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Christchurch Commercial & Industrial

The long held vision for Christchurch’s CBD is becoming reality. The post earthquake reshape has often been marked by delays, however, recent months have seen the completion of key developments, a significant increase in the CBD based workforce, increasingly diverse retail and hospitality offerings and progress on all but one of the City’s anchor projects.

The next 12 months will see a continuation of these trends as the flow of workers into town increases. Recent announcements of proposals for major hotel development in the CBD add to the increasingly

positive sentiment. On the flipside, the additional office supply which will come “on stream” will increase the sector’s vacancy rate, which has been climbing over the last 12-18 months, setting up a tug of war between CBD landlords and their city fringe business park counterparts as they compete for tenants.

The industrial sector remains robust as Canterbury consolidates its position as the South Island’s distribution hub. Once again though occupiers are faced with increased choice as development has surged.

Economic Backdrop

Recent statistical releases show that the economic stimulus provided by the Canterbury region’s post earthquake rebuild is beginning to ease. According to the Ministry of Business, Innovation and Employment (MBIE), the rebuild is 63 percent complete, and the level of activity will begin to gently ease from now on. An increasing proportion of rebuild activity will be made up of commercial and public sector construction, with the recovery of housing and infrastructure well advanced.

Total employment numbers and the value of building work have fallen over the last 12 months, albeit that they remain at elevated levels. Whilst impetus from the rebuild is easing the underlying performance of the economy remains strong as it transitions back to more normal conditions.

Christchurch is also benefitting from New Zealand’s tourism boom, with total visitor spending closing in on \$2.2 billion over the year to March. International visitor spending is close to reaching pre earthquake levels.

In the year to March overseas visitors spent \$930 million, up from \$880 million a year earlier. In the year to March 2009 this figure stood at \$939 million before falling to just \$536 million in the 12 months to March 2012.

Office Sector Seeks Tenants

The pendulum has definitely swung within the office sector. The post earthquake shortage, which persisted through to 2014, has given way to an oversupply, as new CBD stock has come to market adding to the fringe development which preceded it.

The imbalance between supply and demand has, unsurprisingly, resulted in a softening of rents. While face rents have, in many cases been maintained, rental incentives, in the form of rent free periods or contributions towards the cost of fit outs are on the rise. In City fringe locations, where landlords were able to charge premium rates immediately after the earthquakes, rental rates have trended back towards pre quake levels. In locations

Christchurch Economic Indicators

INDICATOR	PERIOD	AS AT	NUMBER	ANNUAL CHANGE
GDP	Year	Sep-16	\$18.8 billion	0.50%
Employment	Month	Dec-16	209,900	-2.70%
Net Migration	Year	Mar-17	6,829	-3.20%
Export Value (Chch ports)	Year	Dec-16	\$1.731 billion	1.60%
Annual Tourist Spend	Year	Mar-17	\$2.178 billion	2.80%
Value of non res building consents	Year	Mar-17	\$1.030 billion	-10.30%

Commercial Office Leasing Trends - Christchurch 2016/17

LOCALITY	PRIME	SECONDARY	OPEX \$/M ²	CARPARKS	LEASING MARKET		RENTAL TREND
				COVERED	DEMAND	SUPPLY	
CBD	275 - 445	175 - 275	70 - 120	45 - 70	Weak	Surplus	↓
Fringe Business parks	175 - 275	150 - 200	40 - 80	15 - 25	Weak	Surplus	↓

SOURCE: BAYLEYS RESEARCH

Commercial Office Investment Trends - Christchurch 2016/17

LOCALITY	CAPITALISATION RATE			INVESTMENT MARKET	
	YIELD	TREND OVER YEAR	FORECAST	DEMAND	AVAILABILITY
CBD	6.5% - 7.5%	↓	↓	Weak	Sufficient
Fringe	6.5% - 9.5%	↓	↓	Weak	Sufficient

SOURCE: BAYLEYS RESEARCH

such as William Pickering Drive, close to the airport, rents peaked at approximately \$360/m². Tenants looking for space now can find new CBD space at rates less than this.

