

# property Research

Annual 2013  
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## CHRISTCHURCH

### CBD FACES INCREASED COMPETITION

While significant progress has been made in securing land for Christchurch's CBD anchor projects there has to date been little in the way of commercial development. At the same time expansion of the city fringe's inventory has continued with several new projects having been completed while others are either underway or have received resource consent.

There is no doubt therefore that fringe development has stolen a march on the CBD with proactive developers having successfully secured tenants. There has been positive news for the CBD with central government confirming that 1,700 public servants are to be based in four buildings within the CBD in 2016, a working population which will occupy approximately 24,000m<sup>2</sup> of space.

Elsewhere however private sector occupiers have taken the decision to secure space immediately as opposed to waiting for central city development to begin in earnest. This has resulted in a cluster of legal firms forming in Victoria Street, a significant distance from the proposed Justice precinct around which it was no doubt envisaged that they would congregate.

all locations being fully occupied immediately post the earthquake, there has been further expansion within the Parks and on Lincoln Road which has witnessed considerable mixed use development. Recently completed at 335 Lincoln Road, two new buildings have added a combined 5,500m<sup>2</sup> of office space to the local inventory. A majority of the space had been leased prior to completion with Media Works setting up their regional headquarters in the complex alongside quantity surveying and construction consultancy practice Rawlinsons and accountants Moore Stephens Markhams which occupies 600m<sup>2</sup> on the upper floor.

Local developers, Calder Stewart, remain active in the area with further expansion at Hazeldean Business Park underway along with new standalone premises at 351 Lincoln Road. The latter, known as the Lincoln Centre will, when complete, comprise 5,000m<sup>2</sup> of office and retail space on ground and four upper floors alongside a car parking deck. The building is being speculatively developed.

At Hazeldean Business Park the first building within the second phase of development has recently been completed adding a further 3,600m<sup>2</sup> of space to the complex. The property has attracted international accountancy practice Grant Thornton and AECOM Consultants as initial tenants. It is reported that the building is being leased at rents close to \$350/m<sup>2</sup>.

At Show Place further expansion has also been earmarked with a new building at 10 Show Place being offered to the market. The building will, upon completion, provide 2,940m<sup>2</sup> of net lettable floor space.

### FRINGE GROWTH CONTINUES

Addington continues to be one of the primary focal points for commercial development. The precinct was well served with office space prior to the February 2011 earthquake as a result of development of Show Place, Hazeldean and Addington Park. With

### OFFICE INVESTMENT TRENDS - CHRISTCHURCH 2013

Locality	Capitalisation Rate			Investment Market	
	Yield	Trend over last year	Forecast	Demand	Availability
CBD	7 - 8.5%	↓	→	Strong	Scarce
Fringe	7 - 9%	↓	→	Strong	Scarce

Source: Bayleys Research

### COMMERCIAL OFFICE LEASING TRENDS - CHRISTCHURCH 2013

Locality	Prime	Secondary	Opex \$/m <sup>2</sup>	Carparks Covered	Leasing Market		Rental
	(\$/m <sup>2</sup> )	(\$/m <sup>2</sup> )			Demand	Supply	Trend
CBD	340 - 420	250 - 300	70 - 120	50 - 70	Strong	Short	→
Fringe	250 - 360	225 - 275	50 - 80	15 - 25	Weak	Sufficient	→

Source: Bayleys Research

As mentioned over, another fringe location which has attracted high levels of development is Victoria Street. The street has attracted a number of high profile occupiers, particularly those connected to the legal sector. The South Island's largest law firm, Duncan Cotterill, being the prime example having taken all the office space within the Knox Plaza development at 148 Victoria Street. The Campus style office is currently under construction with an estimated completion date of September 2014. Duncan Cotterill is to occupy 2,800m<sup>2</sup> over three levels with the ground floor to house hospitality and / or retail users.

Other legal practices which have chosen to locate on Victoria Street include Saunders and Co, Buddle Findlay and Taylor Shaw.

It is not only legal firms however that have chosen to secure space in the fringe as opposed to waiting for development to begin in earnest within the CBD. Craigs Investment Partners have taken space and naming rights at 76 Victoria Street, another mixed use development which is scheduled for completion in late 2013 or early 2014.

As suggested by the commentary above, Victoria Street is fast becoming one of the City's most significant business hubs. By way of example, the most active of developers in the precinct, Countrywide Property, reports that it currently has 20,000m<sup>2</sup> of development either complete or underway within the Street.

In sharp comparison to the activity in the fringe development, progress within the CBD has remained extremely subdued. The demolition process was clearly a lengthy one. Subsequently the fractional nature of land ownership has made site amalgamation difficult, particularly given the minimum site sizes required within the redevelopment blueprint.

With major tenancies committing to the fringe, pressure is growing to get substantial development underway within the CBD. In this respect the start of work on phase one of "The Terrace", being developed by Anthony Gough, is extremely positive.

