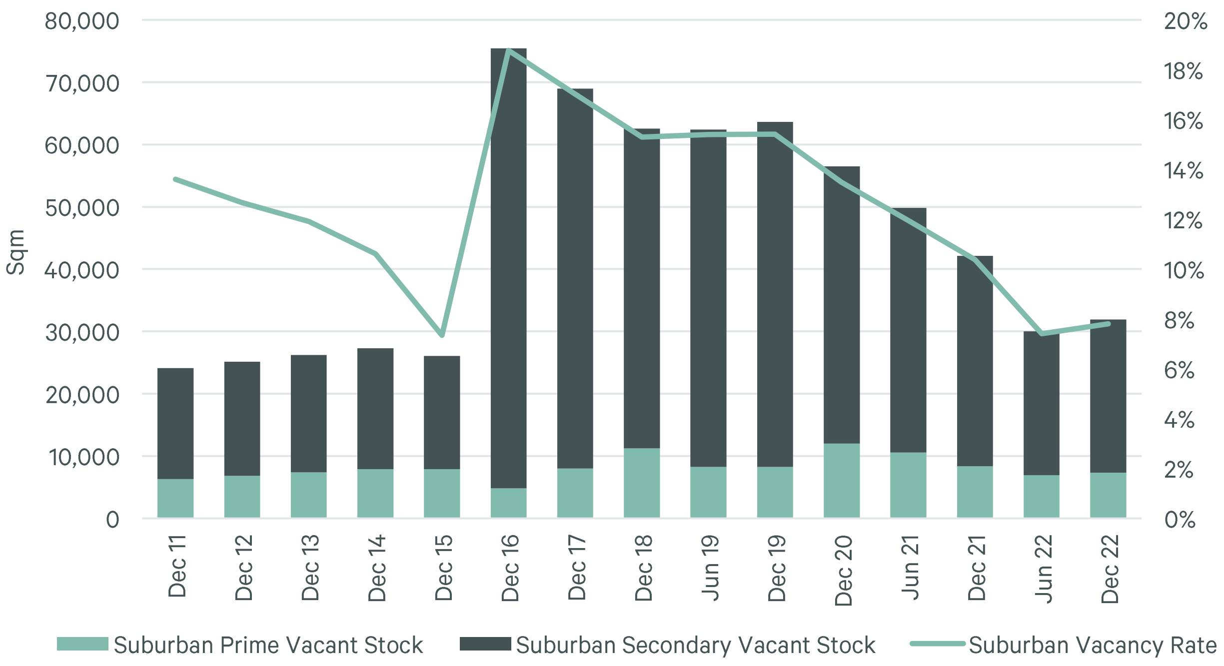
Both Grade B and Grade D suburban office buildings registered an increase in vacancy, whilst Grade C experienced a decrease. Grade B vacant space increased by 2,222 sqm, mainly driven by a health care industry company leaving 1,283 sqm in 29 Sir William Pickering Drive in Burnside and by two companies leaving 1,062 sqm in number 49 of the same street. Also, Grade D vacant space increased by 758 sqm, mainly due to a company leaving 408 sqm in 9 Baigent Way.

The vacancy rate in Prime office buildings declined during this period, falling from 10.2% to 10.0%, despite the increase in vacant stock. The amount of stock of Grade A suburban office buildings increased during this period due to the reintroduction to the market of 6 Hazeldean Road, a 5,939 sqm Grade A building.

Suburban Office Vacancy by Grade

		Grade A	Grade B	Grade C	Grade D	Total
Vacancy at June 2022	%	10.2%	5.4%	9.5%	4.4%	7.4%
	sqm	6,909	10,413	11,814	878	30,014
Vacancy at December 2022	%	10.0%	6.5%	8.5%	8.2%	7.8%
	sqm	7,318	12,635	10,309	1,636	31,898

