



**THE IMPACTS OF THE
CANTERBURY EARTHQUAKE
ON THE COMMERCIAL
OFFICE MARKET**

CBRE & LINCOLN UNIVERSITY

FEBRUARY 2012

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1 Introduction

Lincoln University and CBRE, a commercial real estate service provider, have conducted research to investigate the impacts of the Canterbury earthquake on the commercial office market in Christchurch. The 22 February 2011 Canterbury earthquake had a devastating impact on Christchurch property with significant damage caused to land and buildings. As at January 2012, around 740 buildings have either been demolished or identified to be demolished in central Christchurch. On top of this, around 140 buildings have either been partially demolished or identified to be partially demolished.

The broad aims of our research are to (i) examine the nature and extent of the CBD office relocation, (ii) identify the nature of the occupiers, (iii) determine occupier's perceptions of the future: their location and space needs post the February earthquake, and the likelihood of relocating back to the CBD after the rebuild, and (iv) find out what occupiers see as the future of the CBD, and how they want this to look. To address these issues, a survey of around 25 questions was developed. 643 contacts received the survey. These contacts were obtained from two sources. Firstly, 275 suburban office occupier contact details were obtained from a physical survey of office occupiers as of August 2011.

Office occupiers were surveyed from a number of locations which are illustrated on the map below. The map is not comprehensive as some individual buildings are located just outside of the shown area. These buildings form part of CBRE's suburban office stock list and are typically stand-alone office buildings over 500 sq metres in size.



Secondly, 368 contacts were obtained from a business database held by CBRE of CBD businesses from mid 2010. As this contained both office-based businesses and retailers, those contacts that came under the following office related industry classifications were selected:

- Information Media and Telecommunications
- Financial and Insurance Services
- Rental, Hiring and Real Estate Services
- Professional, Scientific and Technical Services
- Administrative and Support Services
- Public Administration and Safety
- Education and Training
- Health Care and Social Assistance

As this was an online questionnaire, only those contacts with an email address were selected for the survey and duplicate contacts were removed if they appeared in both sources. Details about the study and a link to a Qualtrics online survey were distributed to respondents by email. The email was sent on the 23rd of August 2011 and recipients were given four weeks to respond to the survey. Reminders were sent out to recipients after two weeks and again two days prior to the survey closing date.

We received 139 responses which equates to a response rate of 22%. Over half (55%) of respondents were those identified from the business database, while 45% of respondents were from our physical survey of tenants. Approximately 55% of these were previously CBD occupiers and 45% were existing suburban occupiers. We believe this provides a balanced view from office occupiers across the Christchurch office market.

Subsequently, in January 2012, Lincoln University and CBRE undertook a follow up survey to help understand some of the more recent issues facing office occupiers in Christchurch after the earthquake events of December 2011 and January 2012. Using the same methodology as the initial survey, the survey was sent out to 641 contacts (slightly less than the initial survey as some contacts had opted out). Over a period of 10 days, we received 140 responses, indicating a response rate of 21.8%.

2 August 2011 survey of office occupiers

2.1 Key findings

- Respondents were generally male business owners aged 50-59 years.
- Professional, scientific and technical services were the largest respondent group, representing nearly 50% of all respondents.
- Out of the 139 respondents, 56 (40%) respondents relocated directly as a result of the earthquake.
- The majority of those who relocated due to the earthquake were former CBD occupiers (82%).
- Those who moved due to the earthquake were generally smaller tenants and only having a short lease term remaining.
- More than half (57%) of respondents who relocated due to the earthquake were able to terminate the previous lease due to the building being “untenantable”.
- For tenants who have relocated due to the earthquake, around a quarter (27%) have generally signed up for a lease term of 1 year or less. However, an equal number have relocated to residential premises where a commercial lease does not apply.
- For those businesses that have relocated due to the earthquake, the largest proportion (38%) wanted to move back into the CBD to a different building in the future.
- Two thirds (66%) of businesses have reduced in size with a large proportion now only occupying half the amount of space as before.
- Respondents have indicated that they would either stay in the same size space or expand in the future. Few indicated they would downsize or close their business.
- The largest proportion of respondents (45%) indicated that they have moved into worse/inferior premises.
- Respondents indicated that they are paying less rent in their new premises compared to the old one, however, this is a reflection of the quality downgrade.
- The lack of amenities (banks, shops, cafes and restaurants) was the largest drawback of their new location.
- The largest proportion of responses indicated that business/turnover has remained stable after the earthquake.
- The 45% of respondents who did have locations outside of Christchurch, around half transferred staff to those other locations.
- Respondents have indicated a strong preference towards low rise buildings and prefer not to locate in high rise buildings post the earthquake.

