Research

Market snapshots
New Zealand

Quarter Two

Hello

COVID 19

The road to recovery begins

The impact of COVID-19 on New Zealand's economy in the short-term has been dramatic.

Although relatively little actual data has been released concerning the lockdown period (COVID-19 Alert Level 4) between 26 March and 27 April, and then COVID-19 Alert Levels 3 and then 2 between 28 April and 9 June, the recent 1Q20 GDP figures showing a contraction of 1.6% in the three months to March 2020 demonstrate an inkling.

The depth of the economic impact isn't surprising, and it is no secret that 2Q20 will likely see a much deeper short-term decline when official statistics for the quarter to June are published in September.

Due to the Government's proactive strategy to seek elimination of the virus, much of the economy was effectively shut for a period of one month with only essential businesses able to trade relatively normally.

Data, sentiment, activity and international reputation

The crucial period for judging New Zealand's economic recovery will start on 1 July as we enter 3Q20.

It will be these next three months that will largely shape and begin to define the post-COVID-19 economic recovery.

Key metrics of GDP growth include unemployment rates, business investment, and confidence levels.

Yet for real estate, even more crucial benchmarks will be business activity levels through a micro-market lens and analysis of identifiable shifts in investment and occupation patterns.

Although it is always tempting to get bogged down in the detail domestically, at an international level, New Zealand has crafted a unique global position in having opened the economy with COVID-19 seemingly nearly eliminated.

There is a clear opportunity in sight for New Zealand's property sector to take advantage of its envied reputation and tap into it from a property investment perspective.

But will it take it?

Mixed messages and the power of opinion

There has been a plethora of commentaries in the media from a wide range of voices surrounding the short, medium and long-term impacts on property in New Zealand.

Opinions as extreme as we will 'all work from home', 'shop exclusively online' and 'never go out again' have been commonplace.

Yet experience on the street since domestic restrictions were lifted on 9 June has been noticeably different to theoretical expectation.

The impact of an open and non-socially distanced driven economy in recent weeks has immediately returned, at least optically, to something much more 'old' normal than the potentially expected 'next' normal.

Yes, city centres are inevitably taking time to see everyone return to work, but shops are trading well (particularly in suburban locations), offices are seeing increasing occupancy, and industrial premises are still popular with investors.

Essentially, it doesn't feel altogether like a brave new world – at least not right now.

Seatbelts fastened; it may be a bumpy ride

The initial post-lockdown experience is certainly not to say that COVID-19 will not impact many parts of the market to varying degrees of severity in the future months.

It certainly will.

Some businesses will fail while others succeed and property use will change for some occupiers as strategic business plans evolve.

The key takeaway at this point in time is that a greater amount of information will be essential at a micro-market level with a sector-specific lens, rather than looking at it as a whole.

The next normal, as during any economic crisis, will necessitate an individual property-centric model of assessment no matter what sector. In times like these, the unique nature of property assets comes to the fore.

Longer-term reflections

For our updated longer-term reflections on the potential impact of COVID-19, we refer you to our publication **'Australia and New Zealand take their first steps towards the next normal'** and highly recommend that you consult the analysis presented.

This document was authored by Andrew Ballantyne, Head of Research for Australia with the assistance of our New Zealand research team.

We are happy to discuss any aspect of the recovery of New Zealand's property markets in a post-COVID-19 world, so please do not hesitate to get in touch.

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Contents

Auckland Industrial (City)

Demand

Overall vacancy in the Auckland City industrial areas rose to 2.2% over 1H20 from 2.1% in 4Q19. Avondale saw the largest rise in vacancy, increasing to 4.3% from 2.5% in the previous half. Penrose also saw an increase, rising 0.3% to 2.3%. By contrast, Mount Wellington and Henderson both experienced a fall in vacancy over 1H20 and now sit at 1.3% and 1.0% respectively.

Prime stock vacancy is expected to remain low as occupier demand for high quality space remains robust across the Auckland region and the trend of flight to quality continues.

Supply

Supply continues to slowly increase across the Auckland City industrial markets with a modest number of developments currently under construction. These projects are expected to complete over the rest of 2020 and 2021, which should provide the market with some much needed breathing room in the long term.

Much of the pipeline also remains in various stages of planning across the sub-precincts. We expect the rate of these projects being delivered to slow given delays during COVID lock-down and less speculative development likely.

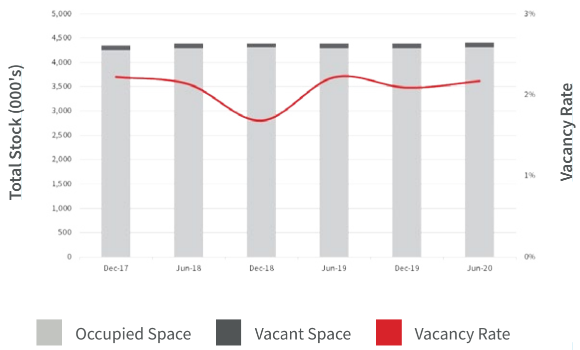
Asset performance

Auckland City industrial rents remained stable over 1H20. Average prime rents currently sit at $168 psm, with average secondary rents at $136 psm.

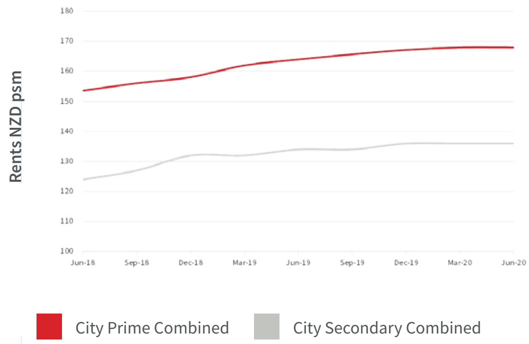
Average prime yields remained at 1Q20 levels of 4.94% while average secondary yields rose to 6.00%. This represents ranges of 4.63% to 5.25% and 5.50% to 6.50% respectively.

Average incentives also rose over the quarter across Auckland. Prime incentives rose to 3.3% from 3.0% in 4Q19 while secondary incentives rose from 4.2% to 6.3%.