Suburban Office Vacancy



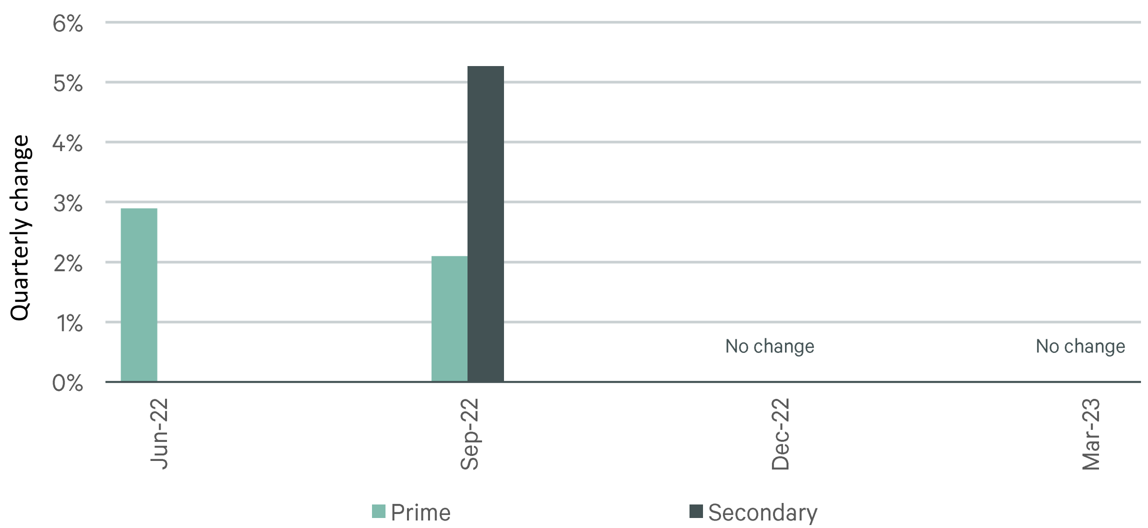
Suburban Office Rents

Like the CBD office market, the Christchurch suburban office market did not experience any rent changes in Q1 2023 and Q4 2022. However, back in Q3 2022, both the Prime and Secondary submarkets experienced robust rental growth, up by 2.1% and 5.3%, respectively, compared to the previous quarter.

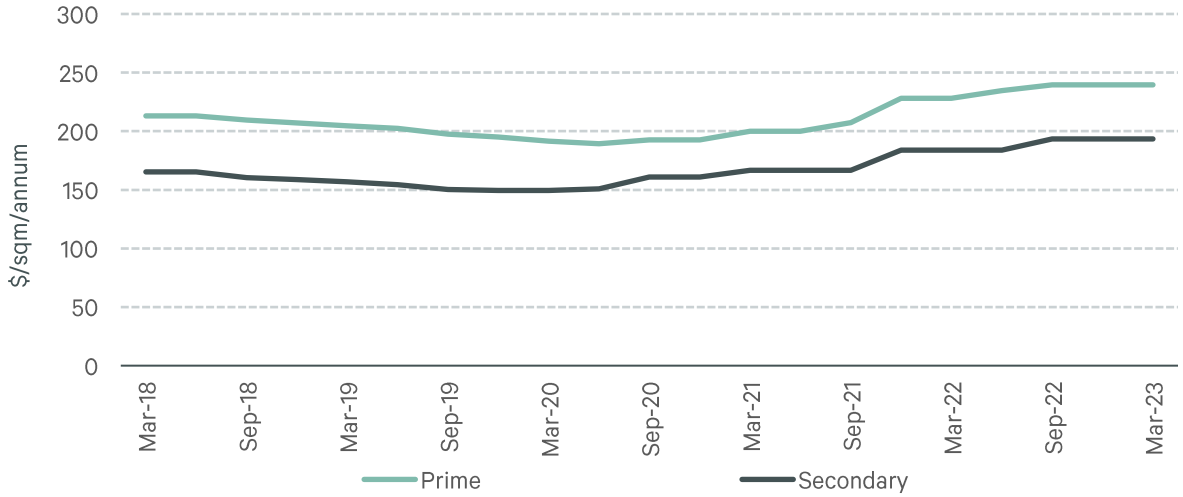
Suburban Prime net effective office rents remained at $240 per sqm in March 2023, up by 5.1% compared to the same period of the previous year, while Suburban Secondary net effective office rents of $194 per sqm were 5.3% higher compared to March 2022.

Incentives remained stable throughout Q1 2023. In CBRE's assessment, during this period Prime indicative market incentives were 7.4% of face rents. Secondary market incentives were 12.3% of face rents.

