

Christchurch CBD New Office Supply and its Expected Market Impact

By Jorge Chang Urrea, Zoltan Moricz - June 2024

Insights

- This year signifies the start of a new supply phase for the Christchurch CBD office market.
- CBD Prime office vacancy sat at a historically low level in the second half of last year. However, the introduction of new office buildings in the market in the coming three years may result in higher vacancy rates.
- If there is an increase in tenant pre-commitments during this period, which typically occurs as new projects advance, then it could potentially moderate the vacancy rates.

Christchurch has proven itself a strong office occupier market, its demand led vacancy improvements across all submarkets in recent years outperforming the other major centres in New Zealand. This has been especially pronounced in the Prime CBD office sector, with a vacancy rate of only 3.1% at the end of last year. Given this environment, the market’s focus is increasingly shifting towards the next round of new supply to cater for emerging demand and the development opportunities this creates.

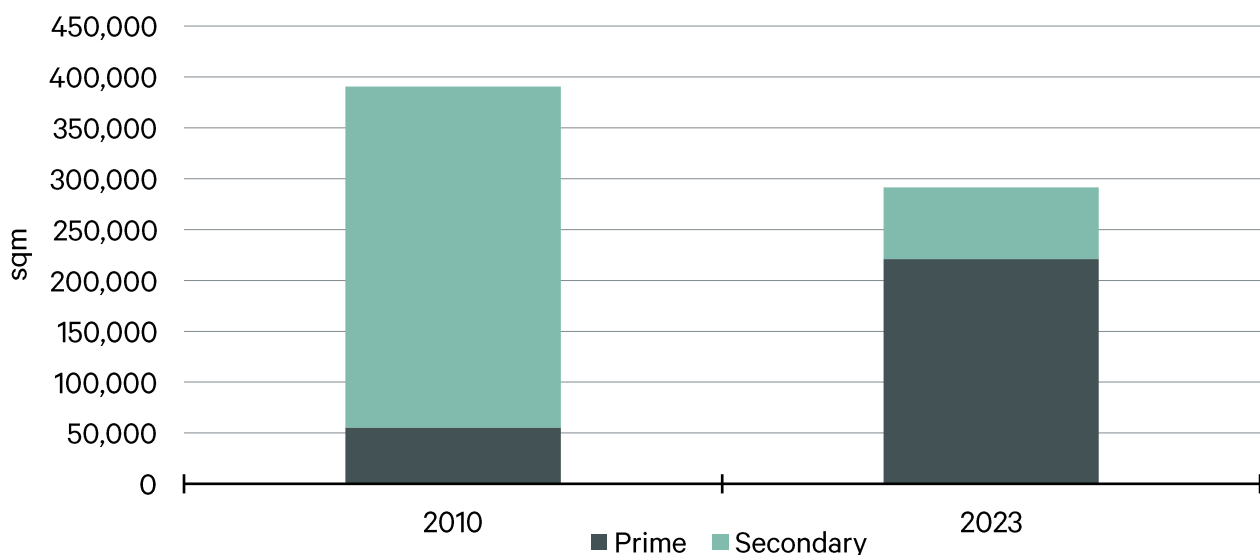
Historic Stock and Supply Trends

The earthquake fundamentally changed the nature of central Christchurch's office market. The pre-earthquake market of 390,000 sqm shrunk to 70,000 sqm in its aftermath. The subsequent rebuild lifted this to its current 290,000 sqm. The rebuild also had a transformative qualitative lift. In 2010, there was 55,000 sqm of Prime space, accounting for 14% of total stock, compared to 220,000 sqm or 76% of the current CBD office market being Prime.