Owners of offices in other popular post earthquake precincts, such as Lincoln Road, and Hazeldean Business Park have seen rents trending back to sub \$300/m² compared with the \$330/m² to \$360/m² levels which were being attained in 2011.

Pressure on rentals will be maintained over the foreseeable future as landlords compete to either retain or attract occupiers from the current tenant pool. Many of the new CBD developments had secured tenancies for a proportion of space, prior to construction, predominantly the result of pre-commitment from government agencies and the banking sector. The challenge for CBD landlords now is to fill the balance of space by tempting tenants from the fringe offices, which they have occupied since 2011.

There is already evidence of relocation taking place with, for example, Cavell Leitch deciding to move from Hazeldean to the new BNZ Centre. Engineering consultancy Beca has taken occupation within the new ANZ centre. Since the 2011 earthquakes, Beca had been based in temporary offices around the city, latterly in Sydenham.

As leases which were agreed immediately post earthquake approach their termination dates the competition is likely to intensify. It remains to be seen how many companies will be tempted back to the CBD. The ability to house all staff within one building as opposed to multiple locations is an incentive to some, such as the ANZ which has recently moved into its new headquarters.

As stated above rental rates within the CBD are more competitive than was envisaged few years ago. The fact that much of the development has been funded by insurance pay-outs means that landlords are able to lease space at little more than they were attaining prior to the earthquakes despite the fact that the buildings are generally of a far higher standard.

For many companies though remaining within their current premises will be the preferred option. Over the last six years, considerable amenity has developed around fringe office locations. Workers on Lincoln Road and the Addington business parks, for example, enjoy easy access to a wide range of retail and hospitality offerings.

Car parking is also a significant consideration for many occupiers. While the business parks in particular provide plentiful car parking there is growing concern that the CBD has insufficient space in the face of the rapidly expanding employee base.

Developer Calder Stewart estimates that within 300 metres of its new Hoyts EntX cinema and dining complex on Colombo St the working population is approximately 15,000. New spaces have recently been added to the pool, with Ngai Tahu opening 680 spaces within its King Edward Barracks development. The Westpac building within the Crossings development will add a further 450 spaces. Overall, supply though is still inadequate in the opinion of many businesses.

Anchor Projects See Progress

With groundworks having started on both the Conference Centre and Metro Sports Facility, work on all anchor projects, with the exception of the stadium, is now either complete or underway.

Anchor Project Progress

PRECINCT	CURRENT STATUS	ANTICIPATED COMPLETION
Convention Centre	Earthworks underway	Late 2019
Metro Sports Facility	Earthworks underway	Early 2020
Health Precinct	3 Buildings under construction	Various 2018
Performing Arts	The Plano Centre	Complete
Justice and Emergency Services	Justice and Emergency Services Buildings	Mid July
Bus Interchange	Complete	
Canterbury Earthquake National Memorial	Complete	
The Stadium	On hold	

Access to the City is also a concern to many with the accessible city project attracting widespread criticism. The multimillion-dollar scheme is an anchor project aimed at improving the central city's traffic network. It involves narrowing traffic lanes, adding street furniture, rain gardens and traffic calming measures, creating shared spaces for cycling and walking, reducing speed limits, and removing on-street parking. A number of local businessmen believe, however, that the work is creating unsafe roads for pedestrians, cyclists, and motorists getting in and out of cars, removing manoeuvring space for traffic, driving away customers, and scaring off tenants.

Industrial sector Remains Active

Post 2011, Canterbury has cemented its position as the South Island's distribution hub, this, along with demand driven by industries involved in the regional rebuild has seen demand for industrial space holding at elevated levels. The development sector has responded to the demand with building consent statistics showing an average of nearly 250,000m² of industrial floorspace having been added to the regional inventory, annually, since the year ending March 2012.