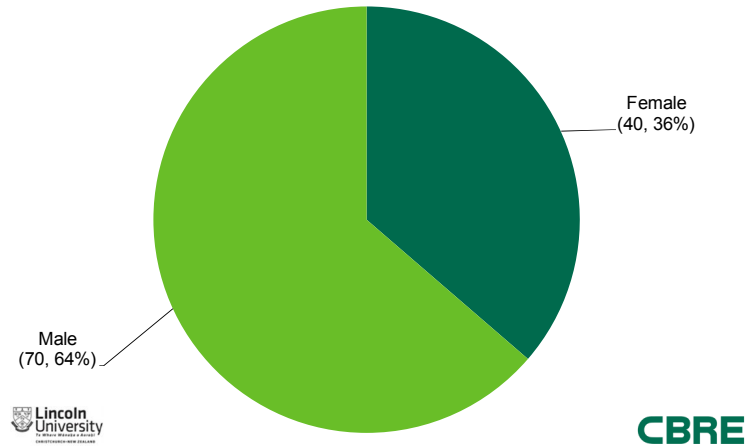
- Location was seen as the most important building feature, followed by plentiful parking.
- Proximity to public transport networks came out as the most important location factor followed closely by the proximity to amenities.
- Low-rise buildings that meet or exceed the current earthquake code (3 floors or lower) was clearly the most important future building preference from the tenants' perspective.
- In terms of possible funding options to aid the rebuild of the CBD, there was generally a near equal preference across all funding types. However, private-public partnerships were the most preferred, followed by low interest loans from government.

The following sections cover our analysis of the survey responses. Charts typically display results as a percentage of respondents on the Y-axis with the number above each bar representing the number of responses.

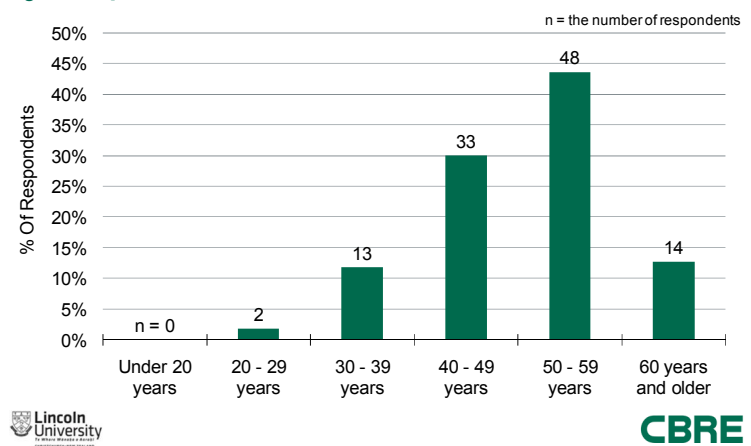
2.2 Respondent profile

The charts below profile the gender, age and company role/position of survey respondents.

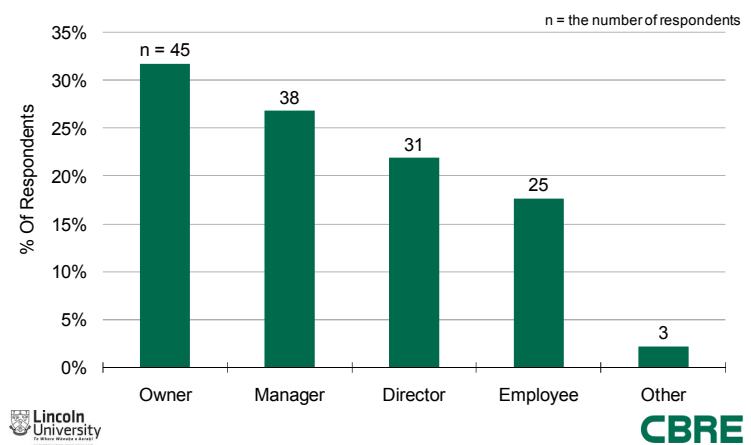
Gender of respondents



Age of respondents



Role within business of respondents

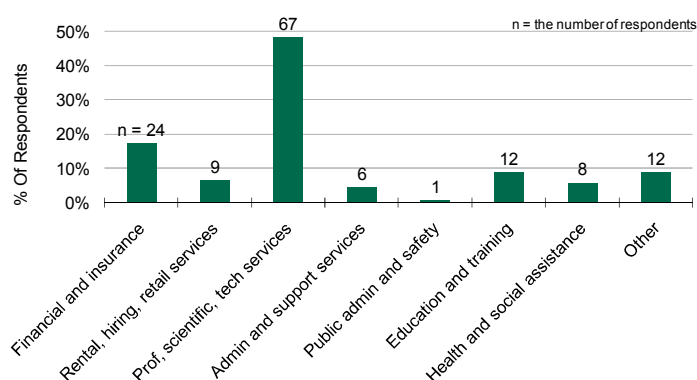


2.3 Questions answered by all respondents covering the nature of businesses surveyed

2.3.1 Which standard industrial classification (ANZSIC) best describes your business?

Professional, scientific and technical services were by far the largest respondent group, representing nearly 50% of all respondents. This includes Lawyers, Accountants, IT Professionals and Architects just to name a few. The next largest group was those in the Finance and Insurance sector, who contributed to around 17% of all responses. For more information about ANZSIC classifications please visit www.stats.govt.nz.

