Christchurch Commercial **Update**

Written by Ben Murphy, Commercial Manager NAI Harcourts Grenadier

Office

The development of new office buildings in Christchurch's CBD is moderating with supply outweighing demand, in general any new development is isolated to those having significant pre-commitment by tenants . Investor confidence is growing on annual basis with some significant transactions taking place in 2017, with offshore money starting to re-enter the Christchurch market.

Although leasing activity has slowed since the initial scramble when the first new buildings came back on line post-quake, there is still many active tenants seek space in the CBD. In 2017 SPARK committed to 5,000sqm of CBD space and Regus entered the Christchurch market with two significant sites. There is a clear desire from businesses to be back in the CBD which bodes well for the future of the City

The oversupply of space has put downward pressure of CBD rents coming back to $370 per sqm down from $395 per sqm a year ago. Landlords are also having to offer incentives to attract good tenants who have options. Incentives generally include rent free periods and/or landlord contributions to fit-out. These Incentives can be up to the value of 12% of each year's rental.
Yields are appealing compared to other markets, currently sitting at around 7% for prime property. These yields account for the softening rents and consequent issues around growth in the short to medium term, however the values are underpinned by the increase in building quality, and new long term leases.

Industrial

Vacancy rates for Prime Industrial stock in the Christchurch market remain low creating a very tight market, with much of the development being concentrated on owner occupiers in such places as Izone Business Park, Port link, Waterloo Business Park and Dakota Park.

Conversely the secondary market is seeing increasing vacancy putting downward pressure on rents, in particular for low stud buildings, with landlord being forced to offer rental reductions or incentives to secure tenants even in some established areas for the first time since the earthquakes.

There is strong investor demand for prime Industrial stock with significant interest coming from the North Island particularly; however availability is scarce putting downward pressure on yields. Prime yields are currently sitting at 6%-6.5%.

Retail

The continued completion and occupation of new developments in the CBD is beginning to stimulate activity and people movement creating more opportunities for retailers. The completion of major retail developments such as The Crossing, The BNZ Centre and High Street over the past 12 months has breathed new life into the CBD retail market.

The recently opened Justice Precinct and more certainty around the Convention Centre and Town Hall have further stimulated activity from retailers and Hotel operators in the Central City.

The large number of new retail developments that have come on line in the last 2 years has created plenty of options for retailers, however even with this improvement in activity in the CBD there is still competition from the suburban malls who continue to expand, Prime rents foe CBD space has remained constant as between $650 and $800 per sqm, however incentives are being offered to attract retailers back into the CBD.