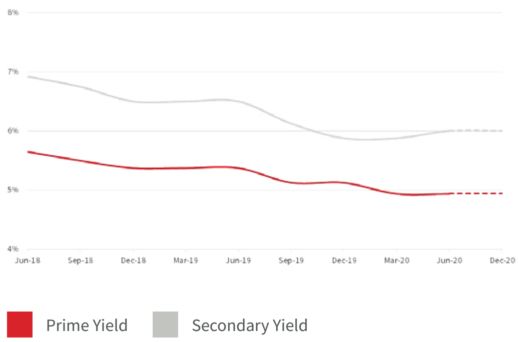
Vacancy and occupied space



Rent



Yields



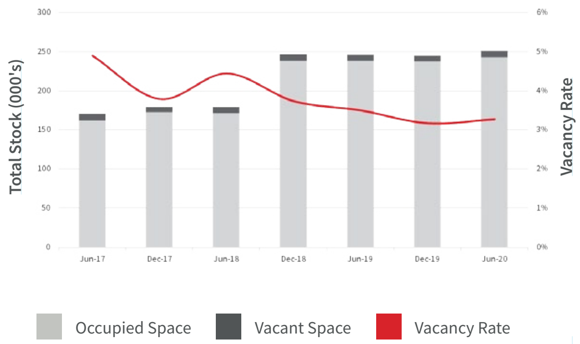
Auckland Industrial (North)

Demand

Overall North Shore vacancy increased 1.4% to 3.4% over 1H20 across all sub-precincts over 1H20. North Harbour experienced the largest increase, rising to 3.8% from 2.0%, closely followed by Wairau Valley, which rose 160 bps to 3.6%. Rosedale increased to 3.2% from 2.1%. Silverdale remained relatively stable overall however, only increasing 0.1% to 1.8%.

There are fewer tenants seeking space than in recent quarters, which has seen tenants being able to negotiate shorter lease terms if needed.

Vacancy and occupied space

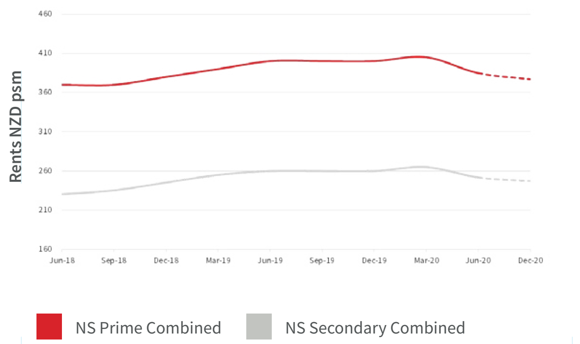


Supply

With zoning constraints and a lack of greenfield land, new supply in the Wairau Valley and North Harbour areas remains limited. We are only aware of three projects currently under construction in the North Shore industrial pipeline. These projects combined will provide just over 15,000 sqm of space.

As for the medium-term projects that are currently in planning, we expect the rate of these projects transitioning from the planning to construction phase to slow down. Limited supply is expected to keep vacancy levels low across the Auckland precincts.

Rent



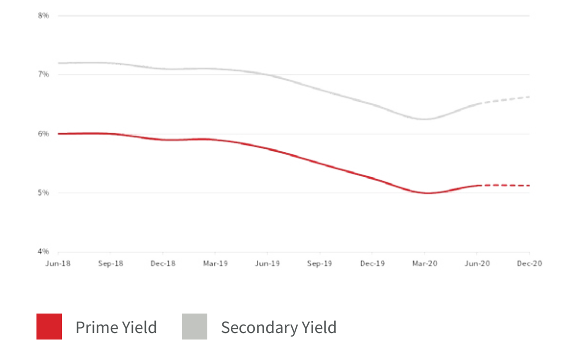
Asset performance

Average prime North Shore industrial rents remained stable at 4Q19 levels of $164 psm over 2Q20. Average secondary rents fell from $140 psm to $138 psm over the quarter.

Similarly, average prime yields remained at 1Q20 levels of 4.94%, while average secondary yields rose to 6.00%. This represents ranges of 4.63% to 5.25% and 5.50% to 6.50% respectively.

Average incentives also rose over the quarter. Prime incentives rose to 3.3% from 3.0% in 4Q19, while secondary incentives rose from 4.2% to 6.3%.

Yields



Auckland Industrial (South)

Demand

Overall vacancy across the Auckland South precincts rose slightly over 1H20, now sitting at 1.6%. The largest change was experienced in the Airport Corridor and Mangere precinct (up from 1.2% to 2.9%). The East Tamaki and Manukau/Wiri precincts both experienced a slight fall in vacancy though to 1.1% and 1.0% respectively.

There are noticeably fewer tenants seeking space than in previous quarters but demand remains. As a result offered incentives increased slightly and shorter lease terms were agreed.

Supply

The Auckland South Industrial precinct continues to see the most active development pipeline by a significant margin. The Mangere and Airport Corridor areas in particular have remained popular for new development, with a number of projects underway by Auckland International Airport and Goodman among other developers.

Looking forward, we expect projects that are currently under construction will likely go ahead as they typically have pre-committed tenants. However, completion dates are expected to push out slightly given delays during COVID lock-down.

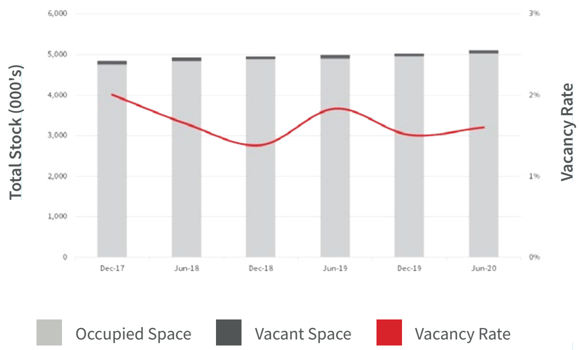
Asset performance

Rents remained stable across both the prime and secondary markets in 2Q20. Average prime rents continue to sit at $167 psm, with average secondary rents remaining at $131 psm.

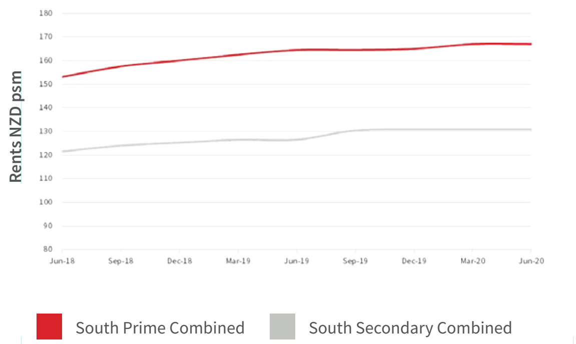
Average prime yields remained at 1Q20 levels of 4.94%, while average secondary yields rose to 6.00%. This represents ranges of 4.63% to 5.25% and 5.50% to 6.50% respectively.

Average incentives also rose over the quarter. Prime incentives rose to 3.3% from 3.0% in 4Q19, while secondary incentives rose from 4.2% to 6.3%.