Net Effective Office Rents – Quarterly Change



Suburban Net Effective Office Rents



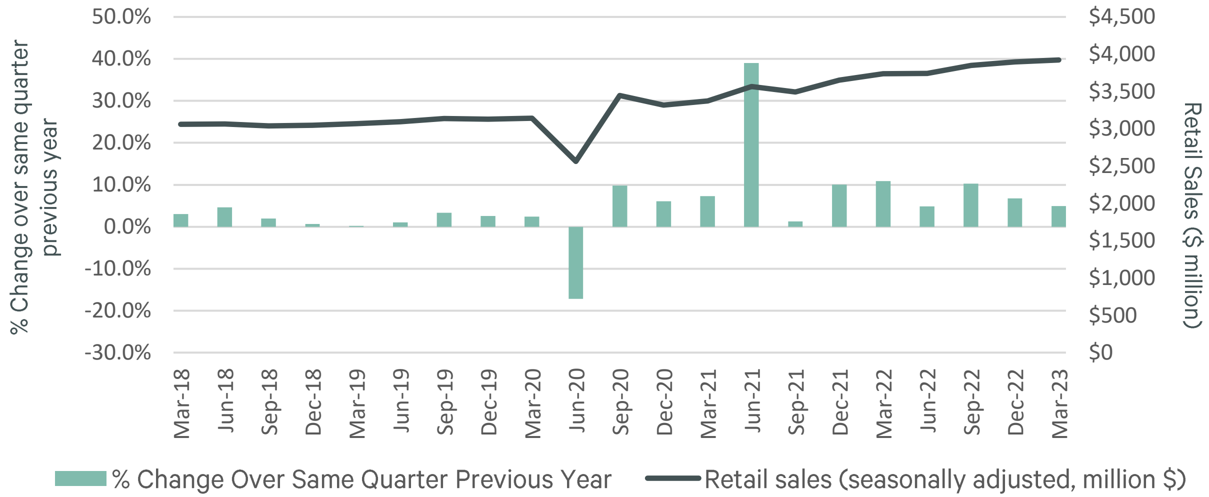
Retail Sales

Based on the latest data published by Statistics NZ, in Q1 2023 retail sales in Canterbury increased by 5.0% compared to Q1 2022, surpassing the growth rates registered in Auckland and Wellington in the same period (4.4% and 0.5%, respectively). The Canterbury retail sector enjoyed a healthy amount of foot traffic during this period. This was boosted by the arrival of international visitors, including the high number of cruise ships passengers arriving at the ports of Lyttelton and Akaroa. International visitor spending in Q1 (mainly from Australia and the USA) increased from the previous month to a total of $34 million, up by 22.3% compared to Q1 2019 (a pre-Covid period).

Retail spending in Christchurch increased by 15.2% in March 2023 compared to the same month of the previous year. Also, the volume of retail spending (measured by the number of transactions) in Christchurch increased by 18.4% during this period. The lower level of economic activity during Q1 2022 is reflected in the Q1 2023 strong growth rates, since during that period last year the city's main commercial areas suffered from a significant decrease of foot traffic due to a high number of Covid-19 cases.

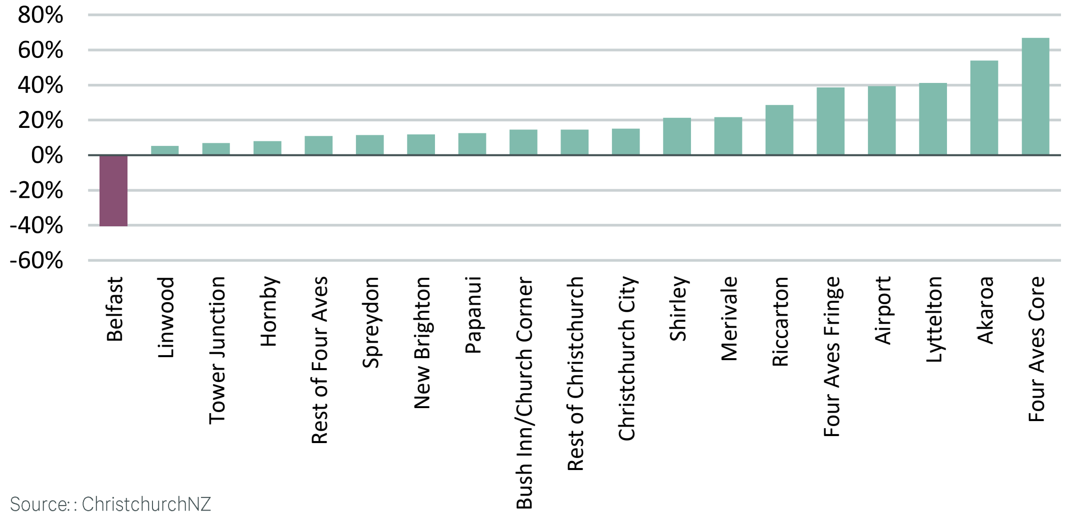
In the core of Christchurch's CBD, the value of retail spending was up by 67.0% during Q1 2023. Also, some suburbs in Christchurch also benefited from positive spending growth during this period, such as Lyttelton, the Airport area and Riccarton, which experienced year-on-year retail spend growth of 41.1%, 39.3% and 28.6%, respectively. Outside the City, the experience of Akaroa shows the positive impact of greater tourist numbers with retail sales increasing by 53.9%. The only suburb that witnessed negative retail spending growth was Belfast, with a decrease of -40.4% between Q1 2023 and Q1 2022.