Christchurch CBD office stock

2010	390,621 sqm
2014	70,400 sqm
2023	291,486 sqm

FIGURE 1: Christchurch CBD Office Market Composition and Size

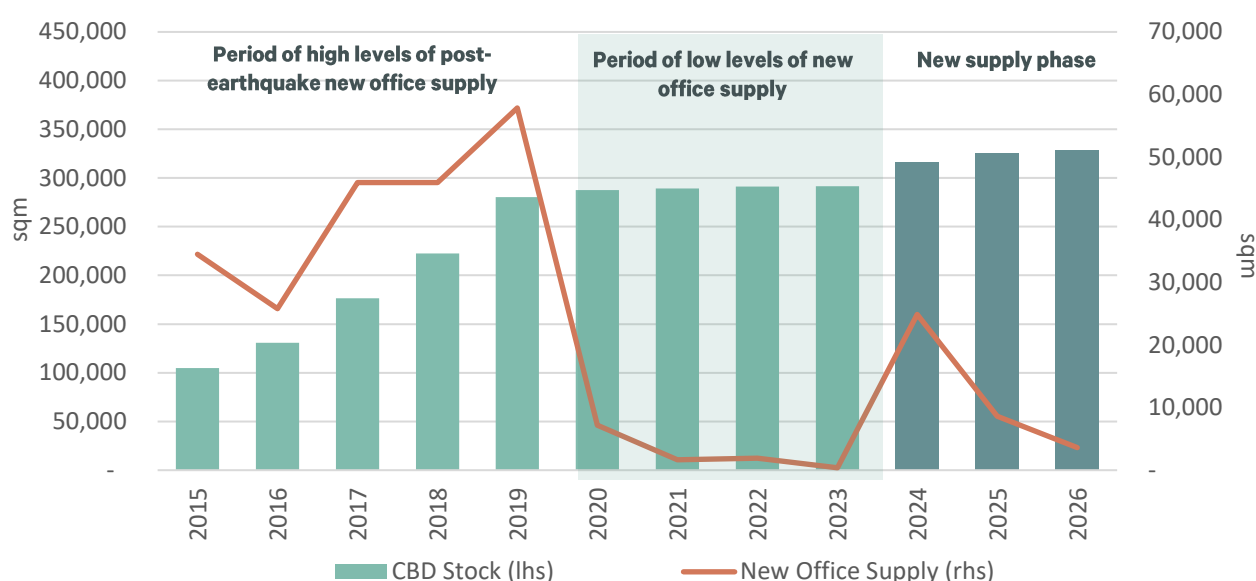


New Christchurch CBD office developments in 2024-2026

Interestingly, while office stock remains 25% below its pre-earthquake level, employment is only 5% down. Professional services office-based employment is fully recovered and is the second largest industry in the CBD after healthcare with nearly 9,000 employees. This is a testament to the market’s desire and support for a central CBD office location.

Aligned with this demand profile and the low vacancy rate, this year marks the beginning of a new supply phase for the Christchurch CBD office market. A significant quantity of Prime office space, around 37,000 sqm, is expected to hit the market between 2024 and 2026, with the highest amount set to be released this year. Approximately 50% of the new office space (measured in sqm) over the next three years will consist of new construction, with the other 50% being renovated buildings. The number of new builds will exceed the number of refurbished buildings. Out of the 12 new developments planned for this period, only three are redevelopments.