Industrial classification of respondents



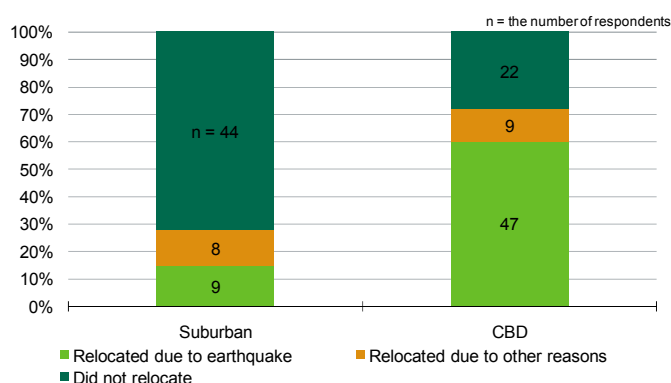
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2.3.2 Have you relocated your business premises within the last 12 months?

Out of the 139 respondents, 73 (53%) have relocated within the last 12 months. However removing those who have relocated due to other reasons, there were 56 (42%) who have moved as a result of the earthquake. We have broken this down into CBD and suburban occupiers which shows that 60% of CBD occupiers have relocated due to the earthquake, while 15% of suburban occupiers have relocated due to the earthquake.

Business relocations within the last 12 months



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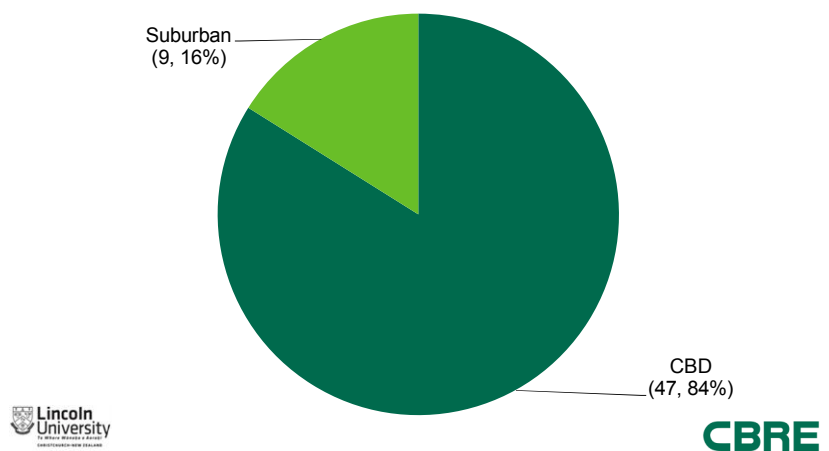
2.4 Questions answered by those who relocated as a result of the earthquake

The following questions were answered by the 56 responses that relocated due to the earthquake.