Canterbury Retail Sales



Source: : Statistics New Zealand

Spending Growth by Suburb (Mar-23 vs Mar-22)



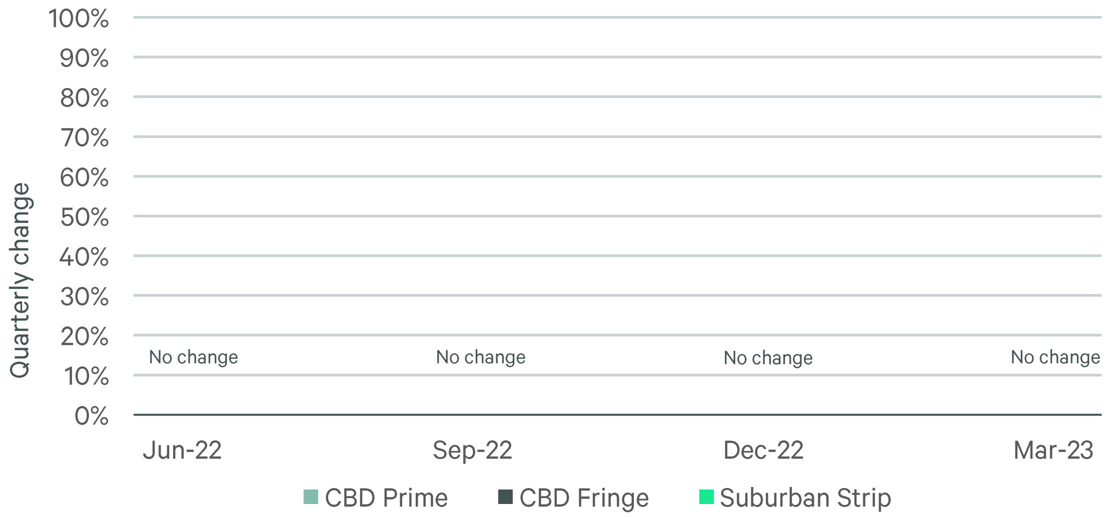
Source: : ChristchurchNZ

Retail Rents

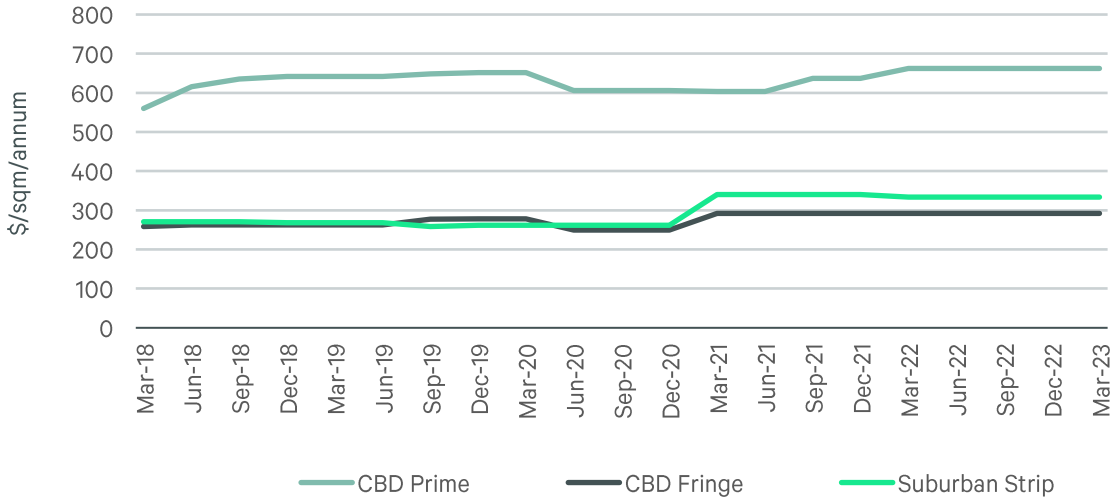
Net effective rents for all CBRE monitored Christchurch retail submarkets remained stable between Q1 2022 and Q1 2023. CBD Prime retail net effective rents remained at $662 per sqm in March 2023, the prevailing rent level since March 2022. Also, CBD Fringe retail net effective rents are $292 per sqm, the same rent level since March 2021. Additionally, Suburban Strip retail net effective rents remained at $334 per sqm, the rent level that has prevailed since March 2022