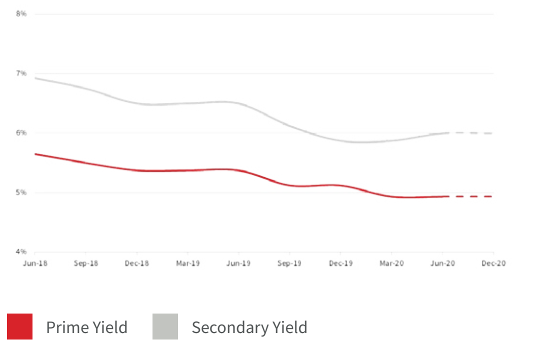
Vacancy and occupied space



Rent



Yields



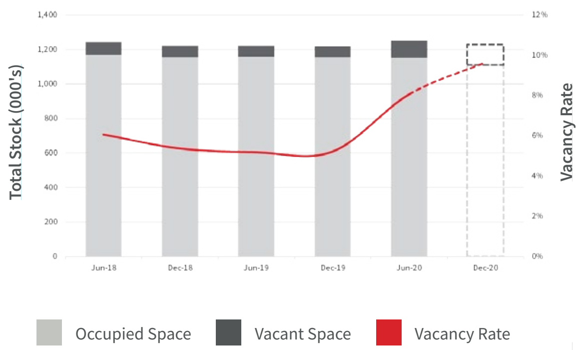
Auckland Office (City)

Demand

Overall vacancy in the CBD office market increased to 8.1%, representing just over 101,000 sqm of unoccupied space. Included in the 1H20 survey figures are the completion of the 39,000 sqm Commercial Bay office tower (92% leased at the time of survey). The main adjustment in occupancy during 1H20 was seen in lower grade office buildings.

We expect occupancy within prime office buildings to normalise over the coming months. Occupancy within lower grade buildings is expected to face challenges in an increasingly competitive market though.

Vacancy and occupied space

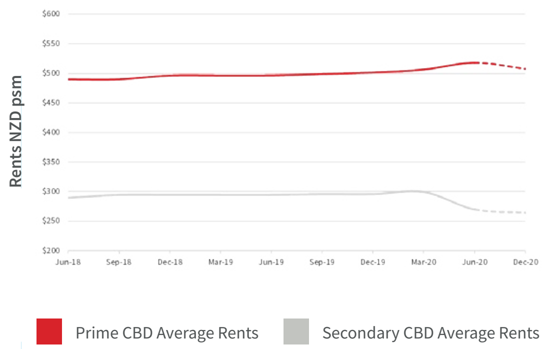


Supply

Completion of Commercial Bay provided an additional 39,000 sqm of premium stock into the CBD office market, ending 1H20 at a total stock level of 1.26 million sqm of space. That said, Commercial Bay was 92% leased at time of opening.

Other notable developments currently underway include 10 Madden Street (8,000 sqm), One55 Fanshawe (16,000 sqm) and 136 Fanshawe (20,000 sqm). All these developments have a high pre-commitment rate. Completion for these developments is expected to push out slightly, given the delays during COVID lock-down.

Rent

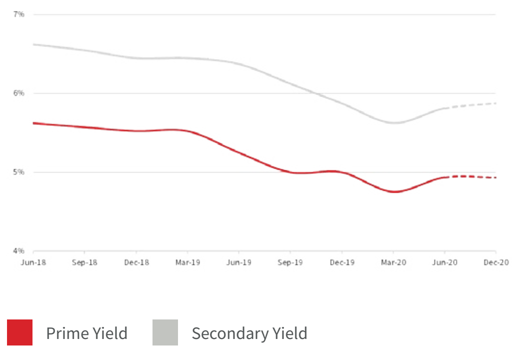


Asset performance

Prime net face rents have steadily increased to $518 per sqm during 2Q20 supported by the opening of Commercial Bay. The impact of this increase has been countered to a noticeable degree by increases in average incentive levels, however. Secondary net face rents have deceased to $270 per sqm during 2Q20 with increased incentive levels.

Yields have pushed out slightly over the quarter as investors take a wait-and-see stance with investment decisions. Both prime and secondary CBD office yields increased by 19 bps to an average of 4.94% and 5.81% respectively in 2Q20.

Yields



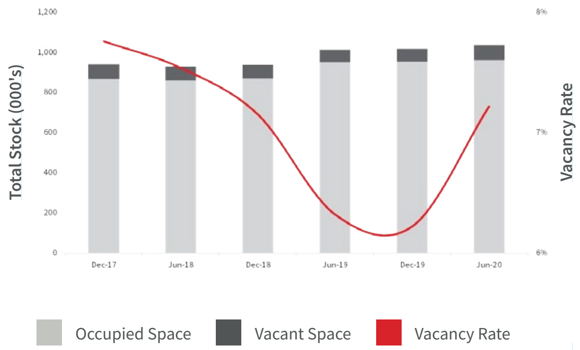
Auckland Office (Suburban Fringe)

Demand

Overall Suburban and Fringe vacancy rose from 6.2% to 7.2% over 1H20. Only Takapuna saw lower vacancy levels this half, falling slightly to 2.9% from 3.0% in 2H19. CBD Fringe saw the largest rise in vacancy, now sitting at 9.5% (2.2% higher than last half). The Southern Corridor saw an increase of 1.0% to 10.4%.

This rise in vacancy is largely the result of the diverse tenant pool across the Suburban and Fringe office sectors who have been impacted by COVID-19 to a greater or lesser degree.

Vacancy and occupied space

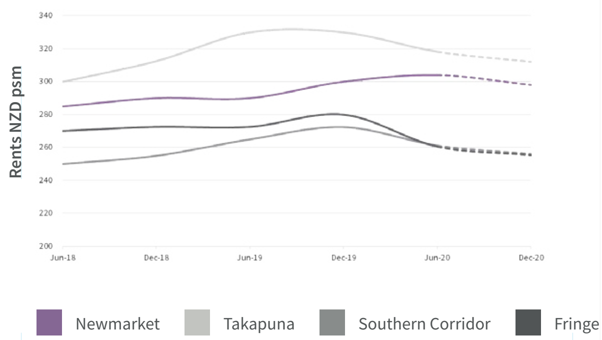


Supply

The CBD Fringe and Suburban markets both saw positive net completions this half. This resulted in a rise in total CBD Fringe office stock to 422,240 sqm, and a rise to 613,104 sqm in total Suburban office stock.

In 1H20, we recorded the completion of several projects. Among these were the refurbishment of 107 Carlton Gore Road in Newmarket by Argosy and 74 St Georges Bay Road in Parnell, a new build of 2,054 sqm by Mansons TCLM.

Rent

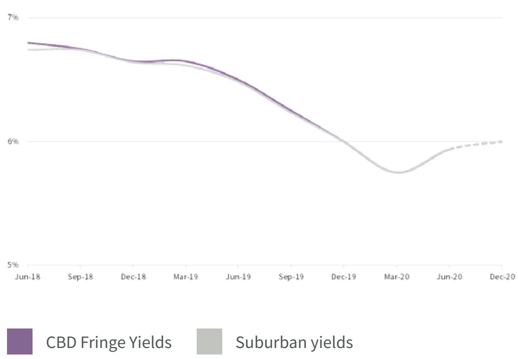


Asset performance

Average net face rents have fallen across the board in 2Q20. Rents in the CBD Fringe saw the largest change, with the average net face rent falling 7% to $261 psm. Newmarket, Takapuna and the Southern Corridor all saw a fall of 5% over the quarter. This change greatly contrasts the trend of increasing rents experienced in previous quarters.

The Suburban office markets have fared worse than the CBD during 2Q20 with rents having lowered and incentives having increased. Changes in demand for accommodation have also negatively impacted rent and incentive levels.