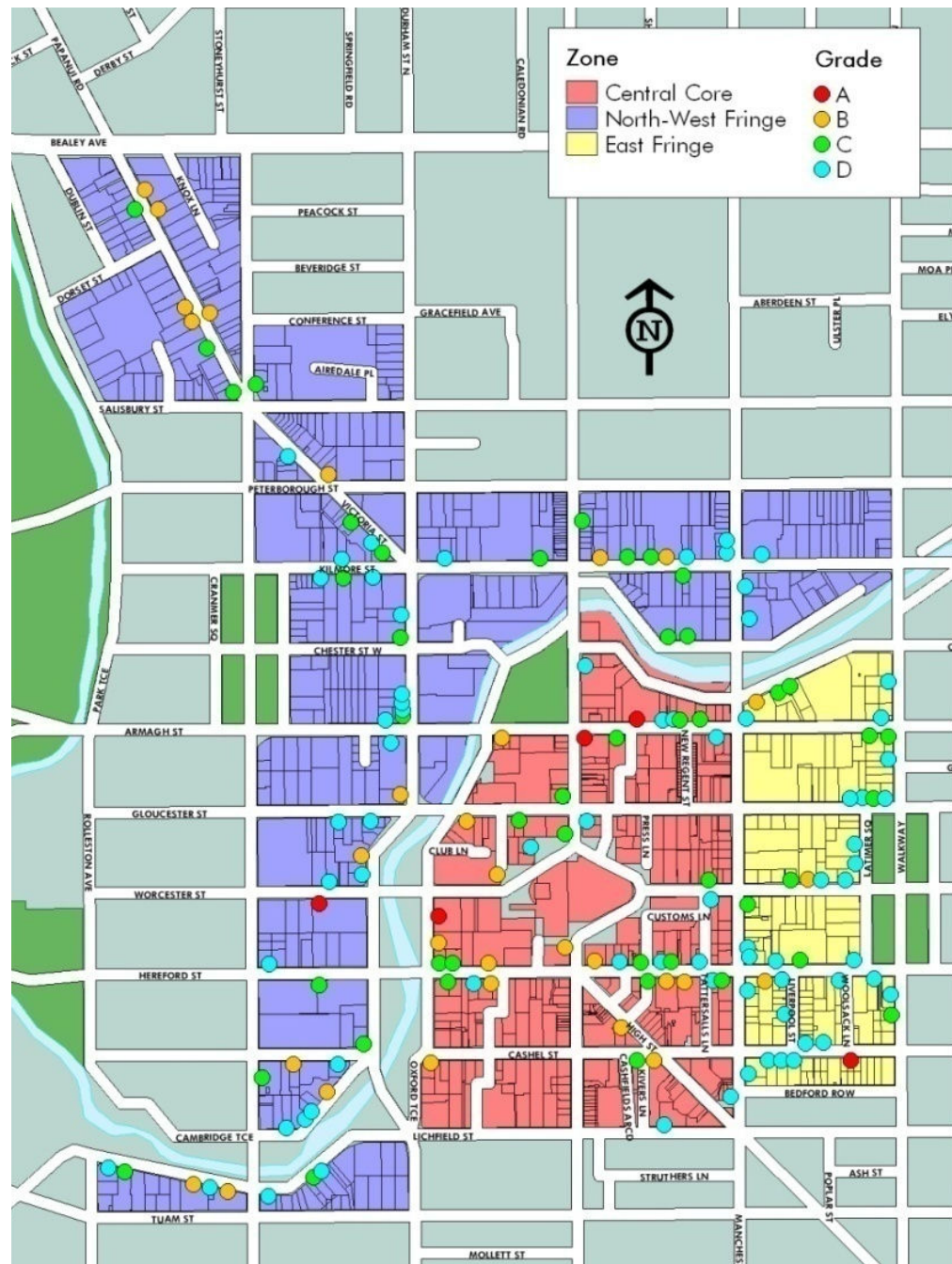
2.4.1 Where was your business located before you moved?

Of the 56 respondents who relocated directly as a result of the earthquake, the majority (82%) were former CBD occupiers, while 18% came from suburban office buildings which were affected by the earthquake.

Business location before relocation



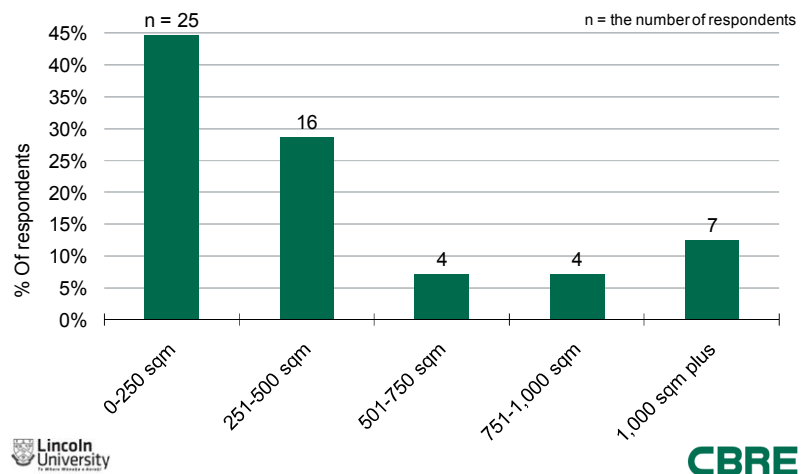
The map below illustrates the area which CBRE considers to be the Christchurch CBD as of mid 2010 and displays office buildings by quality grading.



2.4.2 How much space did you previously occupy?

The chart below illustrates the size of previous premises occupied by respondents. The largest proportion (45%) of respondents previously occupied smaller space of between 0-250 sq. m., and around 28% previously occupied space between 251 and 500 sq. m. The respondent with the largest floor space occupied nearly 8,000 sq. m in the CBD prior to the earthquake. In total, respondents covered 37,000 sq. m of office space which was occupied prior to the earthquake. The average tenant size works out to be 660 sq. m.