In relation to incentives, these also remained unchanged for all retail submarkets during Q1 2023. Based on CBRE's assessment, during this period Prime CBD indicative market incentives were 8.3% of face rents, CBD Fringe indicative market incentives stayed at 8.3%, while Suburban Strip indicative market incentives remained at 7.4% of face rents.

Retail Net Effective Rents - Quarterly Change



Christchurch Retail Net Effective Rents by Precinct

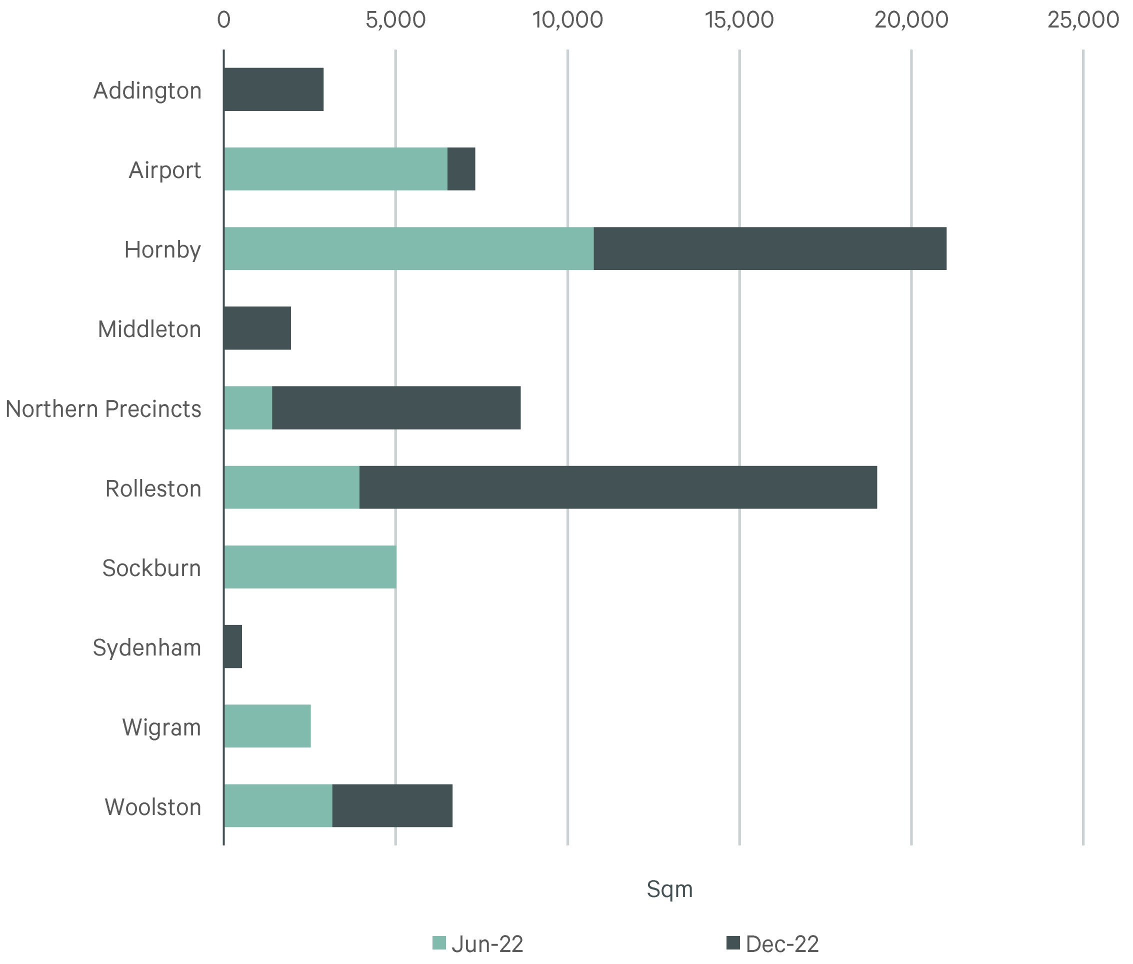


Industrial New Supply

During 2022, Christchurch's industrial market received 75,537 sqm of new stock. Out of this total, 33,300 sqm were received in H1 2022 and 42,237 sqm in H2. Rolleston had the largest amount of new stock in H2 2022 (15,058 sqm), followed by Hornby (10,267 sqm) and Northern Precincts (7,228 sqm). During H1 2022, Hornby had the largest amount of new stock (with 10,756 sqm).

