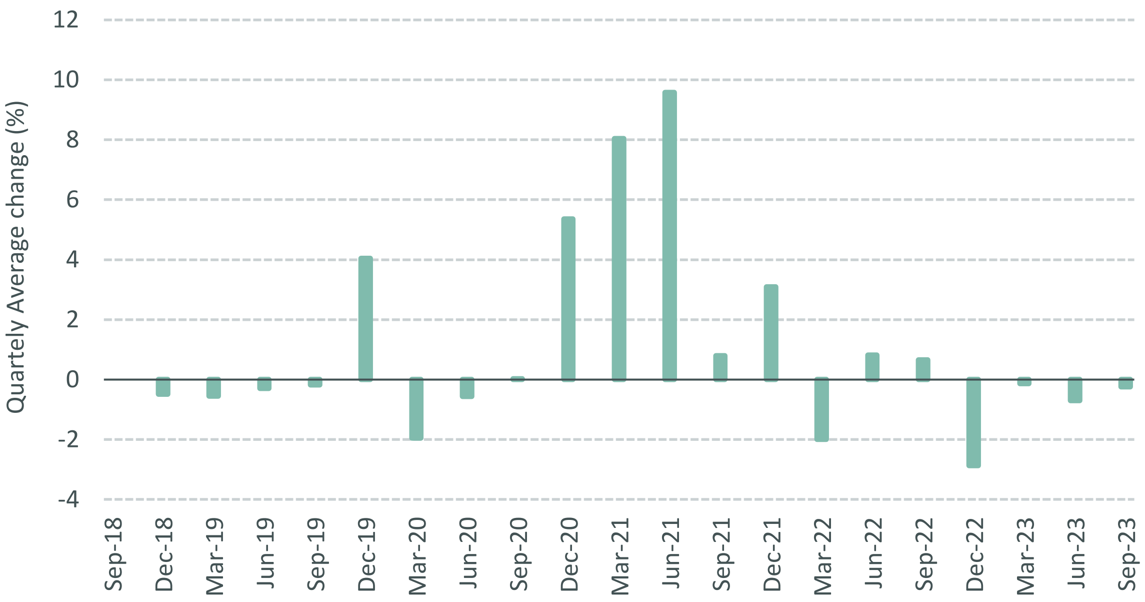
Christchurch Property Market Overview

KEY MARKET CHANGES

- Rents remained stable during Q3 2023 in the office and retail markets. However, the industrial market continued to benefit from rental growth, albeit at a slower rate than previous quarters. Also, incentives remained unchanged across all markets.
- Christchurch continues to benefit from overseas tourism. International visitor spending in Christchurch during Q2 2023 was up by 150% compared to Q2 2022 and up by 43% compared to Q2 2019 (a pre-Covid period).
- During H1 2023, the office market experienced more activity than during the previous six months. Both the Christchurch CBD and suburban office markets experienced a decline in vacancy.
- Only one new office building was introduced to the CBD office market during H1 2023. Another new building and two refurbished ones are expected to be completed in H2.
- The industrial market continues to perform well. Vacancy is only 0.8% and the development market is buoyant. Circa 80,000 sqm of new industrial stock completed in H1, reflecting the high demand that characterises this market.
- While there is a limited volume of transactions providing pricing benchmarks, our market interactions point to continued upward pressure on yields.

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	221,078	5.2	330 – 450	4 – 8	5.70 – 6.85
Secondary CBD	70,586	7.0	300 – 400	6 – 7	6.65 - 7.35
Prime Suburban	67,547	6.7	215 – 300	4 – 8	7.30 - 8.90
Secondary Suburban	335,120	7.5	165 – 300	8 – 10	8.30 - 10.30
Prime Industrial	1,561,890	0.2	111 – 158	1 – 2	5.50 - 7.00
Secondary Industrial	2,934,014	1.1	72 – 134	1 – 2	6.05 – 9.10
Fringe & Strip Retail	-	-	220 – 700	3 – 6	5.53 – 7.65

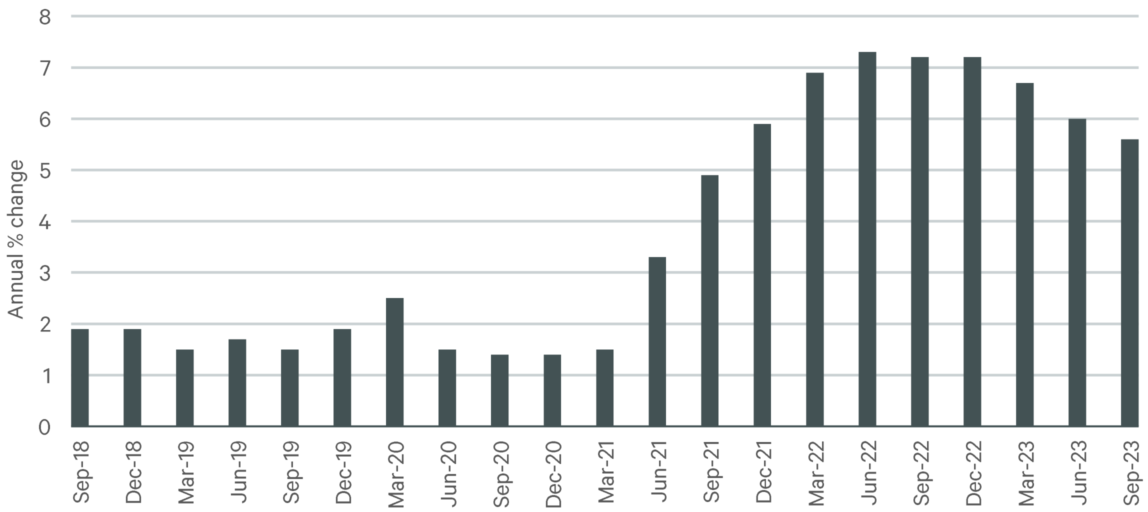
Economy

Economic growth in New Zealand has been volatile but more resilient than earlier indicated. Surprisingly, GDP increased by 0.9% in Q2 2023, higher than what the RBNZ and private sector economists were expecting, and Q1 growth was revised up from negative to zero. Overall, this means that a recession was avoided for the time being, although several economic variables, especially around consumption and investment, are looking weak. Most economists anticipate subdued GDP growth until late 2024.

Even though headline inflation continued to slow down, annual non-tradable inflation in Q3 was higher than what the RBNZ forecasted in the August Monetary Policy Statement (6.3% vs 6.2%). 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.

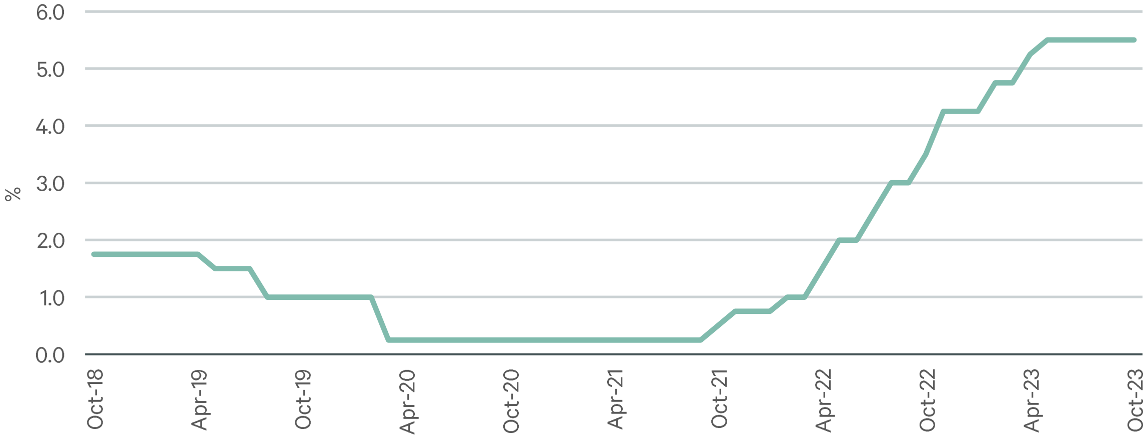
In its last three meetings, the RBNZ's Monetary Policy Committee has held the OCR at 5.50%. The last increase was in May 2023, in which the OCR was hiked by 25 bps. Even though some economists believe that the OCR has already peaked, others believe that it could peak at 5.75% due to non-tradable inflation remaining high. In Q3 2023, longer term rates reached their highest levels in the last decade. The 5-year swap rate and the 10-year government bond yield pushed past 5.0%, exposing market uncertainty regarding evolving economic and financial conditions. An elevated level of uncertainty is likely to persist over the foreseeable future due to significant global economic and political events, i.e. slowdown of the Chinese economy, high oil prices, geopolitical tensions, among others. Coupled with this, inflation remains sticky in most part of the world and this, together with increasing government deficits and bond issue requirements, is driving a higher for longer narrative for monetary policy, wholesale interest rates, and bond rates.