The property occupies a riverfront site of approximately 8,500m<sup>2</sup> bounded by Oxford Terrace, Cashel Mall and Hereford Street. Phase one is to comprise three separate buildings with an anticipated completion date of late 2014 and will incorporate retail, hospitality and office space. It is envisaged that the completed development will comprise 45,000m<sup>2</sup> of space and house a working population of up to 2,000 people.

The CBD is also to benefit hugely from government occupation. It has been announced that government departments are to lease 24,000m<sup>2</sup> of office space within the city centre.

Up to 20 departments are to be involved including the New Zealand Transport Agency, ACC, Statistics New Zealand and the Department of Internal Affairs. Some are to cut short leases on accommodation which they have occupied, on a temporary basis, since the 2010 and 2011 earthquakes. It is anticipated that the return to the CBD will take place in 2016.

In total approximately 1,700 staff will be involved and it is envisaged that they will occupy four buildings clustered around the city centre's Retail Precinct.

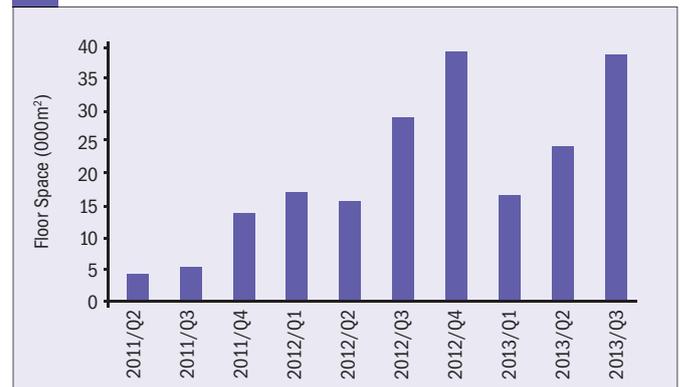
The government has advised that negotiations are ongoing at the present time and remain confidential at this stage.

## SUPPLY NEARING TIPPING POINT

The on-going level of development in the fringe, coupled with the scale of construction proposed for the CBD, looks likely to push the office market into a state of over supply in the medium term future, the level of which is dependent upon the proportion of proposed development which is finally constructed.

Between March 2011 and September 2013 resource consent has been issued for 201,985m<sup>2</sup> of office development within Christchurch City. This figure sits between 50% and 55% of the total floor space occupied within the City prior to the 2010 earthquake.

## OFFICE FLOOR SPACE CONSENTED CHRISTCHURCH CITY



Source: Bayleys Research

As the graph above illustrates, the September quarter of 2013 has seen a spike in consents mirroring the final quarter of 2012. Given that site assimilation in the CBD remains at an early stage, further significant proposals will be working their way through the system for some time yet.

With the exception of the Government, it is unlikely that any other user group will require significantly more floor space than they did in 2010. Indeed, with greater building efficiency and modern workplace systems, most will occupy significantly less space.

The outlook therefore is for a sharp increase in the competition for tenants with a resultant downward pressure on rentals. This will have to be reflected within development appraisals for proposed schemes in both the fringe and CBD.

## CHRISTCHURCH INDUSTRIAL 2013

The first release of data from the 2013 Census shows the Canterbury region to have experienced strong population growth since 2006. While, unsurprisingly, Christchurch City saw its population decline by 2% in the 2006-2013 period, the population of the Region as a whole increased by 17,601 to 539,433 according to Statistics New Zealand.

The figures confirm the generally held view that while many Christchurch residents have been forced to relocate since 2010, a vast majority have remained in the Region. This "internal migration" has resulted in rapid population growth in Christchurch City's neighbouring districts and area. The Census figures show that:-

- Of the 10 areas with the fastest population growth since 2006, half were in the Canterbury region.
- Selwyn district was the fastest-growing territorial authority area, increasing by a third to 44,595 people.

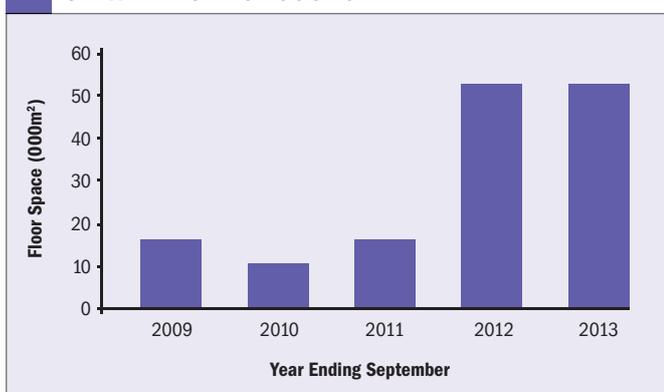
- Queenstown-Lakes and Waimakariri were the next-fastest-growing districts, increasing by 22.9 percent and 16.7 percent, respectively.

The figures reflect the success that there has been in releasing land for new residential development to the west and north of the City helping to accommodate the huge demand which is currently dominating the market.

As with residential development, the Selwyn and Waimakariri Districts have also experienced a significant spike in industrial development.