Yields



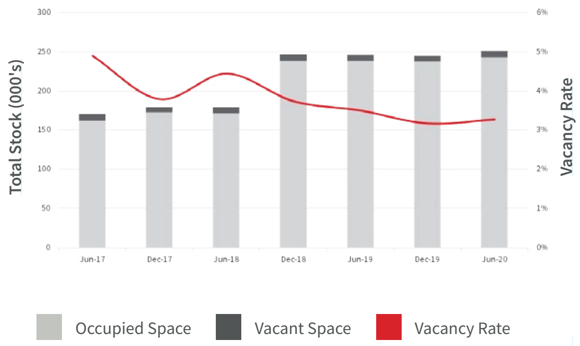
Auckland Office (North)

Demand

North Shore vacancy rates rose slightly over 1H20 and now sits at 3.3%. This is 10 bps higher than 2H19 levels. At a township level, Takapuna vacancy fell to 2.9% from 3.0% in 2H19, while Albany vacancy rose to 4.2% from 3.7%.

This overall rise in vacancy, as is the case with other Suburban office markets, is largely the result of a comparatively diverse tenant makeup with diverse experiences of Covid-19 business impacts. The net result has been dampened demand for space and vacancy increase.

Vacancy and occupied space

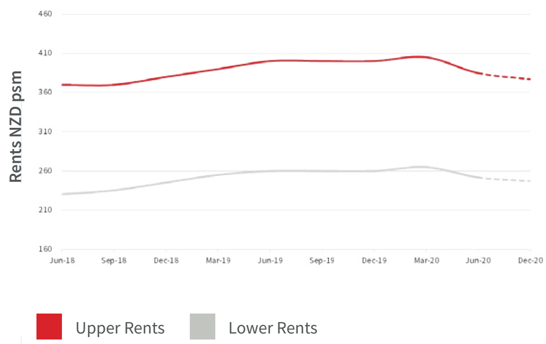


Supply

Overall, the North Shore stock base rose over 1H20. While total stock in Takapuna remained at 177,919 sqm, accommodation in Albany rose 5,736 sqm to 72,886 sqm from 67,150 sqm at 4Q19. This rise in supply was the direct result of the ANZ building’s completed refurbishment which reintroduced space back into Albany.

With completion imminent, 55 Corinthian Drive is expected to bring an additional ~5,390 sqm to Albany before the end of 2020. The remainder of the North Shore office pipeline continues in various stages of planning rather than construction now, however.

Rent

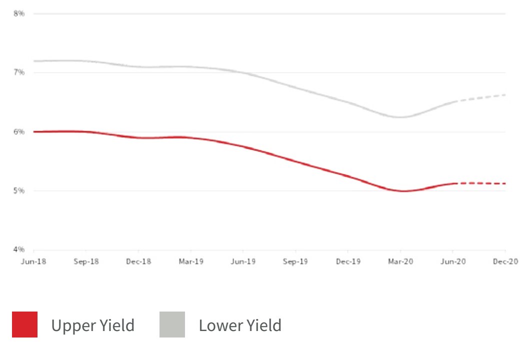


Asset performance

Average upper and lower rents for the North Shore office market both fell over 2Q20. They now sit at $385 psm and $252 psm respectively. Upper yields for the North Shore office market rose to 5.13% from 5.00% last quarter, while lower yields softened to 6.50% from 6.25% in 1Q20.

We recorded one significant sale at 44 Taharoto Road in Takapuna this quarter, selling for $25.5 million in June. The low number of transactions reflected investors' opting to take a wait-and-see stance during 2Q20.

Yields



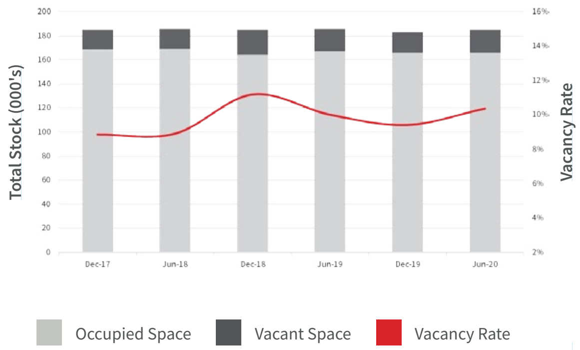
Auckland Office (Southern Corridor)

Demand

Vacancy in the Southern Corridor rose 100 bps to 10.4% from 9.4% in 2H19. This mirrors trends seen across the Suburban markets, as overall suburban vacancy rose from 5.5% to 5.7% over the half.

As with the other Suburban office markets, this rise in vacancy is largely a consequence of the broad tenant makeup in the sector. Tenants in the Southern Corridor have been noticeably more affected by COVID-19, especially those in the education sector.

Vacancy and occupied space

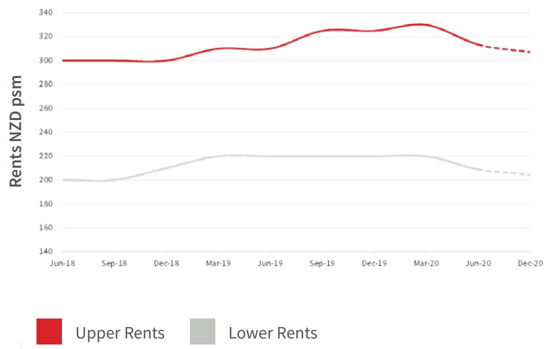


Supply

Total stock in the Southern Corridor office market rose to 185,471 sqm over 1H20, up 2,341 sqm from 183,130 sqm in 2H19. This was the result of a number of completed refurbishment projects.

Much of the Southern Corridor office market development pipeline remained in the planning stages over 1H20 as development activity remains subdued presently. Refurbishment activity is expected to continue over the coming quarters, however.

Rent

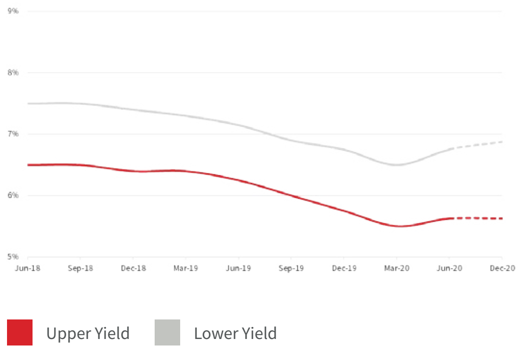


Asset performance

The Suburban office markets have fared worse than the CBD over 2Q20, with rents lowering and incentives increasing. However, the Southern Corridor again remains the most affordable of the suburban office markets tracked.

Upper and lower rents both fell over 2Q20 and now sit at $314 psm and $209 psm respectively. Average rents for the area fell to $261 psm, and incentives increased to 13% from 10% in 1Q20. While upper yields softened to 5.63% over the quarter, lower yields similarly rose to 6.75%. This has resulted in an average yield of 6.19%.