Consumer Price Index



Source: : Statistics New Zealand

Official Cash Rate (OCR) (quarterly average)



Source: Reserve Bank of New Zealand

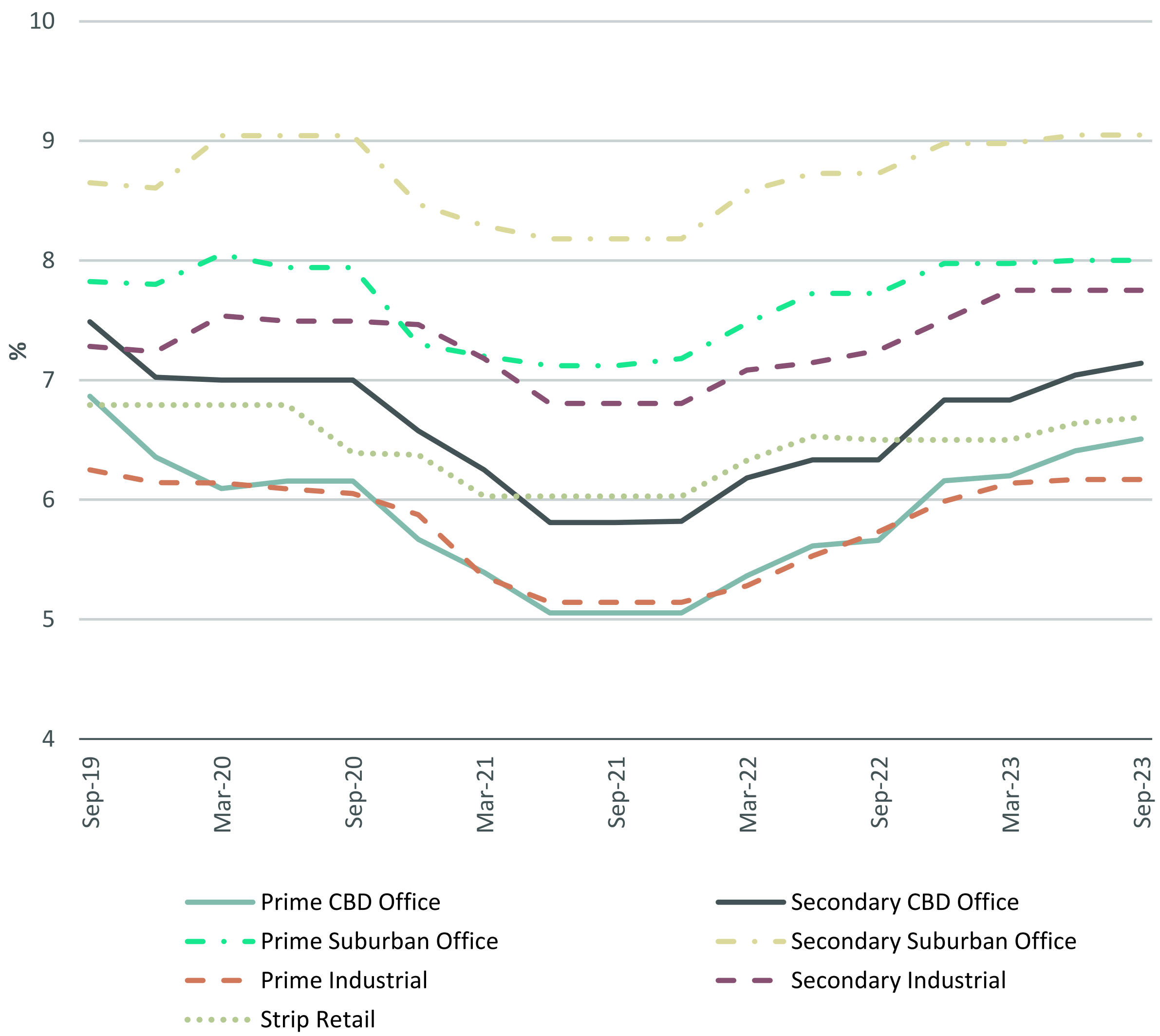
Investment market

In Q3 2023, only a limited number of transactions were able to provide some insights into prices. CBRE's engagement in several investment sale campaigns shows elongated and careful due diligence activity and continued stickiness with the bid-ask gap, exposing the ongoing mismatch between buyers' and vendors' expectations. Pricing on offer is influenced by the current availability and cost of debt and the medium-term expectations on the debt curve. Even though the current interest rate cycle seems to be reaching its peak, a high level of financial market uncertainty continues to hamper the investment market. Our quarterly yield assessments continue to primarily rely on CBRE's market interactions and available bidding statistics and aim to find the middle ground between the diverging expectations of potential vendors and purchasers.

In this environment, our judgment of Q3 market yields shows some softening in some submarkets. However, the rate of yield increases in Q3 were the lowest since we commenced the easing cycle in early 2022 and, unless economic, financial and property market conditions dramatically change for the worse, we believe that we are now close to the top of the current yield cycle.

Based on our assessment, only the CBD office market witnessed some yield softening in Q3 compared to the previous quarter. Prime CBD office was up by 10 basis points to an indicative average of 6.51%, and Secondary CBD office was up also by 10 basis points to 7.14%. Yields in both the Suburban office and industrial markets remained unchanged during Q3.

Christchurch Indicative Yields by Sector



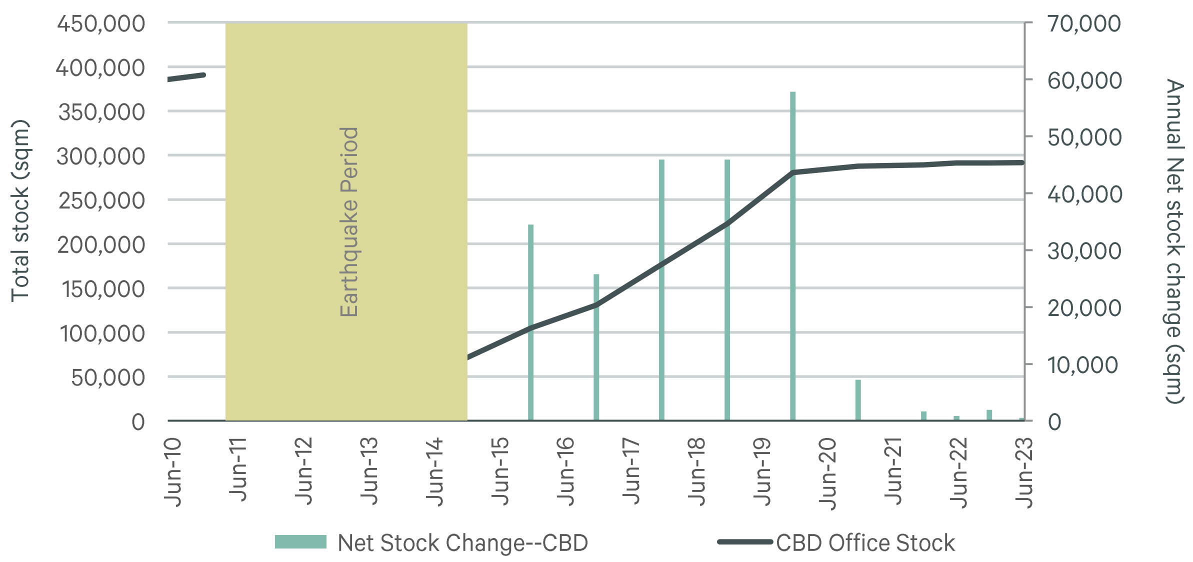
CBD Office Stock

The Christchurch CBD office stock is 291,664 sqm. It increased by 540 sqm during H1, due to the introduction of a fully occupied new Grade A building at 173 Gloucester Street. By composition, 76% of the CBD office stock is Grade A, 16% Grade B, and the remaining 8% Grade C.

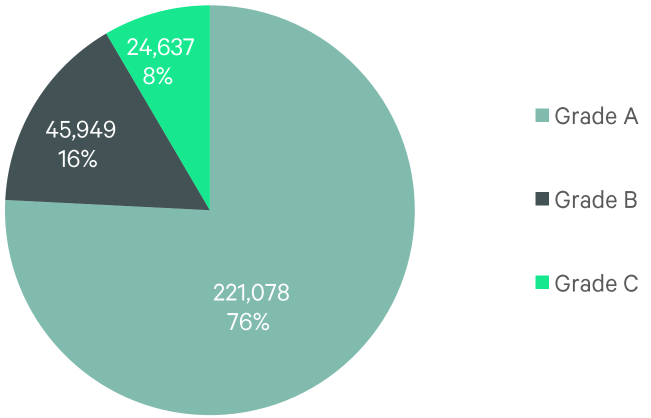
One new CBD office building (33 Cathedral Square) and two strengthened and refurbished buildings (11 Deans Avenue and 224 Cashel Street) are expected to be completed in H2 2023, potentially adding circa 19,600 sqm of new office stock.

Also, several new build office projects and refurbished buildings are expected to come to the market in 2024, adding around 27,700 sqm of new stock. Of the new developments expected to be completed next year, the largest ones are 159 Hereford Street (2,610 sqm) and 209-211 High Street (2,496 sqm).