The largest industrial building completed in Christchurch over the past six months was 27 Pereita Drive, located in Rolleston (a 9,400 sqm building), followed by 14 Establishment Drive in Hornby (a 4,770 sqm site). The average size of industrial buildings completed during this period was 1,760 sqm. Like H1 2022, no building larger than 10,000 sqm was completed in H2 2022.

H21 2022-H2 2022 New Industrial Supply



Industrial Net Absorption

In H2 2022, the market was significantly more active in terms of net absorption compared to H1 2022. Total net absorption over H2 2022 was 106,573 sqm. During this period, net absorption in Grade A industrial buildings was 57,057 sqm, higher than the figure during H1 2022 (37,935 sqm).

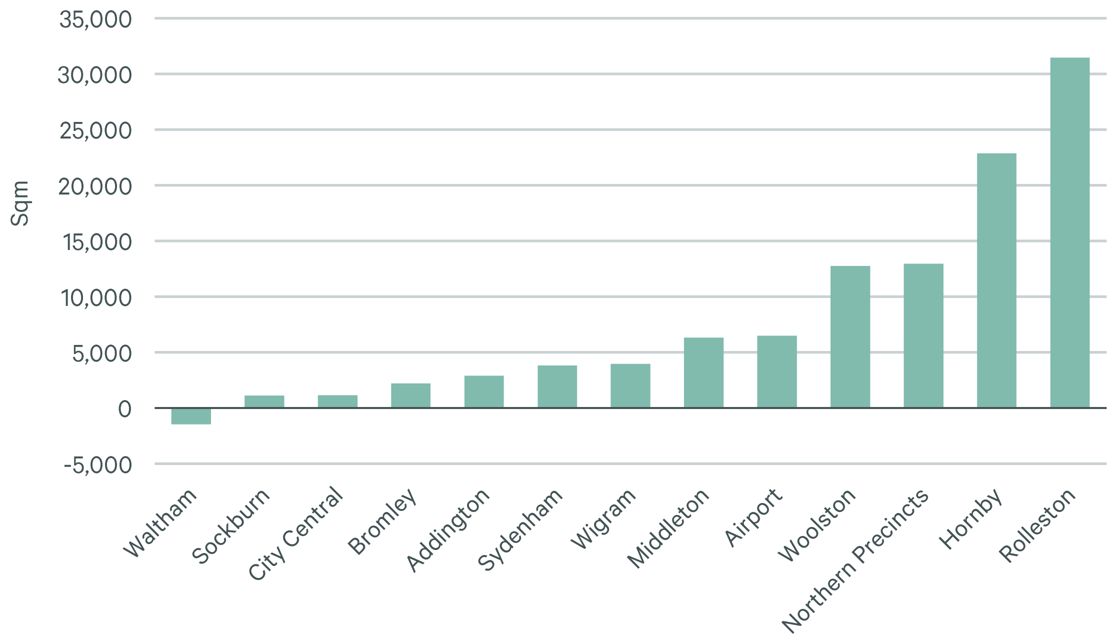
Moreover, Grade B also performed well with 38,919 sqm of net absorption, while the Grade C/D submarket showed a net absorption of 10,597 sqm, after registering negative net absorption in H1 2022.