Yields



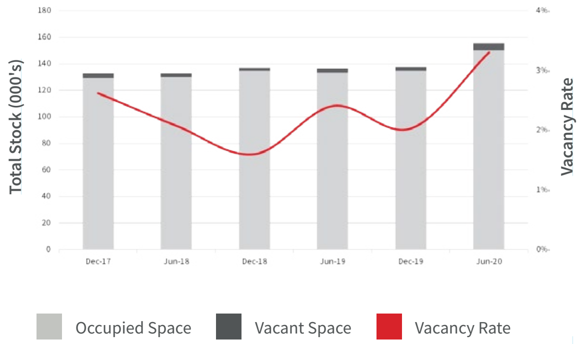
Auckland Retail (City)

Demand

Despite negativity surrounding the retail sector, CBD retail vacancy has held up comparatively well during 1H20. Overall vacancy in the CBD retail market increased by 127 bps from 2.0% to 3.3% between January and July. Included within 1H20 survey results are the completion of the 18,000 sqm (100% leased at the time of survey).

That said, we do expect to see vacancy tick up more noticeably throughout the rest of this year as new tenants are fewer in number and numerous existing businesses are clearly under pressure.

Vacancy and occupied space

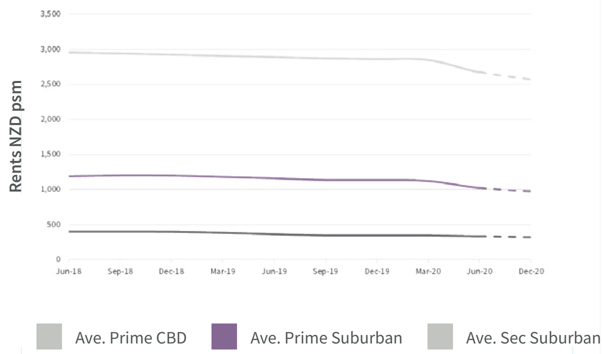


Supply

The opening of the highly anticipated Commercial Bay retail has provided an additional 18,000 sqm of premium retail stock into the CBD, ending 1H20 with a total stock level of 155,405 sqm. It has proven popular in early trading, particularly for food and beverage tenants.

Aside from Commercial Bay, retail developments currently underway are finding it increasingly challenging to find occupiers. As a result, we believe new CBD retail supply from 2021 onward will become subdued. Developments in the medium term are unlikely to feature as large a retail component due to weakened occupier demand.

Rent

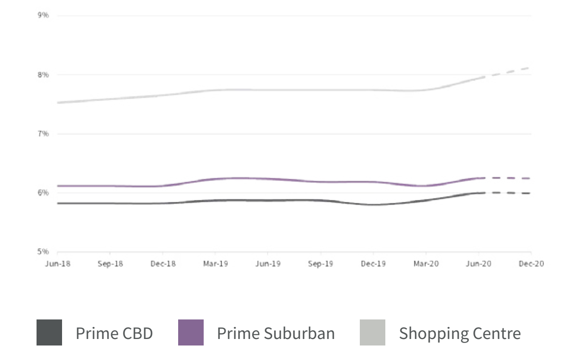


Asset performance

Given the COVID-19 shock to the market and reduced occupier demand, prime CBD net face rents decreased to $2,675 psm (-6.1% q-o-q). Average incentive levels also increased from 4.2% to 6.0%, with landlords being forced to compete to both retain and attract quality occupiers.

Upper prime CBD retail yields have once again held static at 4.00% for the third quarter in a row. Lower prime CBD retail yields have softened by 25 bps to 8.00%. A flight to quality sees an increasing yield gap between the upper and lower prime stock.

Yields



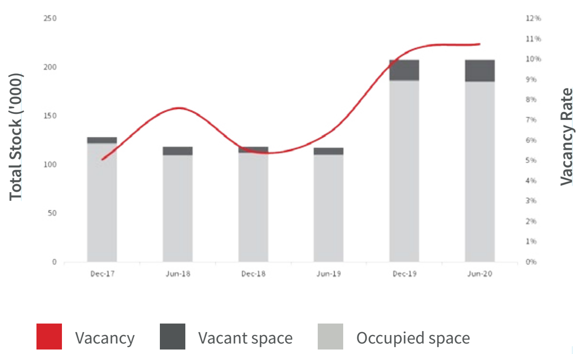
Auckland Retail (Suburban)

Demand

Our 1H20 vacancy survey indicated that suburban retail vacancy rate has increased to 10.8% overall, up 50 bps from 10.3% last half. Auckland's overall retail vacancy also increased 60 bps to 7.6% from 2H19.

While already working through the effects of a substantial growth in prime stock (including the opening of Westfield Newmarket and Commercial Bay in the CBD), COVID-related shocks have hit the sector hard. It will take time for the market to recover, particularly for secondary locations already struggling prior to the pandemic.

Vacancy and occupied space

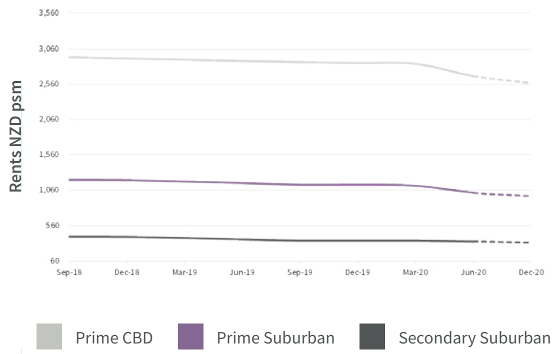


Supply

The suburban markets did not see any completions this half, leaving the total stock at 2H19 levels of 208,206 sqm. Most projects currently under construction in the pipeline are limited to the CBD, with the majority of the suburban retail pipeline remaining in the early stages of planning.

While COVID-19 created an obstacle to trading for all but non-essential retailers during lockdown, the continued international border closures have also suspended any short-to-medium term income prospects from the tourist market. This will only prolong current supply trends of suburban retail space.

Rent

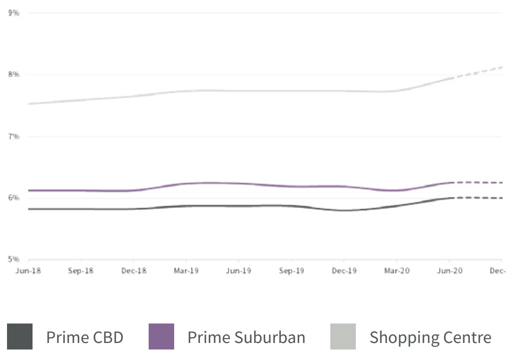


Asset performance

Given the economic effect of COVID-19, it was expected that suburban rents would decrease while incentive levels increased over 2Q20. Prime rents fell 8.9% to $1,025 psm and secondary rents fell 3.6% to $388 psm. Meanwhile, prime suburban yields softened to 6.25% over the quarter.

The retail market is undoubtedly a tough space presently; tenants are fewer in number and existing businesses, particularly in hospitality, are under pressure. We expect prime space to be the focus for investors, with less interest in secondary stock and tenants with poor covenants.