Christchurch CBD Office Net Supply Changes



Christchurch CBD Office Quality by Composition (H1 2023)



CBD Office Net Absorption

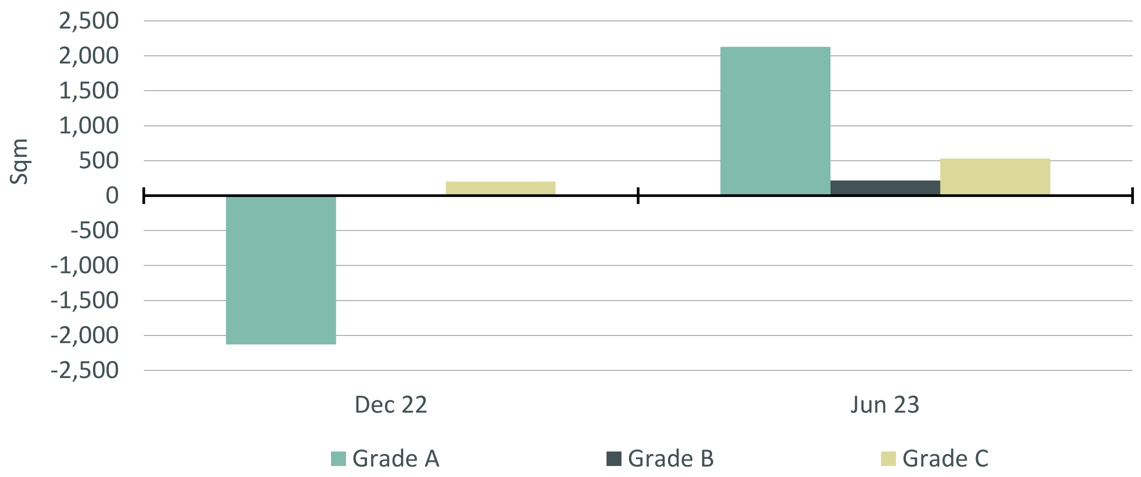
Christchurch CBD office market absorption came back into positive territory during H1 2023. Net absorption during this period was 2,878 sqm, up from the negative figure registered in the previous period (-1,926 sqm).

The robust positive net absorption registered during the first six months of this year was mainly due to a health care and social assistance organisation moving into a previously vacant building in 12 Oxford Terrace, occupying 1,678 sqm of Grade A office space. Net absorption in Grade B and Grade C CBD office buildings was also positive during H1 2023 (216 sqm and 532 sqm, respectively).

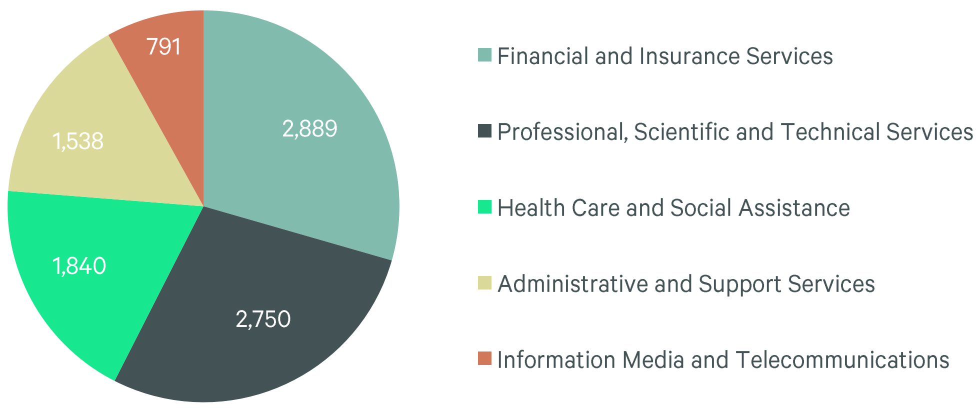
Regarding new take up (gross absorption), the largest new occupancies during H1 were 800 sqm in 99-119 Cashel Street (Grade A building) by an administrative and support services company, and 584 sqm in 62 Worcester Street (Grade B building) by a financial and insurance services firm. Gross absorption reached 12,013 sqm in the first half of the year through 42 new occupancies, almost doubling the gross absorption experienced in the previous six months.

The industry that recorded the highest take up of space during H1 2023 in the CBD office market was financial and insurance services, with a total of 2,889 sqm, followed by professional, scientific and technical services (2,750 sqm), and health care and social assistance (1,840 sqm).

Christchurch CBD Office Net Absorption by Grade



New Take Up by Industry in H1 2023 (sqm of top five)



CBD Office Vacancy

Contrary to what happened during H2 2022, the Christchurch CBD office market registered a decrease in vacancy in H1 2023. The vacancy rate shifted from 6.5% to 5.7%, a 2,338 sqm decline in vacant space.

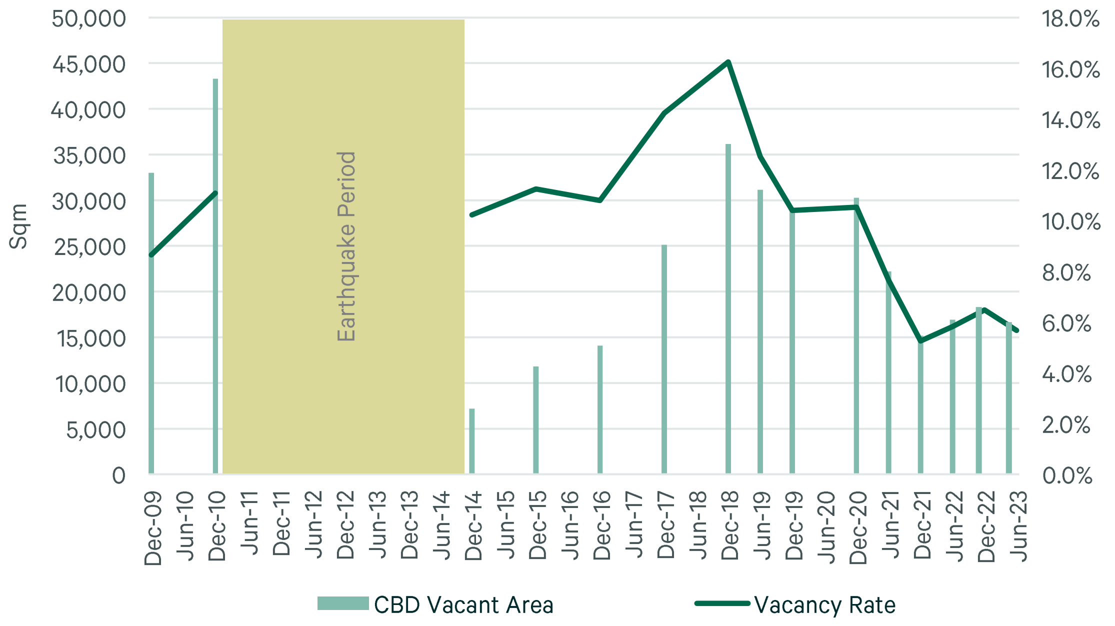
This drop was primarily driven by a decrease in the Prime vacancy rate from 6.0% to 5.2% (a 1,590 sqm decline). As previously mentioned, this is mainly attributed to a health care and social assistance organisation moving into a previously vacant building in 12 Oxford Terrace (taking over 1,678 sqm). Other important movements that occurred in the Prime sphere include a recruitment company occupying 414 sqm in 84 Hereford Street and a consulting firm expanding its space footprint by 311 sqm in 138 Victoria Street.

Also, vacancy in Secondary office buildings in the CBD also dropped during H1, falling from 8.1% to 7.0%, benefitting from positive absorption in both Grade B and Grade C buildings.

CBD Office Vacancy by Grade

		Grade A	Grade B	Grade C	Total
Vacancy at December 2022	%	6.0%	6.1%	11.8%	6.5%
	sqm	13,148	2,821	2,897	18,866
Vacancy at June 2023	%	5.2%	5.7%	9.6%	5.7%
	sqm	11,558	2,605	2,365	16,528