In H2 2022, Rolleston had the largest net absorption with over 30,000 sqm, followed by Hornby and Northern Precincts.

Net Absorption by Grade

	Total	Grade A	Grade B	Grade C/D
Jun-22	40,804	37,935	7,965	-5,096
Dec-22	106,573	57,057	38,919	10,597

Net Absorption by Precinct—H2 2022



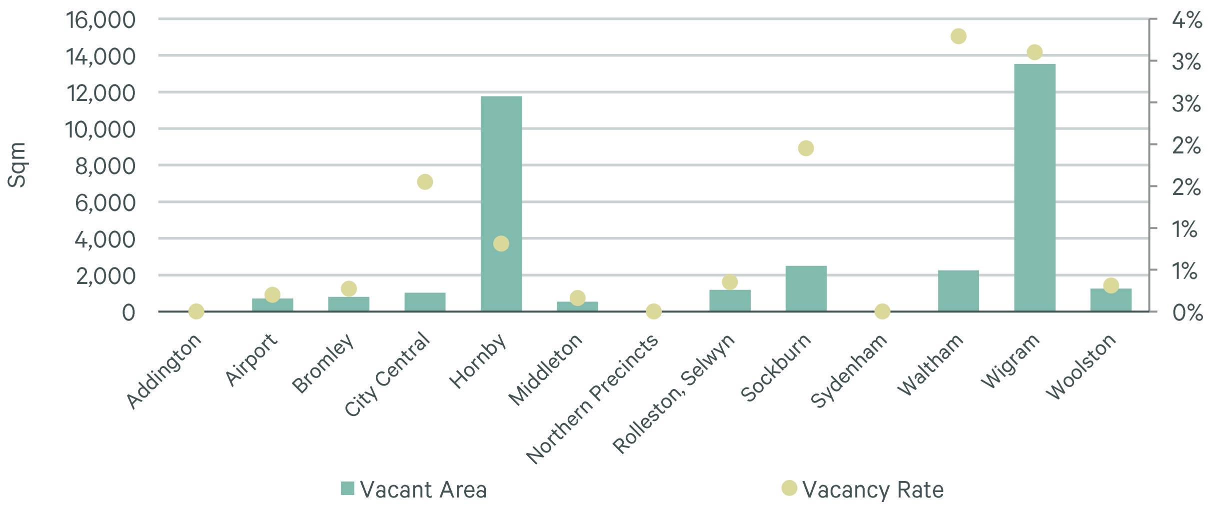
Industrial Vacancy

Christchurch total industrial vacancy decreased from 2.6% in June 2022 to 0.8% in December. The largest reduction happened in Grade A where vacancy dropped by 39,788 sqm, decreasing the vacancy rate from 2.1% to 0.1%.

The main move in the Grade A submarket occurred in 25 Link Drive in Rolleston, where a transport firm occupied 6,500 sqm.

Grade B industrial vacancy decreased by 28,875 sqm, reducing the vacancy rate from 2.8% to 0.9%. Also, 21,842 sqm of Grade C/D buildings were occupied during the same period, decreasing the vacancy rate of this submarket from 2.8% to 1,4%. In relation to the Grade B submarket, this was primarily due to a transport company moving into 644 Halswell Junction Road in Hornby (occupying 5,150 sqm). Also, regarding the Grade C/D submarket, the main move was done by a packaging business, which occupied 3,110 sqm in 77 Sturrocks Road in Northern Precincts.