Yields



Wellington Industrial

Demand

As the New Zealand economy recovers, the industrial market remains relatively stable with overall vacancy rates rising slightly to 3.0%. Only Petone observed a decline, from 3.9% to 2.7% in the last six months. All other markets saw an increase. Seaview saw the highest vacancy at 3.5%, while Porirua remains the lowest in the sector at 2.0%.

Beneath the positive outlook for prime stock, there is less confidence in secondary stock. Non-prime assets see a higher risk of business failure among tenants, as underlying preference for prime stock remains.

Supply

Supply bottlenecks persist due to slow market conditions, geographical constraints and rising construction costs. No new supply came to market in the last quarter and the only completion since 1Q20 was a 870 sqm refurbishment.

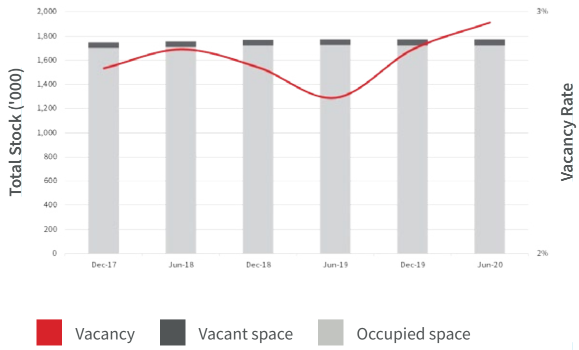
Given the prevailing physical restrictions on industrial footprint, substantial injections of quality stock into the market appear unlikely. With little to no availability of new industrial space, the easing of market pressure and any possibility of expansion or relocation remains a challenge for the sector over the near future.

Asset performance

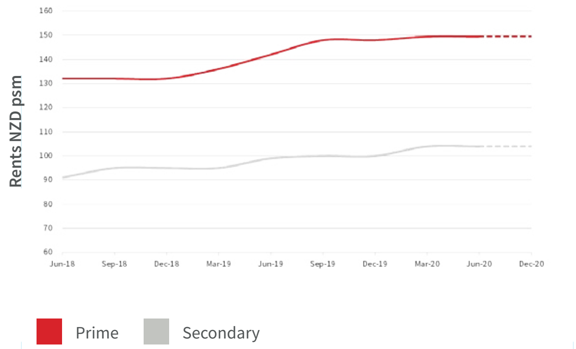
Rents and yields for both prime and secondary industrial space have remained at 1Q20 levels: average rents were $150 and $104 psm for primary and secondary respectively. Yields remain unchanged at 7.3% for prime assets and 8.75% for secondary stock.

Space remains at a premium due to the infrequency of stock turnover, while occupier demand persists. Investors remain cautious, resulting in a slight moderation in overall transaction volumes. However, the market for industrial land in and around Wellington continues to strengthen.

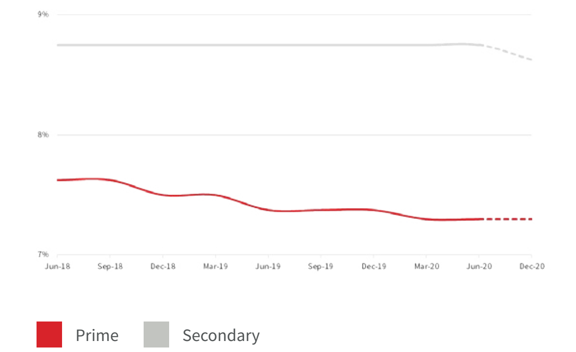
Vacancy and occupied space



Rent



Yields



Wellington Office

Demand

Demand for prime office space in Wellington has been maintained across the half,with vacancy rates remaining low at 0.6% in 1H20 (a slight fall from 0.7% in 2H19). Secondary vacancy has increased though to 9.9% from 8.3%, prompting a 1.1% rise in total vacancy to 7.0%.

With the prevalence of Government tenants as a key demand driver for office space in the capital, prime demand is likely to remain high. Continued high pre-leasing levels among buildings currently under construction also indicates a preservation of this trend.

Supply

Total stock increased by approximately 4,000 sqm over 1H20, including the completed refurbishment of Pastoral House. Meanwhile, 69,000 sqm of office stock remains under construction in the pipeline.

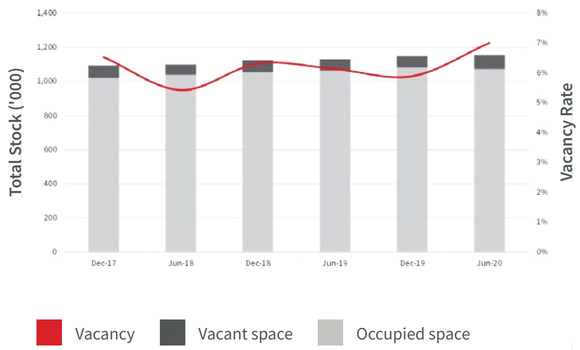
There has been a number of new additions at various stages of planning and construction this quarter. Among these is the refurbishment and conversion of the Dunbar Sloane building, as well as the ~3,000 sqm development of the Victoria Lane Office Campus by Willis Bond & Co.

Asset performance

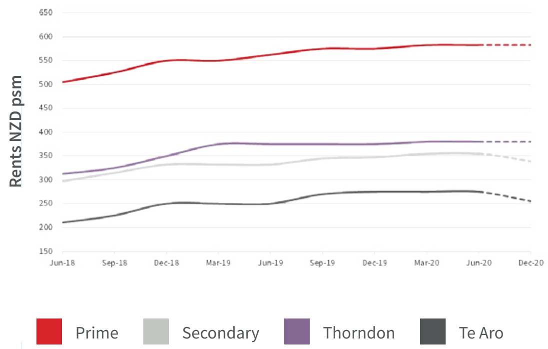
Over 2Q20, average prime yields firmed 5 bps to 6.55%, while average secondary yields remained at 1Q20 levels of 8.63%. Both prime and secondary face rents have remained at 1Q20 levels of $583 psm and $355 psm respectively.

Insurance premiums and general ownership costs remain significant factors in investment decisions for Wellington's office market, while a lack of quality stock in the CBD continues to support rental levels. Moving forward, however, we expect to see yields diminish in response to wider economic concerns while incentives increase.

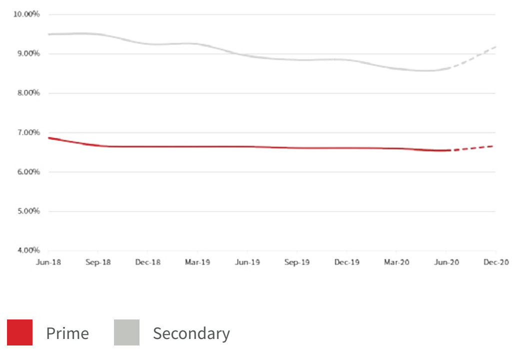
Vacancy and occupied space



Rent



Yields



Wellington Retail

Demand

COVID-19 is undoubtedly having an impact on Wellington retail, although vacancy rates have held up thus far. CBD vacancy rates increased by 100 bps to 5.1%, yet Southern CBD vacancy reduced substantially to 5.9% from 9.3%. This resulted in an increase of 0.1% in total vacancy over 1H20.