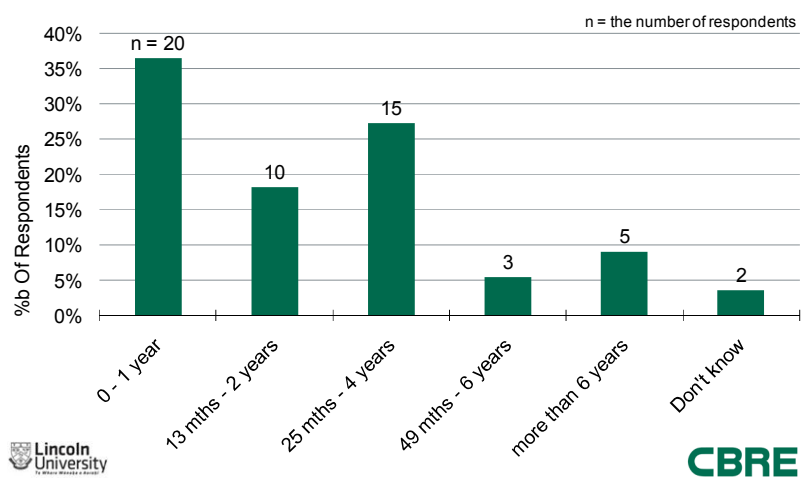
Size of previous premises



2.4.3 How many months or years did you have remaining on your previous lease?

Respondents generally had a short amount of time remaining on their previous lease, with the largest proportion (36%) having one year or less remaining, 27% had 25 months to 4 years remaining, followed by 18% having 13 months to 2 years remaining on their previous lease. There were only 9% who had more than six years remaining.

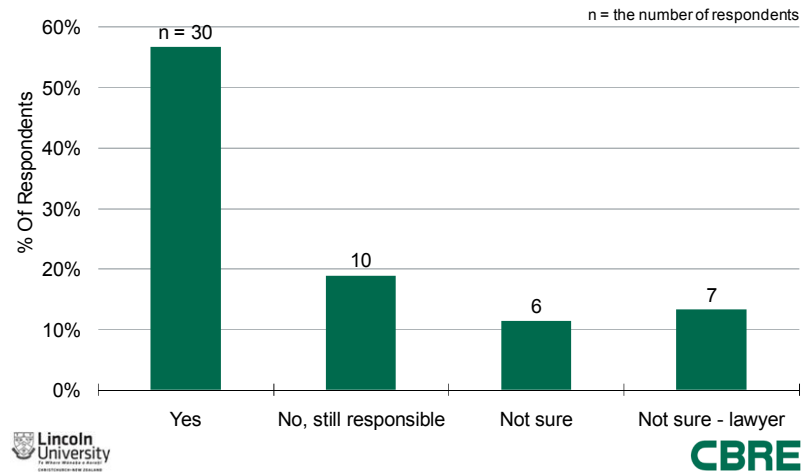
Remaining lease term on previous lease



2.4.4 Were you able to terminate the previous lease due to the building being “untenantable”?

Over half (57%) of respondents who relocated due to the earthquake were able to terminate the previous lease due to the building being “untenantable”, and 25% were not sure if they were able to or not. Those who are still responsible for their previous lease or still have their lawyers dealing with it varied in the lease term remaining on the existing lease.

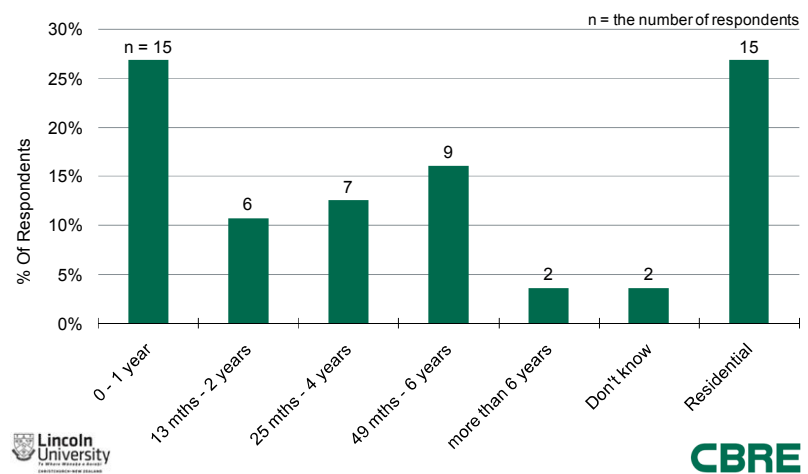
Termination of the previous lease due to being untenable



2.4.5 What lease term did you sign up for at your new premises?

Over a quarter (27%) of tenants who have relocated due to the earthquake signed a lease term of one year or less. However, an equal number have relocated to residential premises where a commercial lease does not apply. Longer term leases have also been signed by a number of occupiers: 49 months to 6 years (16%); 25 months to 4 years (13%), and 13 months to 2 years (11%).