In the year to September 2013 resource consents were issued for 51,129 m<sup>2</sup> of new industrial floor space within the Selwyn District. The latest figures show the momentum within the development sector, apparent since late 2011, has been maintained. In fact, the latest figures have shown an acceleration in activity with over 43,500m<sup>2</sup> having been consented in the September quarter alone, the highest figure ever recorded for the District.

### BUILDING CONSENTS ISSUED SELWYN DISTRICT COUNCIL



Factories and Industrial Premises Total Floor Area

Source: Bayleys Research

To date, industrial development has been centred on the I Zone Business Park, the largest in the Country. The development, which commenced in 2001, initially comprised 130 hectares but since that time a further 70 hectares has been purchased to accommodate growth and demand for industrial land within

Selwyn. The land is owned by Selwyn District Council which has reported that during the 2012/2013 financial year 15.3 hectares of land was sold for a combined \$16.1 million equating to approximately \$105/m<sup>2</sup>.

Uptake of land at the Park has surpassed original estimates, with the Council having to bring forward the release of stage 6. It now anticipates further strong demand throughout 2014.

Within Christchurch City there has been an uplift in development and leasing activity alongside land owners looking to bring further opportunities to market.

At the Glassworks Industrial Park in Hornby owners, The Goodman Property Trust, has announced 12,147m<sup>2</sup> of new development. A majority of the space has tenant pre-commitment in the form of DHL and Bridgestone however, 4,151m<sup>2</sup> is to be speculatively developed.

The DHL unit will comprise 6,871m<sup>2</sup> of office and warehouse while Bridgestone will occupy the front unit of a three unit development fronting Halswell Junction. The Trust advises that upon completion of the \$20.7 million programme the development will return a blended yield of 8.2%.

At the nearby Hornby Quadrant, developer Calder Stewart has recently concluded deals with Foodstuffs, Sleepyhead and John Jones Steel anchoring its 200 hectare development in the heart of the Hornby Precinct.

Construction is currently underway on the 30,000m<sup>2</sup> extension to the Foodstuffs South Island distribution centre. Sleepyhead has recently moved into its 10,000m<sup>2</sup> factory and office replacing the two earthquake damaged premises which it originally occupied.

The Wigram Business Park has achieved excellent sales success with owners Ngai Tahu having sold down the whole of stage one, comprising 11.6 hectares. Stage 1, which has a total site area of approximately 13 hectares, has now been brought to market and sales momentum has been maintained. Skellerup and Harringtons Breweries, being initial purchasers, are both looking to develop their own premises on site.

Land sales at the Park have achieved values of between \$260 and \$300/m<sup>2</sup>.

### INDUSTRIAL INVESTMENT TRENDS - CHRISTCHURCH 2013

Locality	Capitalisation Rate			Investment Market		Land Values(\$/m <sup>2</sup> )	
	Yield	Trend over last year	Forecast	Demand	Availability	Prime	Trend
Sydenham	7 - 9%	↓	→	Strong	Scarce	300 - 400	→
Hornby	7 - 9%	↓	→	Strong	Scarce	160 - 250	→
Sockburn	7 - 9%	↓	→	Strong	Scarce	220 - 300	→
Woolston	8 - 10%	→	→	Strong	Scarce	80 - 120	→

Source: Bayleys Research

### INDUSTRIAL LEASING TRENDS - CHRISTCHURCH 2013

Locality	Prime		Trend Over Last Year	Leasing Market	
	Office/Showroom \$/m <sup>2</sup> net	Warehouse \$/m <sup>2</sup> net		Demand	Availability
Sydenham	150 - 300	100	→	Strong	Shortage
Hornby	170 - 200	90	↑	Steady	Sufficient
Sockburn	170 - 200	90	↑	Steady	Sufficient
Woolston	150 - 220	70	→	Weak	Sufficient

Source: Bayleys Research

To the east of the city, which was most badly affected by the February 2011 earthquake, development options have been limited. The Portlink project however, is a notable exception. The 30 hectare property is being marketed primarily to end users with large building footprint requirements.

Portlink has the ability to offer large tailor-made sites to prospective tenants allowing building footprints in excess of 10,000 square metres, close to both the Port and the CBD. This represents a rare opportunity in an area with a limited supply of industrial land.

The property has attracted companies that have traditionally been located in the eastern suburbs and companies new to the area. An example of the former is Elastomer which has continued to work from its earthquake compromised base in Bromley while its new premises are constructed. It is reported that the total cost of land and development is approximately \$11 million with completion expected in February 2014.

More recently NZ Express Transport has concluded negotiations for a large depot on the site. The precinct has been made more attractive to transport companies as a result of connections with other industrial suburbs having been improved due to the new Southern Highway.

Further large scale expansion of the City's industrial inventory can also be accommodated at the 115 hectare Waterloo Business Park being developed on the site of the former Islington Freezing works.

Earthworks on the stage one section of the site are now close to completion and access will be further enhanced with improvements to the Halswell Junction Road. The site will also offer access to a rail siding.

## SIGNIFICANT COMMERCIAL OFFICE DEVELOPMENT



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