Despite this, we foresee more substantial vacancy in 2H20. With the wage subsidy and other government support schemes drawing to a close, we expect fewer tenants to continue to persevere. The retail market is undoubtedly a tough space presently for some.

Supply

The Wellington retail sector saw more withdrawals than completions over 1H20. Total stock fell to 109,095 sqm from 110,127 sqm in 2H19. This continues a trend of diminishing numbers of projects completing and exiting the pipeline as observed over recent periods.

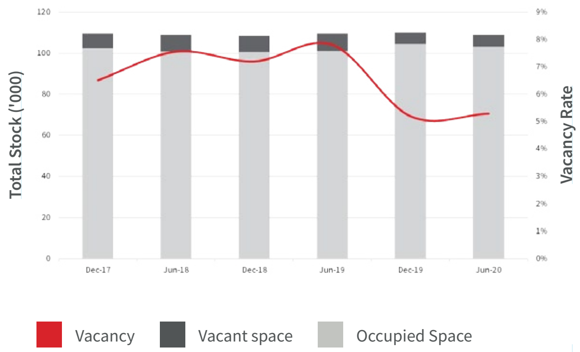
Wellington's retail sector faces similar issues to the city's office sector around low NBS rated stock. Persistently high construction costs have kept supply bottlenecked, though the sector is unlikely to stagnate completely given the reasonably high levels of stock in the pipeline at various stages of planning and construction.

Asset performance

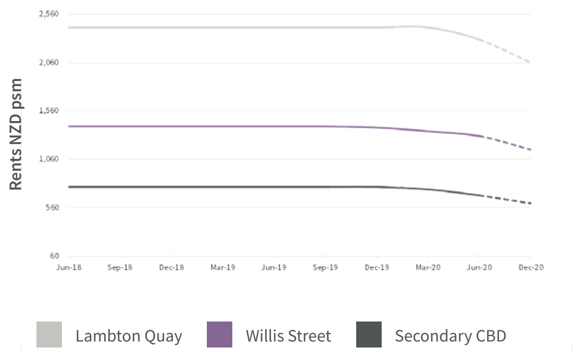
Given recent global events, Wellington's retail sector has observed a decrease in rents and prime capital values, while incentives have increased over the last quarter. Prime and secondary gross face rents both fell over 2Q20: 5.2% to $2,300 psm and 8.3% to $688 psm respectively. By contrast, yields held firm across the board for another quarter.

Going forward, we expect prime assets to be the main focus for investors, with less interest in secondary locations and tenants with poorer covenants. We foresee further downward pressure on rents and some yield softening.

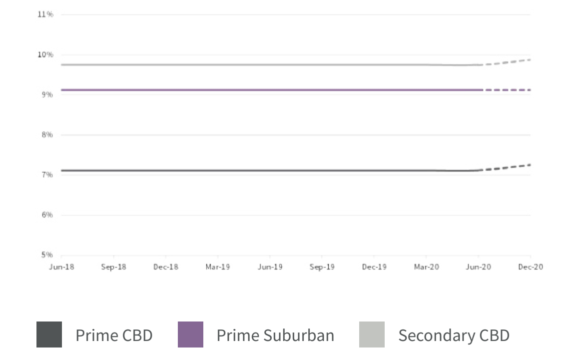
Vacancy and occupied space



Rent



Yields



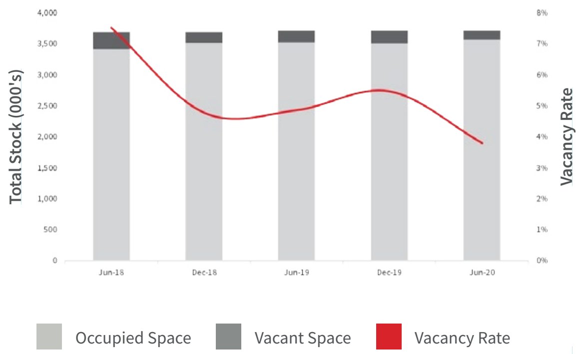
Christchurch Industrial

Demand

Christchurch's industrial vacancy rates have seen a noticeable overall decline, as all sub-precincts experience reduced vacancy to varying degrees. Demand for industrial space remains elevated, as investor interest in acquiring industrial assets continues to strengthen further in 2Q20.

With greater uncertainty in the wake of COVID-19, demand for quality, prime stock has further exacerbated. Despite greater reductions to secondary stock vacancies, investor preferences clearly remain predominately in prime assets.

Vacancy and occupied space

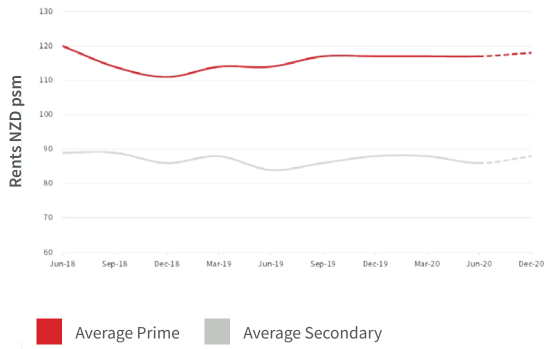


Supply

Consistent with trends over the past two years, Christchurch's total stockbase continues to expand at a progressively slower pace with a minimal addition of 430 sqm in 1H20.

Projects continue to trickle through the pipeline, with ~48,000 sqm of developments on the horizon. One of the larger-scale projects due for completion in 2H20 of the Waterloo Business Park development, is set to inject ~2,804 sqm to the total stock. Despite this, the effects of COVID-19 have begun to permeate through, as many completion dates on construction have started to push back.

Rent

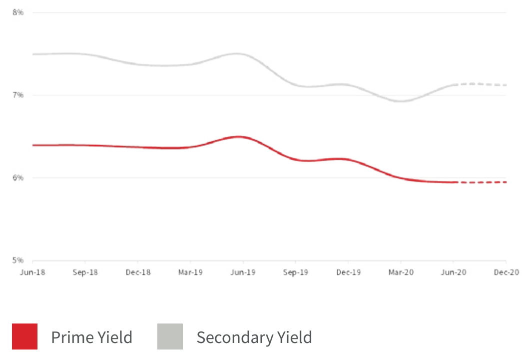


Asset performance

Prime yields have proceeded on a downward trajectory over the past 12 months and have reached an all-time low average of 5.95%, with a slight expansion in the yield range. While secondary yields have softened in the last quarter, they have returned to the same average (7.13%) and range as observed in 3Q and 4Q19.

Investor appetite for prime assets continues to grow over 2Q20 despite COVID-19, given the budding potential of the city's industrial sector. However, this only serves to widen the gap between prime and secondary stock.