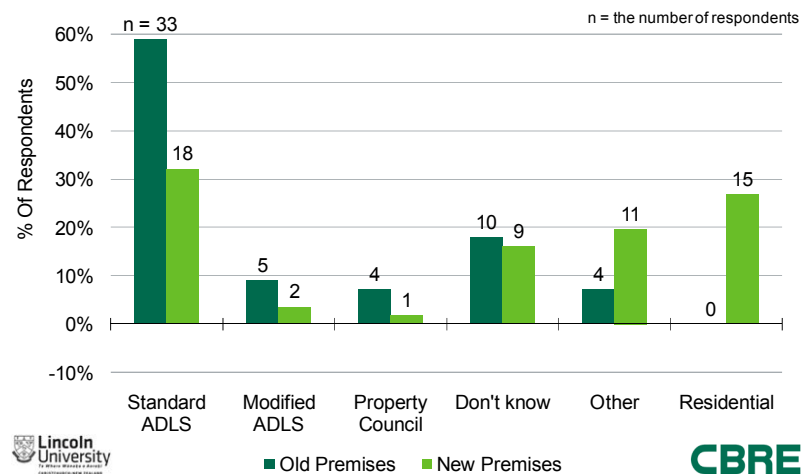
Remaining lease term in new lease



2.4.6 What type of lease did you have at your previous premises and what do you have at your new premises?

Over half (59%) of respondents were on a standard ADLS lease at their previous tenancy. However, in their new premises, this number has fallen considerably to 32% with many now on 'other' types of leases or 27% having moved to residential premises. 'Other' leases have tended to be informal agreements based on handshakes or verbal agreement. Also some occupiers have become owner occupiers and hence did not require a lease. Shortly after the February earthquake the media had reported that landlords were taking advantage of increased tenancy demand by signing displaced tenants up to long leases, but these survey results indicate that this was not the case.

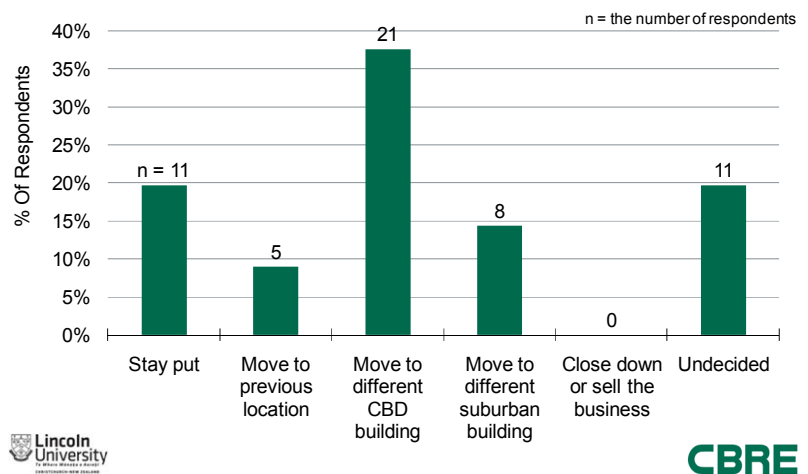
Type of lease signed in new and old premises



2.4.7 When your current lease expires, or when it is possible to move out of residential accommodation, what are your intentions for the future in terms of location?

For those businesses that have relocated due to the earthquake, over a third (38%) wanted to move back into the CBD to a different building. 20% of respondents indicated they were going to stay where they had relocated to, and 20% were undecided. No businesses indicated that they were to close down or sell the business which is an encouraging indication that the earthquake has not caused businesses to fail.

Intentions when lease expires



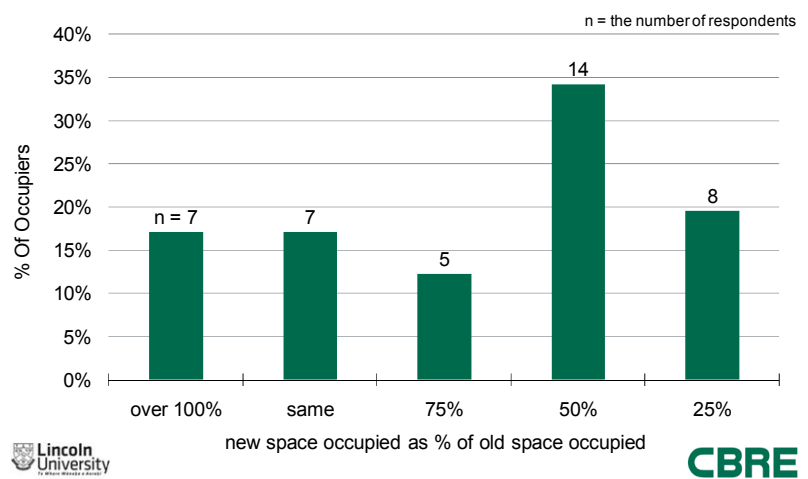
2.5 Questions answered by those who relocated into commercial premises as a result of the earthquake

73% or 41 out of the 56 occupiers who moved have relocated into commercial space. In this section of the analysis we have focused on those who have moved into commercial space as it is difficult to perform comparative analysis of relocations to residential spaces.