CBD Office Vacancy

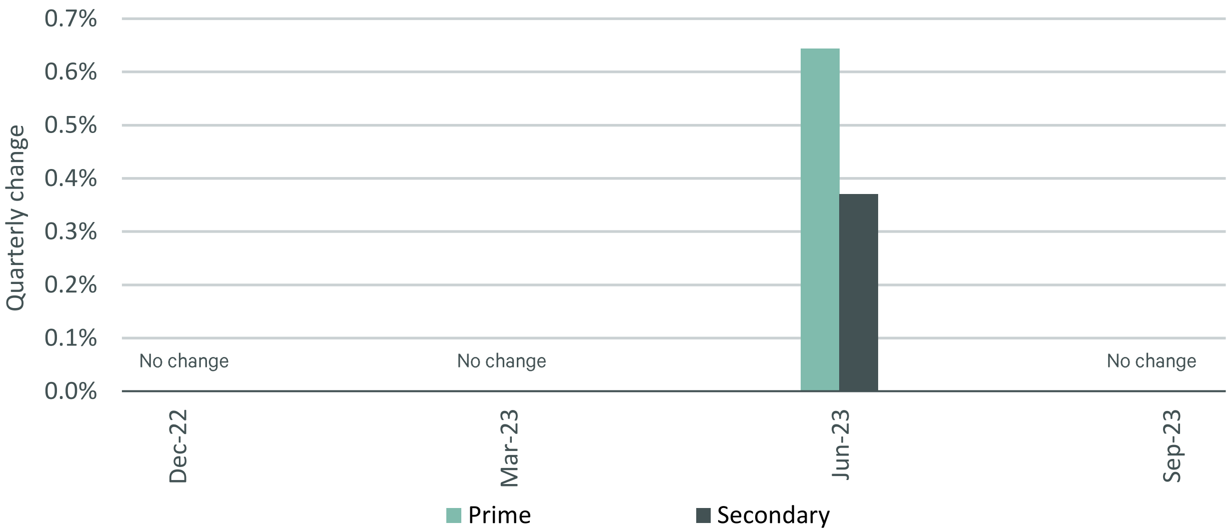


CBD Office Rents

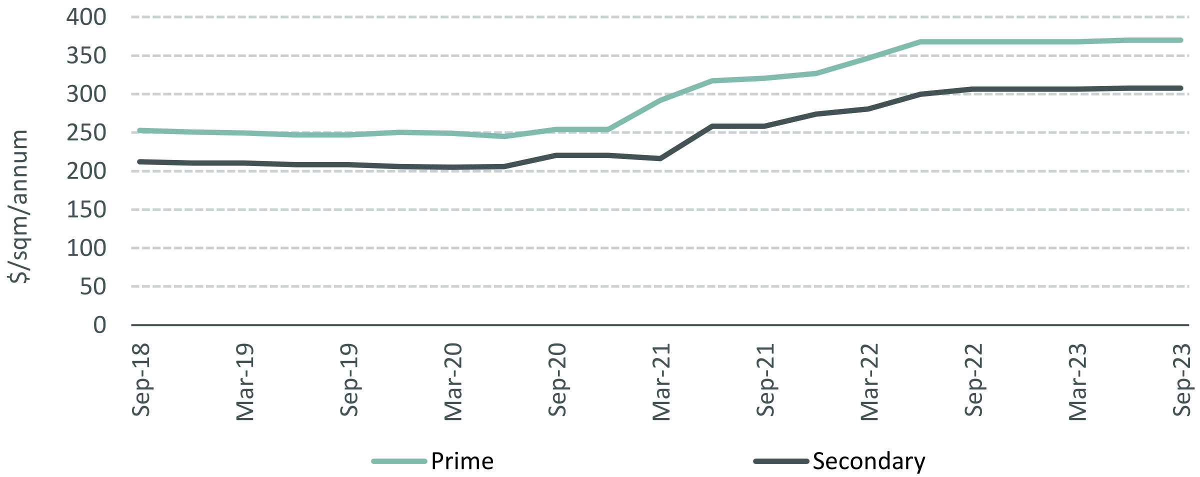
Market rents for CBD office did not change in Q3 2023, even though demand for CBD office space remains positive and vacancy is low. The lack of leasing activity during Q3 contrasts with what happened in the previous quarter, in which the CBD office market showed some rental growth. During Q2, Prime net effective office rents increased by 0.6% compared to Q1, whilst Secondary rents went up by 0.4%, reflecting the good activity that the CBD office market had in that period.

In Q3, CBD Prime net effective office rents remained constant at $370 per sqm. Likewise, CBD Secondary net effective office rents were also stable at $308 per sqm. Incentives remained unchanged throughout Q3 2023. Based on CBRE's assessment, during this period Prime indicative market incentives were 4.7% of face rents, whilst Secondary indicative market incentives also remained consistent at 8.8% of face rents.

CBD Net Effective Office Rents – Quarterly Change



CBD Net Effective Office Rents



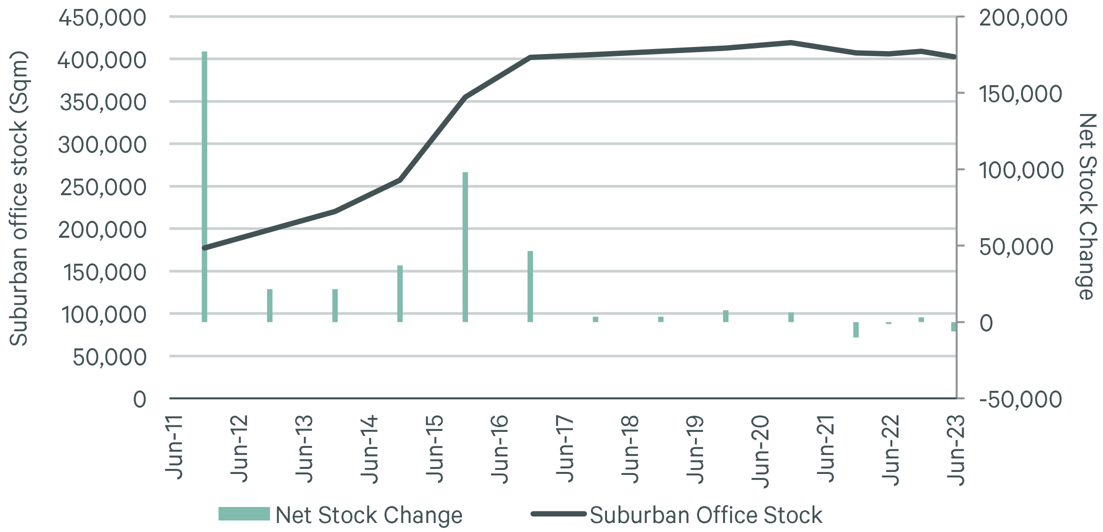
Suburban Office Stock

The Christchurch suburban office stock is 402,667 sqm, decreasing by 6,132 sqm during H1 2023, mostly driven by a drop in Grade A stock.

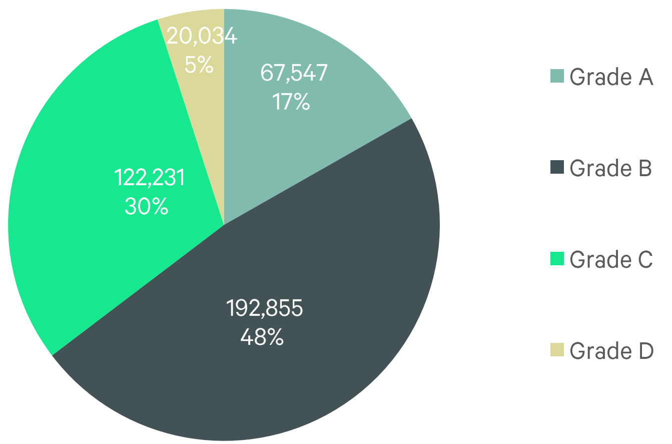
The most significant change during H1 was 6 Hazeldean Road, a 5,939 sqm Grade A building, which had to be withdrawn from the market due to being considered as an earthquake-prone building. This means the building is no longer tenantable and no longer available for lease. Additionally, 323 Madras Street, a 1,518 sqm Grade B building, was taken out of stock because one part of the building was converted into retail space (838 sqm) and another part was taken out due to refurbishment works (680 sqm). Also, regarding stock additions, 1,065 sqm of 494 Moorhouse Avenue and 545 sqm of 225 Papanui Road came back to the market after undergoing refurbishment works.

During H1 2023, 48% of the suburban office stock was Grade B, whilst 30% was Grade C, 17% was Grade A, and the remaining 5% was Grade D.

Christchurch Suburban Office Net Supply Changes



Christchurch Suburban Office Quality by Composition (H1 2023)



Suburban Office Net Absorption

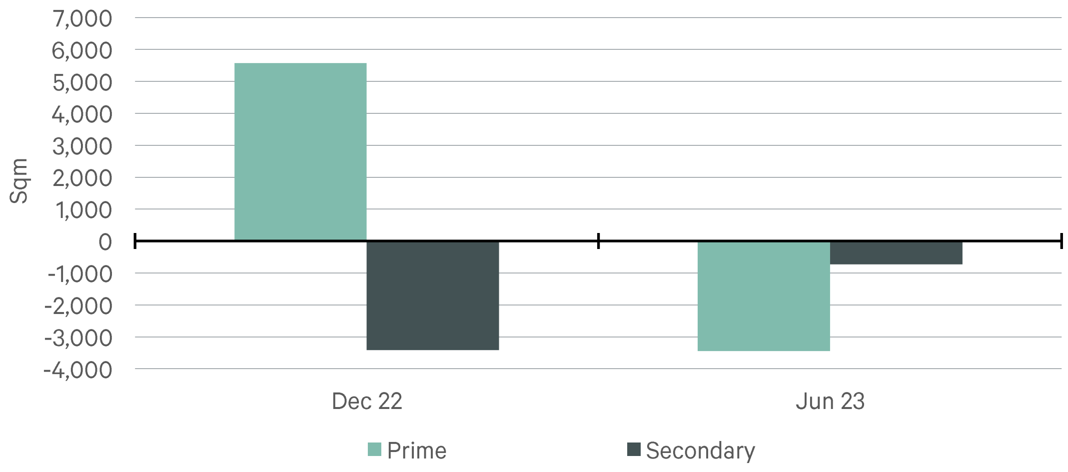
In H1 2023, the Christchurch suburban office market was less active compared to the second half of 2022. Total net absorption during H1 was in negative territory (-4,175 sqm), contrary to the positive net absorption registered during H2 2022 (2,156 sqm).