Yields



Christchurch Office

Demand

Christchurch's total vacancy has slightly decreased by 20 bps in the last six months, alongside modestly increasing net absorption. Over the last half, prime vacancy decreased by 40 bps, down to 4.9%, while secondary vacancy increased by 110 bps to 11.0%.

As expected, the negative effects of COVID-19 have been felt most accutely in the secondary office sector, consistent with trends in Auckland and Wellington. Meanwhile, there remains an active market for quality, prime office space in Christchurch with demand remaining strong over 1H20.

Supply

1H20 saw the largest half-year increase in stock since 1H18. It is also the first time in two years that net increase of office stock included additions from suburban stock which contributed 1,904 sqm to the total 8,705 sqm net completions, with the rest being in the CBD.

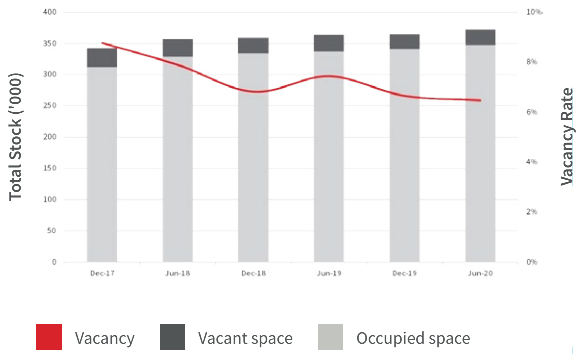
Overall, however, the addition of new stock and the number of projects under construction have remained relatively small as compared to pre-2018 levels. This appears to continue the observed trend that supply has now slowed down to its 'next normal' pace with immediate post-2011 new build and quake proofing projects now complete.

Asset performance

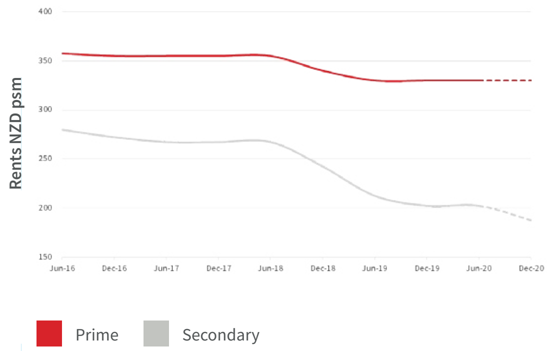
Rents, yields, and capital values for both prime and secondary office space in Christchurch are consistent with 1Q20 averages. Prime rents in the CBD sit at $330 psm, while suburban stock sits at $213 psm. Meanwhile, yields average at 6.00% and 6.75% respectively and capital values sit at $5,500 per sqm and $3,148 per sqm.

The fundamentals of Christchurch are currently finely balanced with rents and incentives reaching a sustainable equilibrium. Looking ahead, we expect the market for prime space to remain active alongside modest yield expansion.

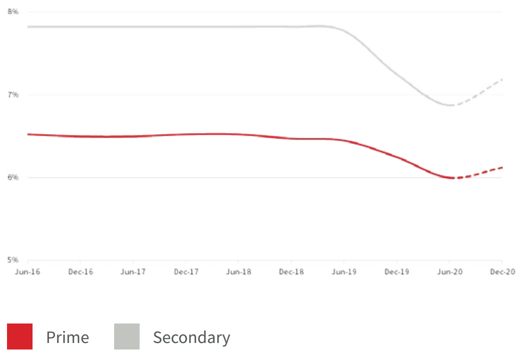
Vacancy and occupied space



Rent



Yields



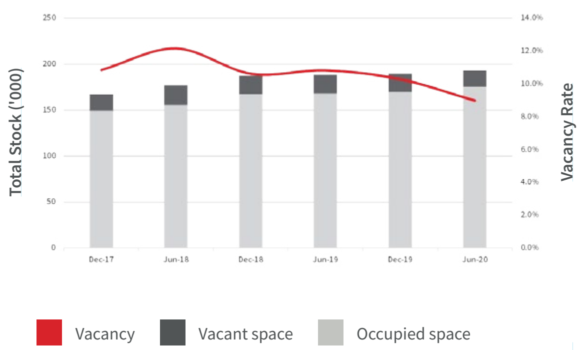
Christchurch Retail

Demand

Since 2H19, total vacancy has fallen only 0.9% to 7.9%. However, greater fluctuation has been seen among the submarkets. Over the half, CBD vacancy fell to 9.0% from 10.3%, while Suburban vacancy rose from 3.6% to 4.1%.

Of the three major property asset classes, the impact of COVID-19 has hit the retail sector more harshly. The retail market is presently facing difficulties in Christchurch, as tenants are fewer in number and existing businesses are under pressure. We are likely to see closures, although predicting scale is difficult.

Vacancy and occupied space

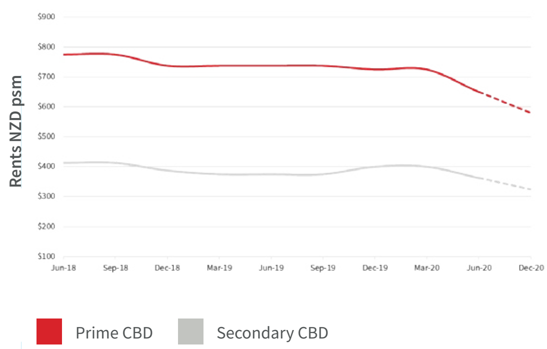


Supply

With net completions of 3,477 sqm over 1H20, total stock increased slightly to 248,694 sqm. This increase came entirely from addition to stock in the CBD retail sector, where total stock increased to 77,535 sqm.

Among the new completions recorded are the new build redevelopments for the Duncans Buildings on High Street in the CBD. Other projects at various stages of planning, construction, and refurbishment have estimated completion dates out to 2022.

Rent

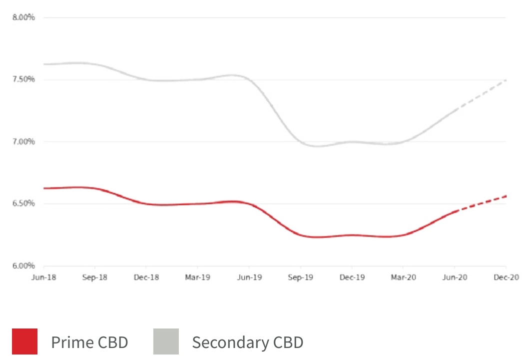


Asset performance

As expected with recent market shocks, rents decreased and incentives rose during 2Q20. Prime CBD rents fell 10.3% to $650 psm over the half while secondary rents fell 9.4% to $363 psm. CBD yields softened across all sectors, rising to 6.44% for prime stock and 7.25% for secondary stock.

Like elsewhere, the softening of retail capitalisation rates is due to reduced sentiment and liquidity issues for non-prime assets. Further downside risk has been factored in to include requirements for abatements, longer letting-up periods and long-term vacancy provisions.

Yields



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About JLL, New Zealand

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