2.5.1 What is the change in space requirements from the old to the new premises?

As a result of the earthquake, over a third (34%) of businesses have halved in size, 20% reduced in size by 75% and 12% of businesses reduced by 25% in size. On the other hand 17% of businesses have increased in size, and 17% stayed the same size.

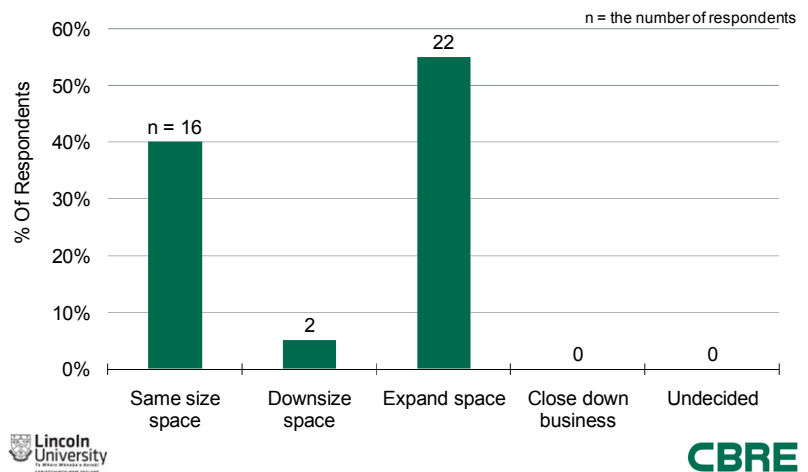
Change in space requirements



2.5.2 When your current lease expires, what are your intentions for the future, in terms of space needs?

Respondents have indicated that they would either stay in the same size space (40%) or expand (55%). Few indicated they would downsize further or close the business. Despite many businesses having downsized as the result of the earthquake, most are positive about future growth/recovery of their business. No respondents indicated that they intend to close down the business.

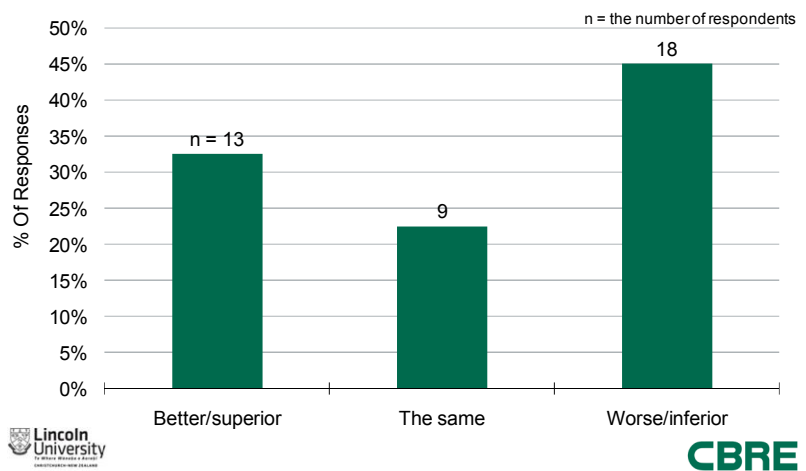
Future space intentions



2.5.3 How does the quality of your new premises compare to the old one?

Under half (45%) of respondents have indicated that they have moved into worse/inferior premises. However, nearly a third (33%) of respondents moved into better premises compared to their old one, and 23% responded that their new space is about the same quality as previously occupied.

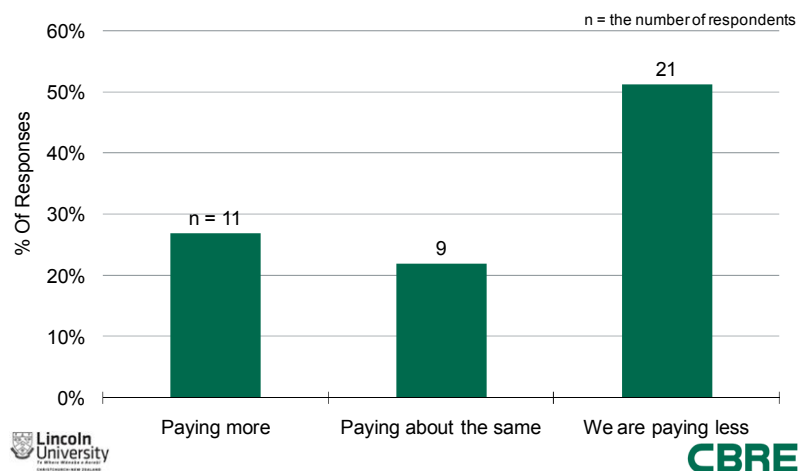
Quality of new premises compared to old premises



2.5.4 How does the rental you are paying for your new premises compare to the old one?

Around half (51%) of respondents indicated that they are paying less rent in their new premises compared to the old one on a dollar per sq. m. basis and 28% are paying more with the remainder paying the same as before they moved. Although rents in the suburban market have increased 30% since the earthquake, the responses of this question reflect that 45% of respondents had moved into worse/inferior premises which tend to have lower rents.