The negative net absorption experienced during H1 was mainly due to a non-profitable organisation moving out of 22 Twigger Street in Addington, leaving behind 1,440 sqm of Grade C office space. By submarket, both Grade A and Grade B suffered a negative net absorption in this period (-3,447 sqm and -1,055 sqm, respectively). On the contrary, although small, both Grade C and Grade D submarkets witnessed a positive net absorption during the first six months of 2023 (113 sqm and 213 sqm, respectively).

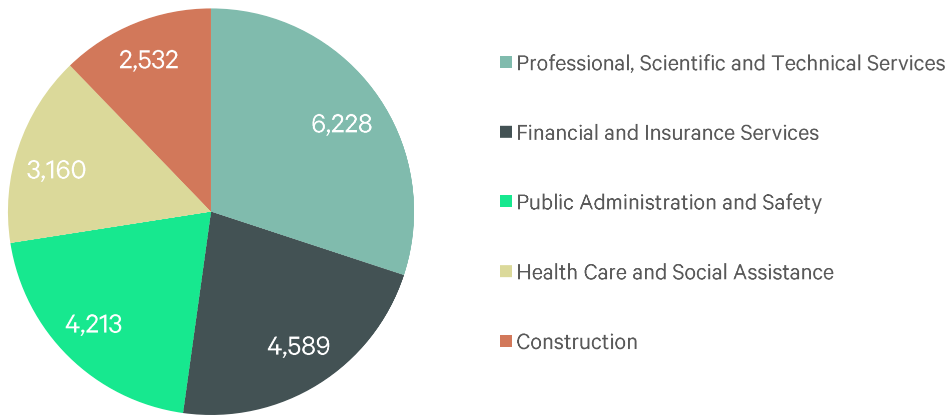
In terms of new take up (gross absorption), the largest new occupancies during H1 were 2,763 sqm of Grade A space in 14 Show Place (Show Place Office Park) by Kainga Ora, and 1,381 sqm by an engineering consulting firm in the same building. Gross absorption reached 33,908 sqm in the first half of the year through 95 new occupancies, significantly higher than the gross absorption in the previous period.

The industry that recorded the highest take up of space during H1 2023 in the Suburban office market was professional, scientific and technical services, with a total of 6,228 sqm, followed by financial and insurance services (4,589 sqm), and public administration and safety (4,213 sqm).

Christchurch Suburban Office Net Absorption by Grade



New Take Up by Industry in H1 2023 (sqm of top five)



Suburban Office Vacancy

After registering a very small increase in vacancy during H2 2022, the Christchurch suburban office market experienced a decrease in vacancy during H1 2023. Total vacant space declined by 1,957 sqm, moving the vacancy rate from 7.7% to 7.4%.

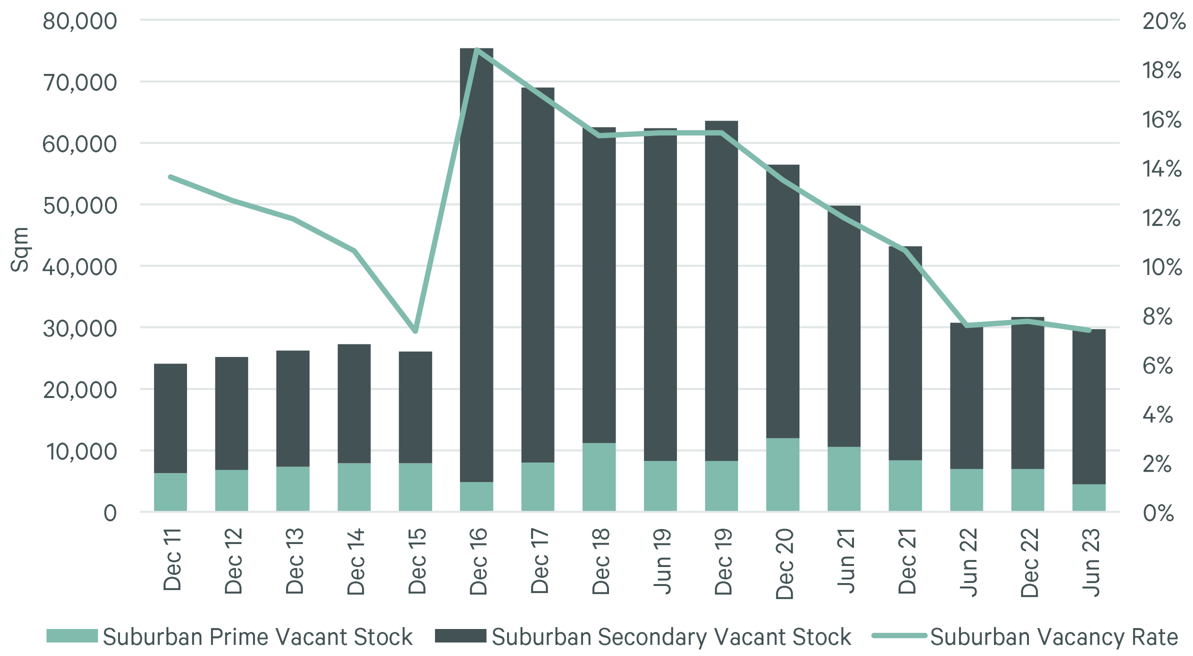
This was mainly due to a drop in vacant stock in the Prime suburban office market (a 2,492 sqm decline), which caused the vacancy rate to decrease from 9.5% to 6.7% in this segment. This was mainly due to the withdrawal of 6 Hazeldean Road from the market due to earthquake-prone-related risks, as previously mentioned, since this building had circa 4,000 sqm of vacant space.

Both Grade B and Grade C suburban office buildings registered an increase in vacancy, whilst Grade D also experienced a decrease. Grade B vacant space increased by 605 sqm, mainly driven by a market research company leaving 573 sqm in 21 Carlyle Street in Sydenham. Also, Grade D vacant space decreased by 213 sqm, due to an electricity, gas, water and waste services firm occupying 408 sqm in 9 Baigent Way.

Suburban Office Vacancy by Grade

		Grade A	Grade B	Grade C	Grade D	Total
Vacancy at December 2022	%	9.5%	6.5%	8.5%	8.2%	7.7%
	sqm	6,989	12,635	10,409	1,636	31,669
Vacancy at June 2023	%	6.7%	6.9%	8.6%	7.1%	7.4%
	sqm	4,497	13,237	10,556	1,423	29,712

Suburban Office Vacancy



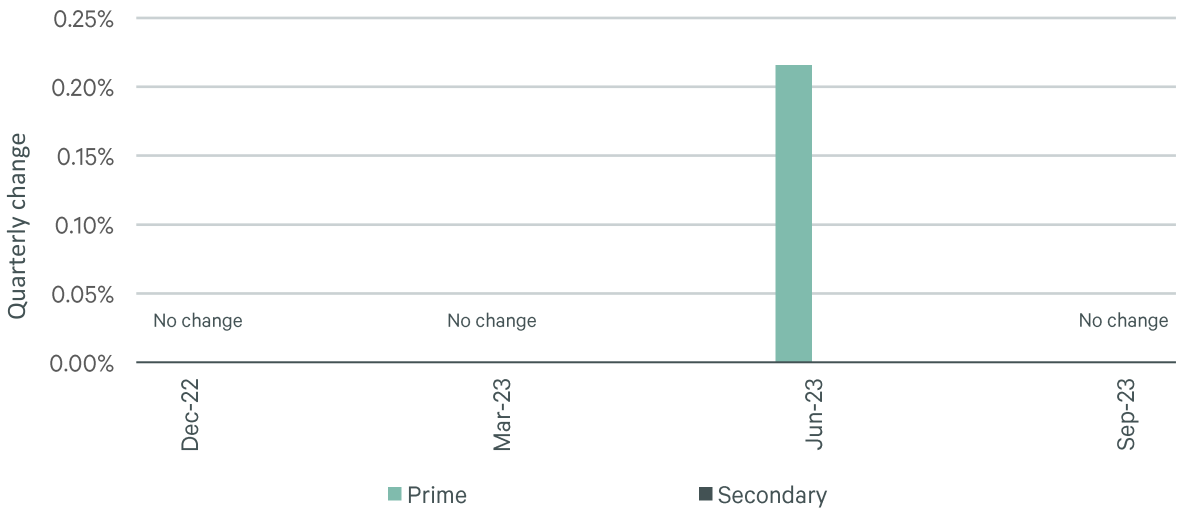
Suburban Office Rents

The Christchurch suburban office market did not register any rental growth during Q3 2023. As in the CBD office market, the suburban market also witnessed a subdued leasing activity in this period, compounded by sluggish demand.