FIGURE 2: Christchurch CBD Office Total Stock and New Supply

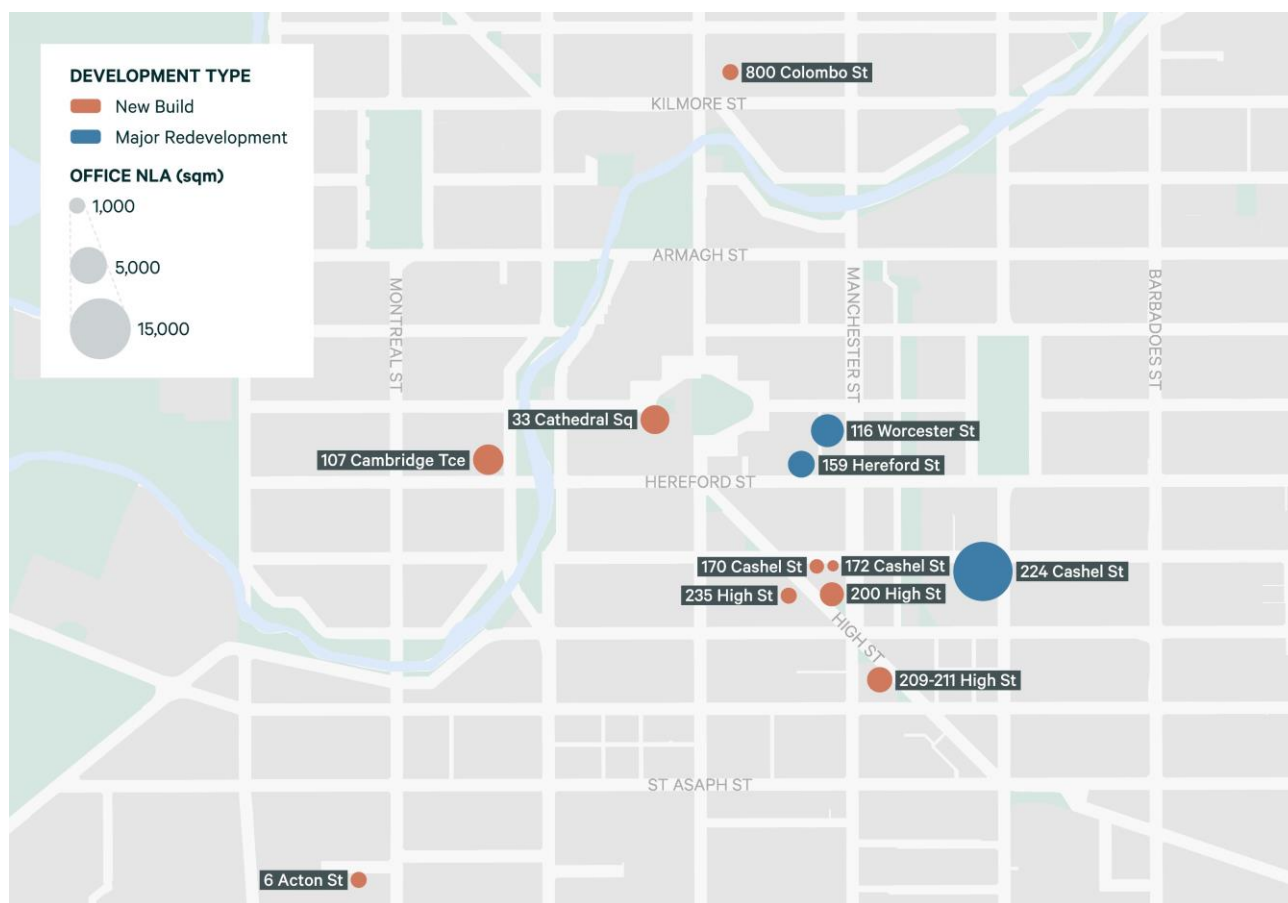


Once completed, all will become members of the Prime CBD submarket family. All, bar 107 Cambridge Terrace, are under construction. Some are close to completion. The largest new office development in the pipeline is, by far, 224 Cashel Street (former IRD building), a 14,000 sqm asset that is currently undergoing redevelopment. This building alone represents circa 36% of the total Prime office space entering the market in the next three years.

Year	Project's Name*	Developer	Office NLA (sqm)	Completion Date	New Development Type
2024	6 Acton Street	Mime Properties Ltd	1,011	Q1 2024	New Build
	The Regent Building (33 Cathedral Square)	Carter Group	3,309	Q2 2024	New Build
	800 Colombo Street	NHL Properties Ltd	1,000	Q2 2024	New Build
	224 Cashel Street	Lichfield Holdings Ltd	14,000	Q3 2024	Major Redevelopment
	172 Cashel Street	Carter Group	535	Q4 2024	New Build
	159 Hereford Street	The Hereford Limited	3,041	Q4 2024	Major Redevelopment
	200 High Street	Treshna Enterprises Ltd	2,217	Q4 2024	New Build
2025	170 Cashel Street	Carter Group	812	Q1 2025	New Build
	116 Worcester Street	116 Worcester Street Ltd	5,731	Q1 2025	Major Redevelopment
	Qb Studios High Street #2 (235 High Street)	Qb Studios	1,085	Q1 2025	New Build
	209-211 High Street	Portus Property	2,496	Q3 2025	New Build
2026	107 Cambridge Terrace	YYK Limited	3,600	Q4 2026	New Build

* It excludes retail space.

FIGURE 3: Christchurch CBD Office New Supply Location Map



Potential Vacancy Impact

Current pre-commitment for the 12 new developments is approximately 22%. However, 224 Cashel Street significantly impacts this percentage because it currently has no pre-committed space. When excluding this development, the pre-commitment level for the remaining 11 new developments rises to 35%.

The relatively low commitment compared to traditional norms clearly indicates developer confidence in the market but also begs the question of the vacancy impact it may have as projects complete. To estimate these, we have run some scenario analysis of the numbers. The scenarios are based on both current commitment levels, and any backfill vacancy that is created in existing buildings from the occupiers that relocate to the new space.