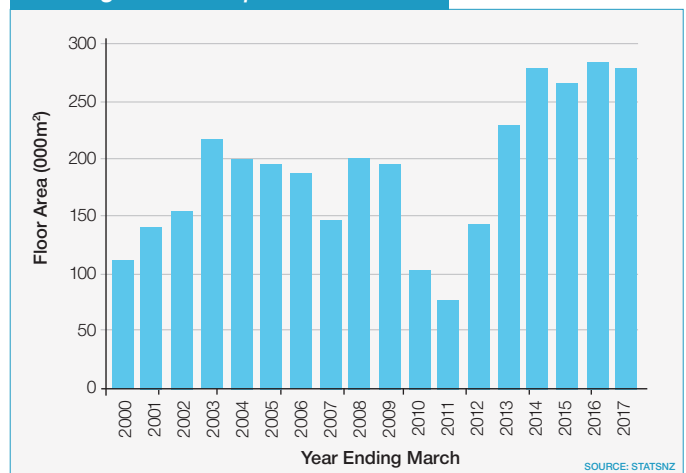
Development of this scale has clearly resulted in Significant land sales over the last six years activity which has driven price appreciation.

All 30 hectares of land at the Wigram Business park was successfully sold down by Ngai Tahu. Initial land values ranged from \$220 - \$260/m². One recent on sale at \$799,000 equates to a square metre rate of just over \$330m². The park houses tenants such as Skellerup which moved from its, earthquake effected, long term base in Woolston in the latter part of 2016.

At Waterloo Business Park approximately 70% of the 114 hectare site has sold with companies such as Hamilton Jet, Cardinal Freight and Hagley Building products having taken occupation.

The region's largest business park Izone, located in Rolleston, has witnessed rapid expansion since 2011 with the sell down of land now all but complete well ahead of the originally anticipated timeframe.

Canterbury Region Industrial Sector Building Consents by floor Area



Rolleston has become a major industrial centre through the growth of Izone and is the predominant distribution centre within Canterbury, a position bolstered by the large scale investment, in the area, from both Lyttelton Port and the Port of Tauranga.

Lyttelton Port officially opened its new "inland port" called MidlandPort late in 2016. MidlandPort is directly across the highway from an Izone Business Park facility recently opened by joint partners Port of Tauranga and Port of Timaru.

Access to the rail system and sidings as well as an improving local roading network have proved attractive to both companies, looking to reduce the movement of empty containers and to increase efficiencies for companies involved in imports, exports and logistics.

Further enhancement of the roading network was confirmed by the New Zealand Transport Agency late last year when it advised that \$435 million was to be invested in building the new Christchurch Northern Corridor and stage two of the Christchurch Southern Motorway as part of the roads of national significance project.

Industrial Investment Trends - Christchurch 2016/17

LOCALITY	CAPITALISATION RATE			INVESTMENT MARKET		LAND VALUES (\$/M ²)	
	YIELD	TREND OVER YEAR	FORECAST	DEMAND	AVAILABILITY	PRIME	TREND
Sydenham	6.0 - 8.0%	→	→	Strong	Scarce	450 - 550	→
Hornby	6.0 - 7.5%	→	→	Strong	Scarce	225 - 275	→
Sockburn	6.0 - 7.5%	→	→	Strong	Scarce	250 - 350	→
Woolston	6.5 - 9.0%	→	→	Strong	Scarce	130 - 200	→
Rolleston	6.5 - 7.5%	→	→	Strong	Scarce	120 - 185	→

SOURCE: BAYLEYS RESEARCH

Industrial Leasing Trends - Christchurch 2016/17

LOCALITY	PRIME		TREND OVER LAST YEAR	LEASING MARKET	
	OFFICE/SROOM \$/M ² NET	WAREHOUSE \$/M ² NET		DEMAND	SUPPLY
Sydenham	150 - 200	75 - 120	→	Weak	Surplus
Hornby	150 - 240	75 - 120	→	Weak	Surplus
Sockburn	150 - 240	75 - 120	→	Weak	Surplus
Woolston	150 - 220	75 - 115	→	Weak	Surplus
Rolleston	170 - 225	75 - 110	→	Weak	Surplus

SOURCE: BAYLEYS RESEARCH

The occupation of new industrial development has been heavily driven by owner occupiers over recent years with businesses taking advantage of the low interest rate environment to secure premises built to their own requirements and to insulate themselves from rising rents in the future.