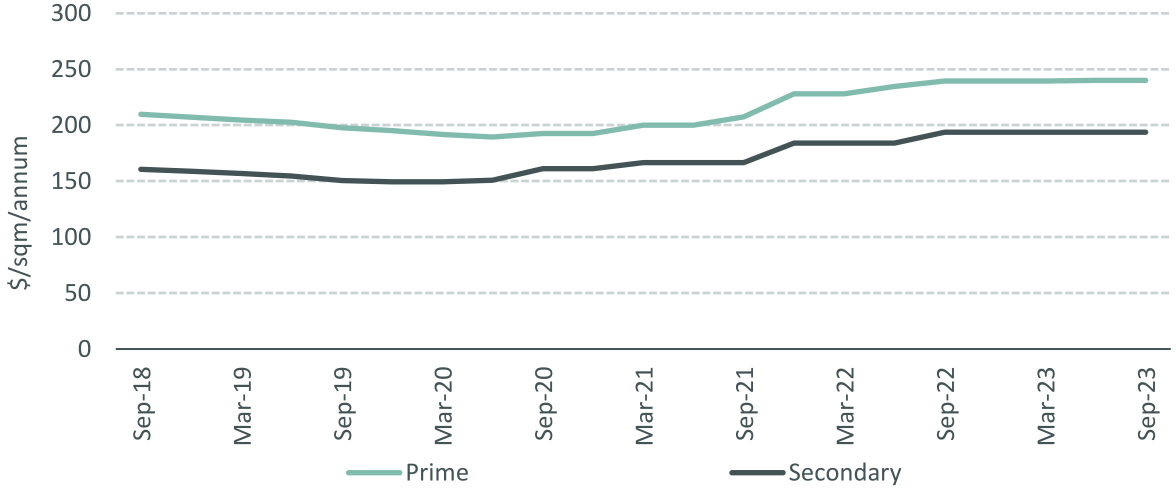
In the previous quarter, only the Prime suburban office market showed some growth, albeit only modest at 0.2%. During Q3 2023, Suburban Prime net effective office rents remained stable at $240 per sqm. Similar, Suburban Secondary net effective office rents also remained unchanged at $194 per sqm in Q3.

After experiencing some increase in Q2, incentives for Prime buildings remained constant during Q3, whilst incentives for Secondary buildings continued to be stable in the same period. Based on CBRE's assessment, in Q3 2023 Prime indicative market incentives were 7.9% of face rents, whilst Secondary indicative market incentives remained at 12.3% of face rents.

Suburban Net Effective Office Rents – Quarterly Change



Suburban Net Effective Office Rents



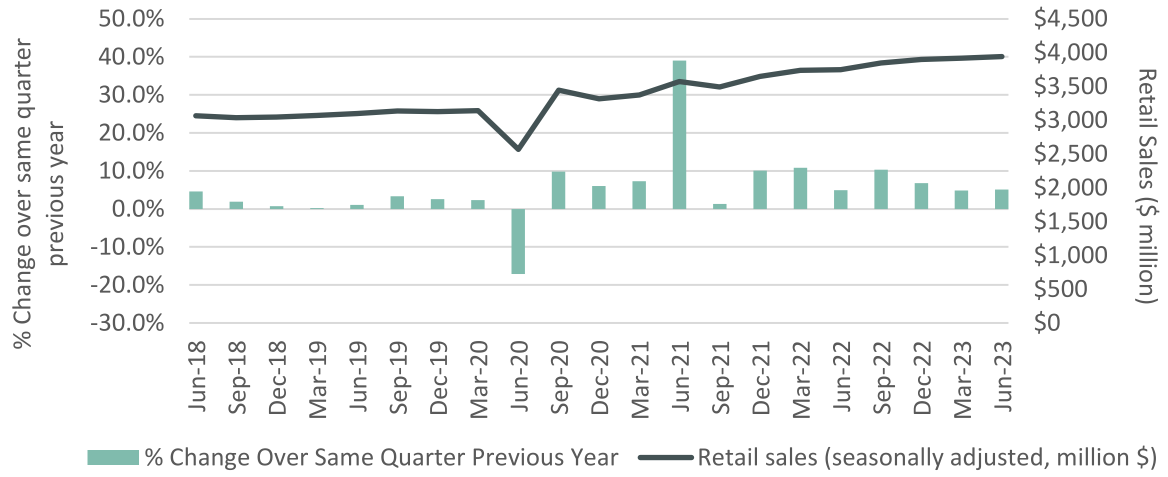
Retail Sales

In Q2 2023 retail sales in Canterbury increased by 5.1% compared to Q2 2022, surpassing the growth rates registered in Auckland and Wellington in the same period (3.3% and 0.9%, respectively). Also, Christchurch continued to benefit from overseas tourists. International visitor spending in the city during Q2 (mainly from Australia and the USA) increased by around 150% compared to Q2 2022 (to a total of $66.5 million) and went up by 43% compared to Q2 2019 (a pre-Covid period).

Retail spending in Christchurch increased by 1.9% in June 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 6.0% during this period.

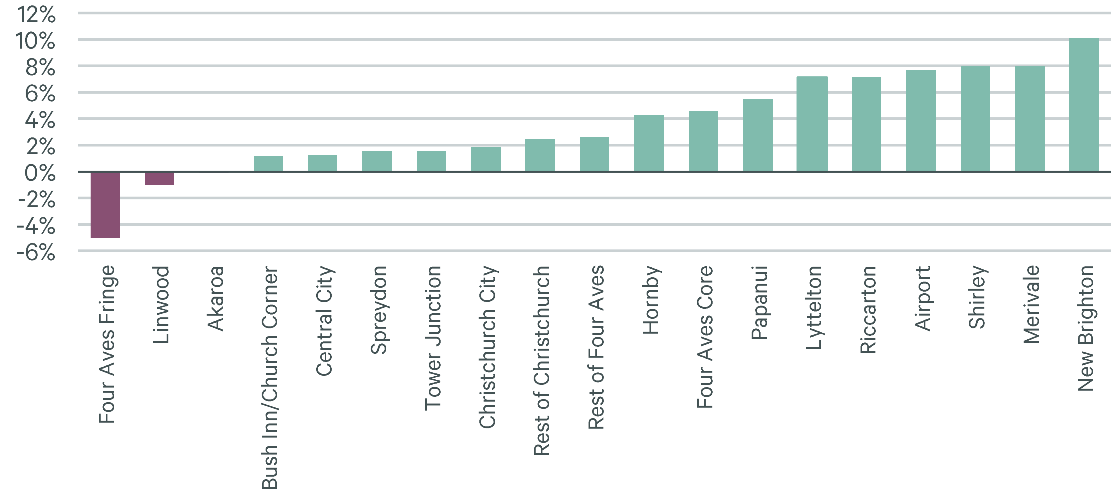
In the Christchurch's CBD, the value of retail spending was up by 1.2% during Q2 2023. Also, some suburbs in Christchurch also benefited from positive spending growth during this period, such as New Brighton, Merivale, and Shirley, which experienced year-on-year retail spend growth of 10.1%, 8.0% and 8.0%, respectively. The only areas that witnessed negative retail spending growth were Akaroa (-0.1%), Linwood (-1.0%) and Four Avenues Fringe (-5.0%).

Canterbury Retail Sales



Source: : Statistics New Zealand

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



Source: : ChristchurchNZ

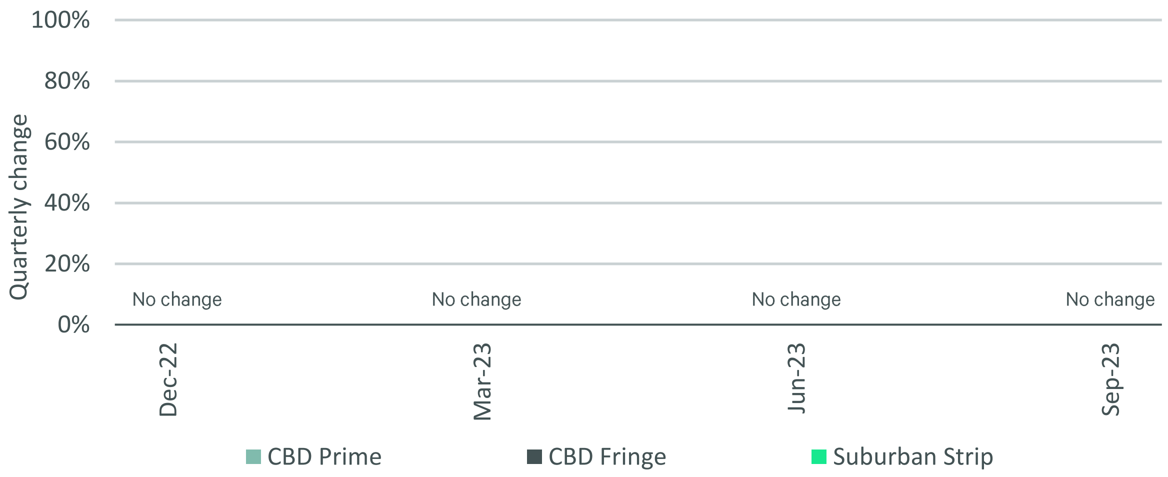
Retail Rents

Overall, demand for CBD Prime retail locations is positive, especially for locations on Cashel Street, whilst demand for CBD Fringe locations remains subdued. Despite this, following the trend of previous quarters, net effective rents for all CBRE monitored Christchurch retail submarkets remained unchanged during Q3 2023.