Industrial Vacancy by Precinct - December 2022



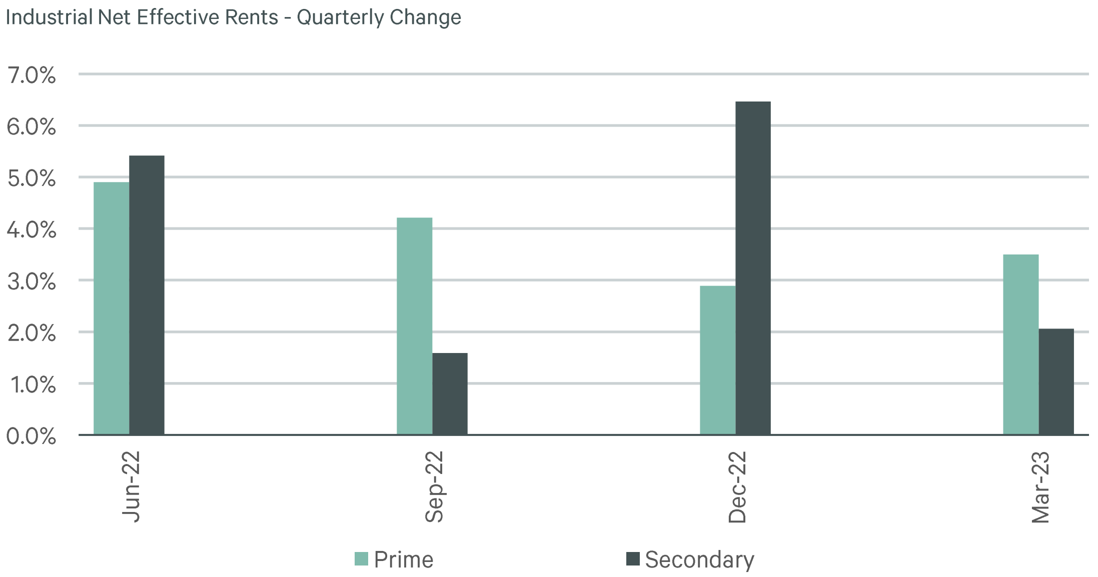
Christchurch Industrial Vacancy

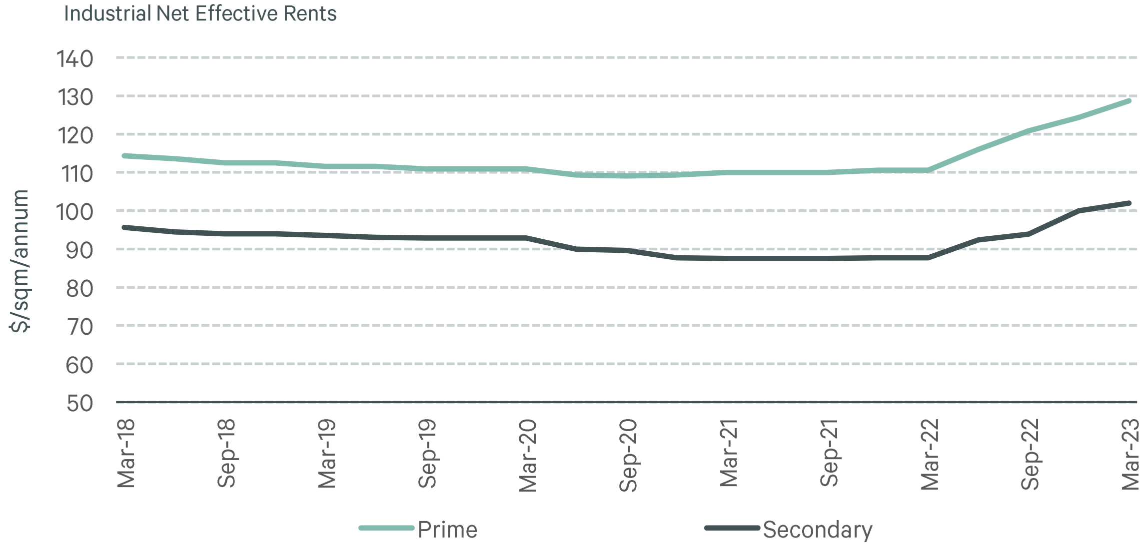
Industrial Rents

Following the trend experienced during Q2-Q4 2022, the Christchurch industrial market continued to benefit from robust rental growth in both the Prime and Secondary submarkets in Q1 2023.

Industrial Prime net effective rents reached a record high of $129 per sqm in Q1, up by 3.5% compared to Q4 2022. Also, during the same period industrial Secondary net effective rents reached $102 per sqm (the highest on record), up by 2.1% compared to the previous quarter.

Incentives remained stable throughout Q1 2023. Based on CBRE's assessment, during this period industrial Prime indicative market incentives remained at 1.4% of face rents. In addition, industrial Secondary indicative market incentives also remained unchanged at 1.4% of face rents. However, previously, during Q4 2022, Secondary industrial net effective rents benefited from a reduction in incentives (from 4.5% to 1.4% of face rents).





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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