Unlike the commercial office sector, supply does not tend to get ahead of demand, as a majority of development occurs on a design build basis as opposed to via speculative development. While therefore, new premises have generally been occupied upon completion, this has left an increasing supply of secondary stock which needs to be backfilled. Recent market reports advise that, as a result, the leasing market has become more challenging, and rental rates have stabilised.

Christchurch Short of Accommodation in Face of Tourism Boom

New Zealand's tourism sector is undergoing unprecedented growth. International visitor numbers reached new record levels in early 2017 surpassing 3.5 million for the first time. The lift in visitor numbers saw spending too, reach record levels with tourists pumping over \$10.1 billion into the economy.

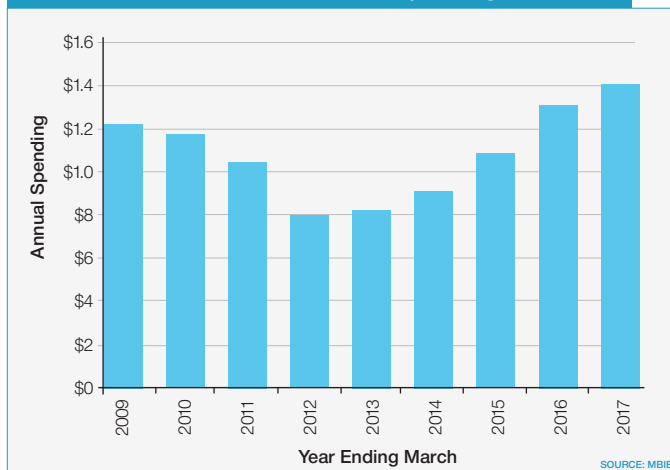
Both nationally and locally the stunning growth of the sector has been of huge benefit to the economy, however, the speed of growth has put pressure on tourism infrastructure.

International visitor spending within Christchurch surpassed its pre quake high in the year ending March 2016. In the year to March 2017 spending was estimated by the Ministry of Business Innovation and Employment (MBIE) to have reached \$1.396 billion an increase of 7.2% over the March 2016 figure.

Visitor numbers to Christchurch are set to increase as the result of a number of factors. These factors include, progress with the CBD rebuild which will make Christchurch a more attractive destination, an increase in direct flights from China and the building of the Convention Centre.

Crown development company Otakaro Limited has estimated that Christchurch's new convention centre could pull in \$400 million in its first eight years. Pre quake Christchurch had 24 per cent of New Zealand's conference market. This figure, while up from its low point is currently sitting at just under 10%.

Christchurch International Visitor Spending (\$billions)



Increasing visitor numbers has put additional strain on infrastructure including hotel accommodation. In a 2016 government report, Project Palace, it was estimated that Christchurch would require an additional 1,600 hotel rooms by 2025. Given the speed of growth within the sector it is quite likely that this estimate will turn out to be conservative.

The development sector has begun to respond to the shortage. Development Christchurch Limited has confirmed that it has agreed a half billion re-development of the ex Christchurch Convention Centre. The mixed use scheme will incorporate a hotel.

A further hotel development has also been slated for part of the Old Press site in Cathedral Square. The site has been purchased by a major Japanese hotel and tourism group. The hotel could, under council rules be as high as 28 metres.

These two recent announcements add to a development pipeline which has grown over recent months. A number of the more significant projects are detailed in the table below.

HOTEL	DEVELOPMENT TYPE	SITE	ROOMS
Distinction Christchurch	Conversion	Former Millenium Hotel	180
Crowne Plaza	Redevelopment	Former Forsythe Barr Office	204
Holiday Inn Express	New Build	Gloucester Street	120
Quest Hotel	Newr Build	Manchester Street	44
Sudima	Refurbishment	Ex Sudima near Airport	241

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