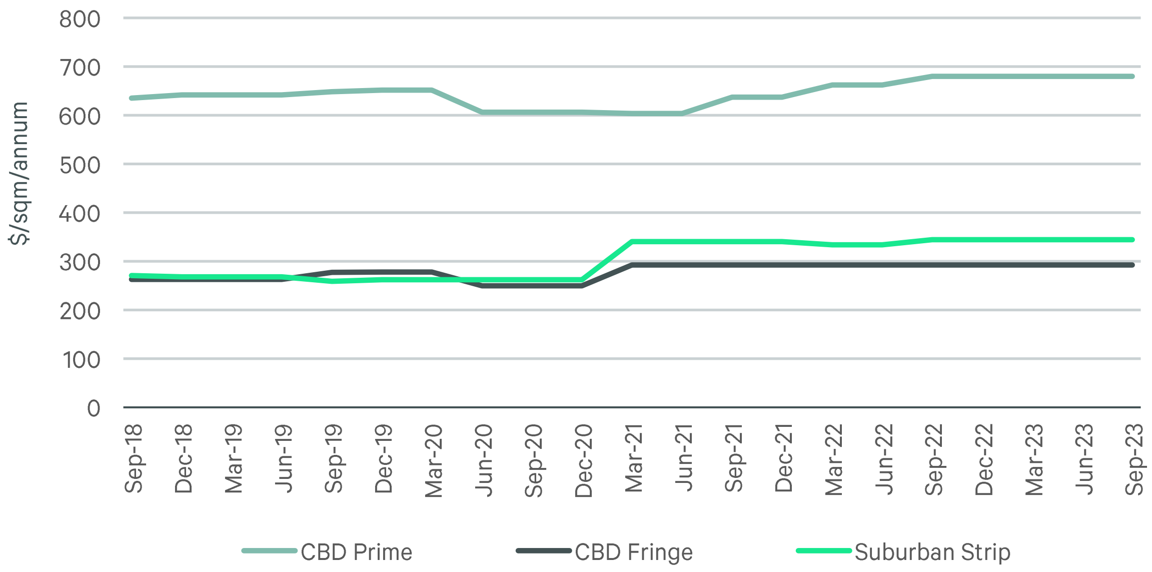
CBD Prime retail net effective rents are $680 per sqm, constant since the last 12 months. CBD Fringe retail net effective rents are $292 per sqm; unchanged since March 2021. Also, Suburban Strip retail net effective rents have also been stable over the last year at $344 per sqm.

In relation to incentives, these also remained unchanged for all retail submarkets in Q3 2023. Based on CBRE's assessment, during this period CBD Prime indicative market incentives were 8.3% of face rents, CBD Fringe indicative market incentives stayed at 8.3%, while Suburban Strip indicative market incentives are at 7.4%.

Retail Net Effective Rents - Quarterly Change



Retail Net Effective Rents by Precinct

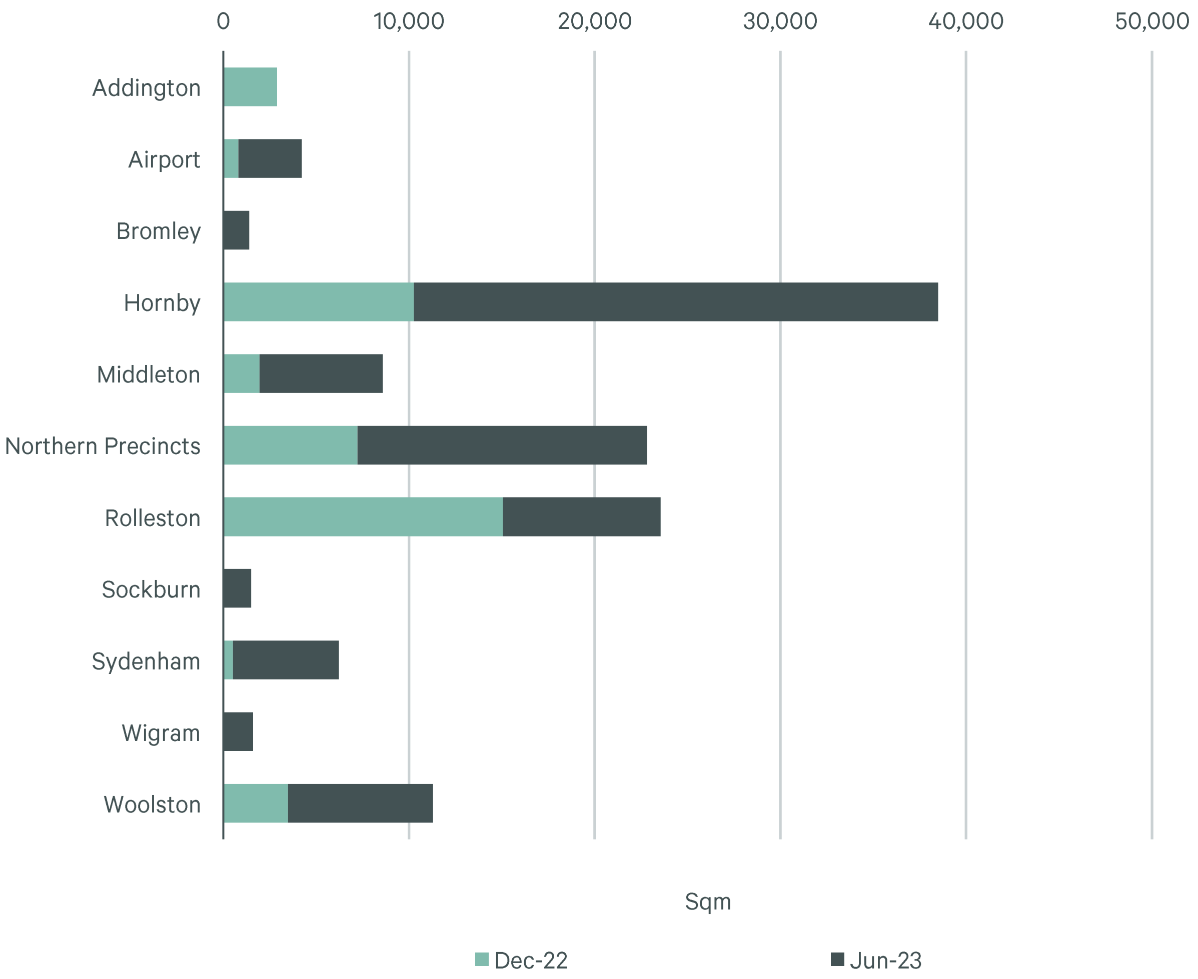


Industrial New Supply

During H2 2022 and H1 2023, Christchurch's industrial market received 122,666 sqm of new stock. Out of this total, 42,237 sqm were received in H2 2022 and 80,429 sqm in H1 2023. 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). Also, during H1 2023, Hornby had the largest amount of new stock (with 28,225 sqm), followed by Northern Precincts (15,604 sqm) and Rolleston (8,500 sqm).

The largest industrial building completed in Christchurch over the past six months was 928 Halswell Junction Road, located in Hornby (a 11,179 sqm building), followed by 39 Lunns Road in Middleton (6,642 sqm). The average size of industrial buildings completed during this period was 2,681 sqm. During H1 2023, one building larger than 10,000 sqm and four buildings between 5,000-10,000 sqm were completed.

H2 2022 – H1 2023 New Industrial Supply



Industrial Net Absorption

In H1 2023, the market was less active in terms of net absorption compared to H2 2022 which was extremely active with net absorption of 106,573 sqm. Total net absorption over H1 was a still very healthy 79,293 sqm. During this period, net absorption in Grade A industrial buildings was 70,101 sqm, driven by the take up of new built stock.

With already low vacancies and thus limited availability, net absorption in existing stock was more modest. Grade B absorption during H1 2023 was 8,890 sqm, while the Grade C/D submarket registered a net absorption of only 302 sqm,

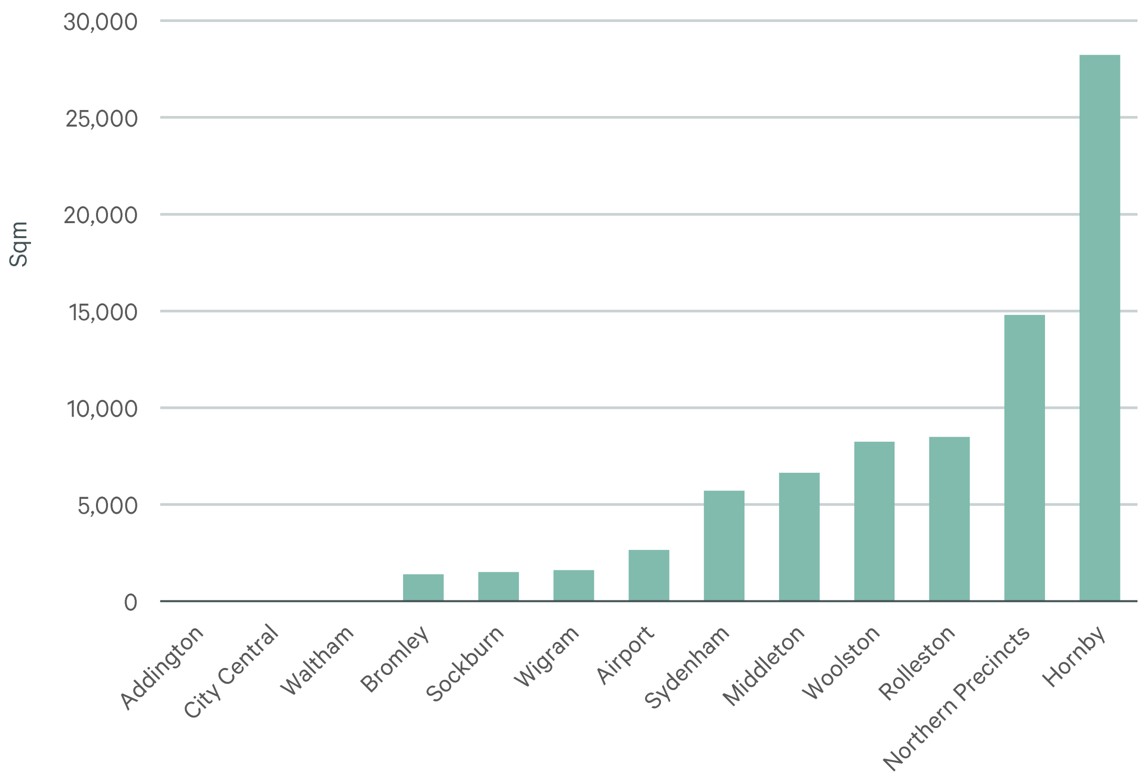
In H1 2023, Hornby had the largest net absorption with over 28,000 sqm, followed by Northern Precincts (circa 15,000 sqm) and Rolleston (8,500 sqm).