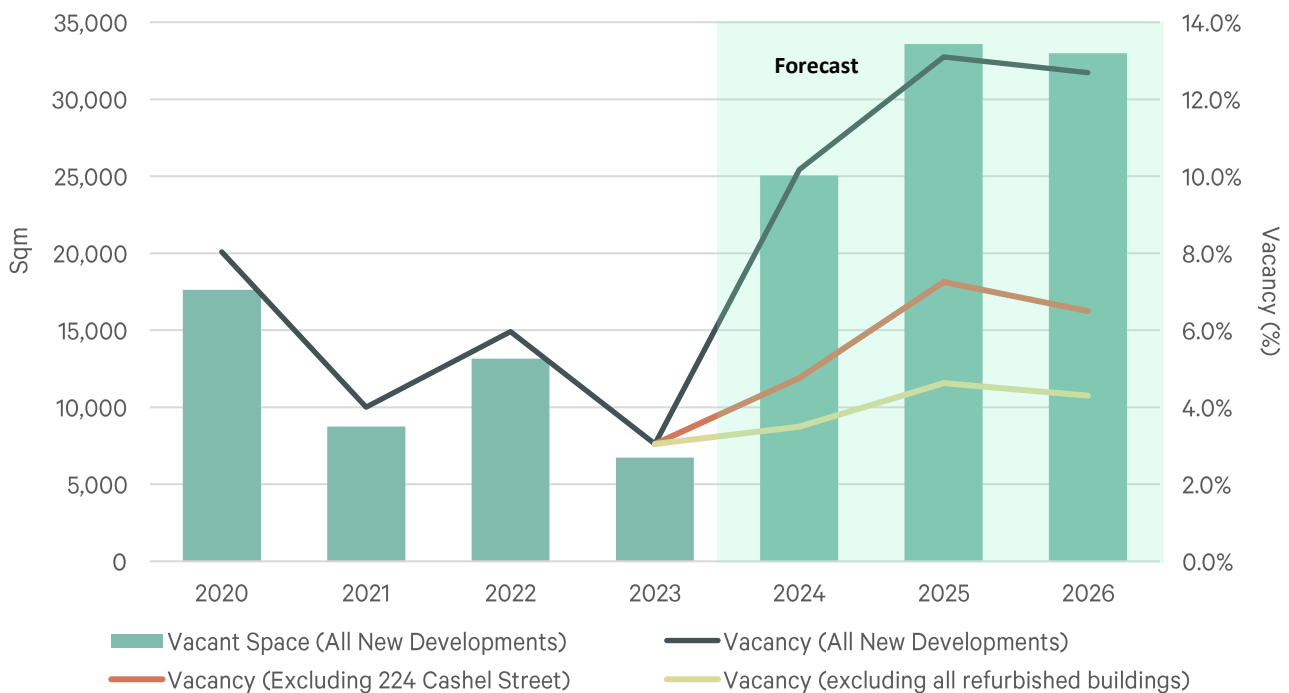
Significant pre-committed office space tenants include Streamliners, who will be the sole occupants of 6 Acton Street, Anderson Lloyd and Buddle Findlay, who are moving into The Regent building at 33 Cathedral Square, Treshna Enterprises, who will occupy their own building, and Leighs Construction, who will take up one floor (775 sqm) in 209-2022 High Street.

Some tenant movements in new office developments in Christchurch during 2024-2025				
Year	Project's Name	NLA Pre-committed (sqm)	Pre-committed Tenants	Total Office NLA (sqm)
2024	6 Acton Street	1,011	Streamliners	1,011
	The Regent Building (33 Cathedral Square)	627	Malley and Co Lawyers	3,309
		1,103	Anderson Lloyd	
		1,103	Buddle Findlay	
800 Colombo Street	750	Forte Health	1,000	
2025	200 High Street	2,217	Treshna Enterprises	2,217
	170 Cashel Street	812	CBRE	812
	209-211 High Street	775	Leighs Construction	2,496

At one end, the low pre-commitments could cause Prime CBD office vacancy rates to rise from 3.1% in 2023 to 10.2% in 2024. With no tenant precommitment that has been publicly released, the large size of 224 Cashel Street is a significant contributor to this vacancy rate. Given this building’s location it is possible that precommitment could be secured from existing tenants in the suburban office market, thereby widening its potential occupier base. Excluding the impact of 224 Cashel Street vacancy peaks considerably lower, at only 7.3% (in 2025).

Considering only new built buildings and excluding refurbished/redeveloped new supply, the vacancy impact further drops to 3.5% this year. Vacancy tends to rise when a substantial wave of new supply hits the market and absorption levels fall short. However, considering the current pre-commitment levels, Prime CBD office vacancy would peak next year (reaching 13.1% in 2025) and then it would start to stabilise in 2026. The ability of the market to accommodate additional Prime space will influence whether the Christchurch CBD office market maintains its position as the most robust office market in New Zealand. One thing is certain, Christchurch has certainly proved its resilience in the past in the face of great challenges.

FIGURE 4: Christchurch CBD Prime Office Vacancy in 2020-2023 and forecast for 2024-2026



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