The largest occupier take up in newly completed buildings is Wyma Engineering Ltd taking up over 11,000 sqm at 928 Halswell Junction Road (Hornby).

Industrial Net Absorption by Grade

	Total	Grade A	Grade B	Grade C/D
Dec-22	106,573	57,057	38,919	10,597
Jun-23	79,293	70,101	8,890	302

Industrial Net Absorption by Precinct—H1 2023



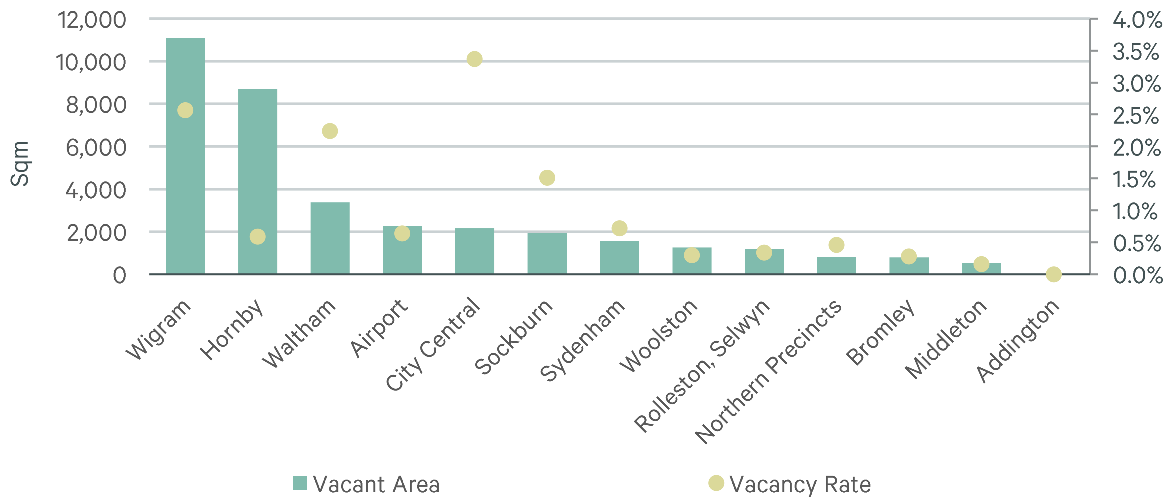
Industrial Vacancy

Christchurch total industrial vacancy in H1 2023 remained almost unchanged compared to H2 2022. It decreased from 0.81% in December to 0.79% in June. The largest reduction happened in Grade B where vacancy dropped by 3,657 sqm, decreasing the vacancy rate from 0.9% to 0.7%.

The main move in the Grade B submarket occurred in 96 Branston Street in Hornby, where a construction firm occupied 1,410 sqm.

Grade A industrial vacancy rose by 1,938 sqm, increasing the vacancy rate from 0.1% to 0.2%. Also, 1,854 sqm of Grade C/D buildings became vacant during the same period, increasing the vacancy rate of this submarket from 1.4% to 1.6%. Regarding the Grade A submarket, this was primarily due to a retail trade company moving out of 315 Tuam Street (1,130 sqm). Also, in relation to the Grade C/D submarket, this happened mainly due to a whole trade firm vacating 1,014 sqm in 26 Kingsley Street in Sydenham.

Industrial Vacancy by Precinct – June 2023



Industrial Vacancy

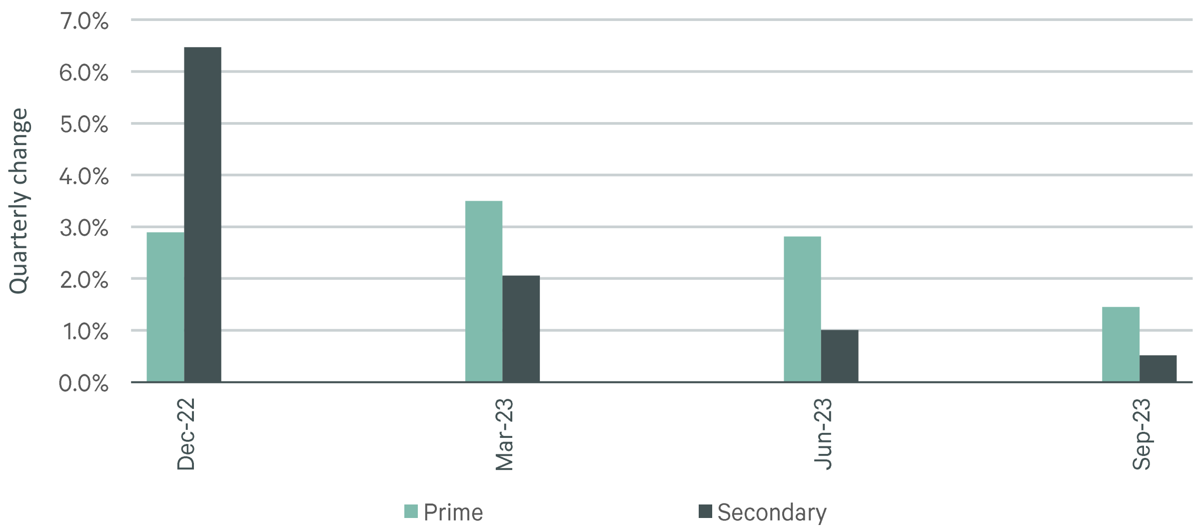
Industrial Rents

Following the prevailing quarterly trend since Q2 2022, the industrial market continued to enjoy rental growth during Q3 2023 in both the Prime and Secondary submarkets. Low vacancy, strong demand for industrial space, increasing construction costs and a rise in land prices continue to underpin robust rental growth.

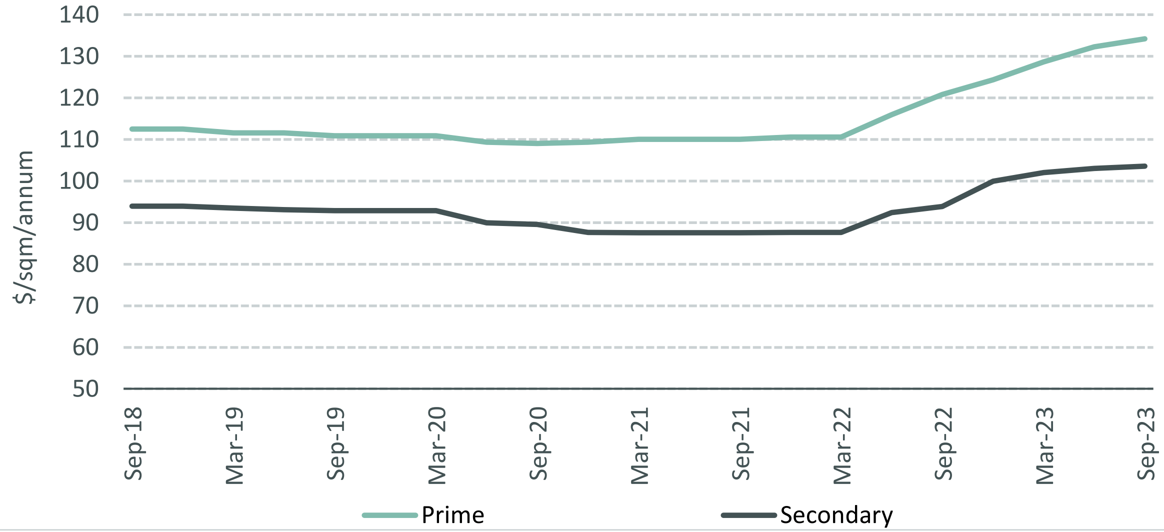
Industrial Prime net effective rents reached a new record in Q3 at $134 per sqm (the highest ever), up by 1.4% compared to Q2 2023. Also, during the same period industrial Secondary net effective rents reached $104 per sqm (the highest on record for this segment), up by 0.5% compared to the previous quarter.

Incentives remained unchanged in Q3 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 continued to be stable at 1.4% of face rents.

Industrial Net Effective Rents - Quarterly Change



Industrial Net Effective 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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