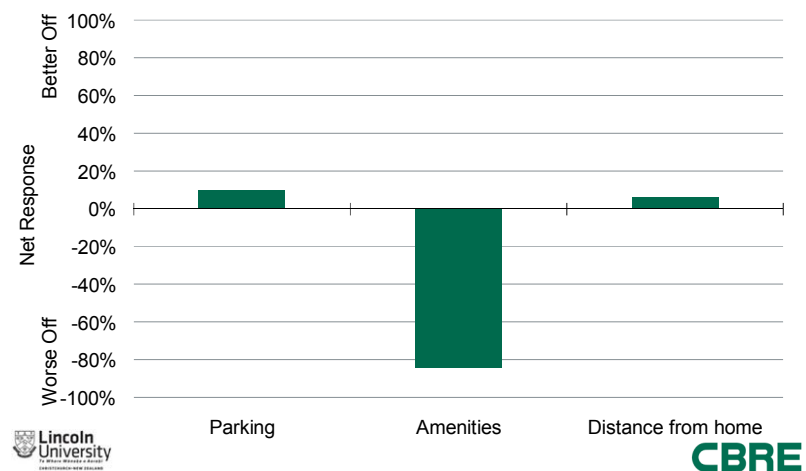
Rental rate in new premises compare to old premises



2.5.5 What is your perception of your new location?

A net 84% of respondents felt that their new location availability amenities (banks, shops, cafes and restaurants) was worse off compared to their previous location. Respondents felt that the availability of parking and the distance from home were slightly better in their new location.

Perceptions of new office location

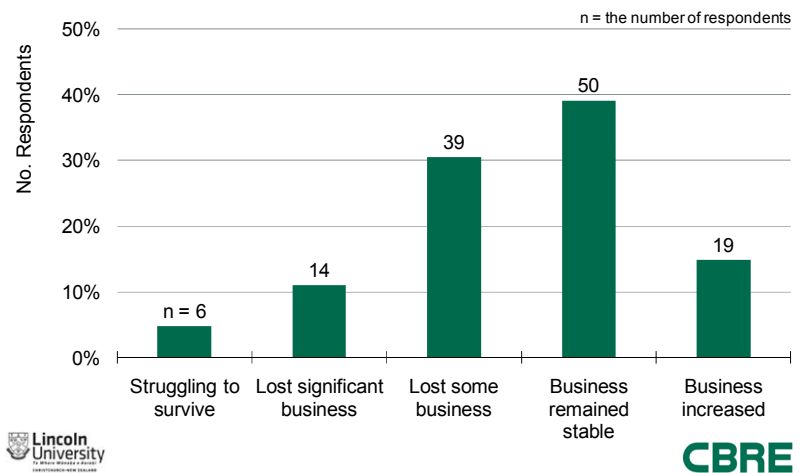


2.6 Questions answered by all respondents covering their views on earthquake issues and recovery

2.6.1 What impact did the February earthquake have on your business?

Half of the respondents indicated that business/turnover has remained stable after the earthquake. There is still a number of respondents who suffered losses during the quake, with 29% indicating some loss and 11% indicating significant loss in business. Only 5% are struggling to survive. Business/turnover had increased for 14% of respondents.

The earthquakes impact on business

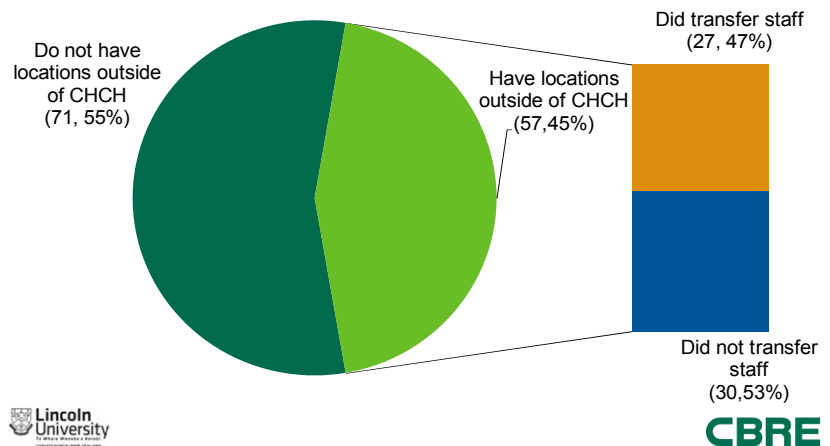


The number of staff who have been laid off has been low with only 15 companies out of 139 (11%) laying off staff. Ten (7%) of these companies have laid off less than 5 staff.

2.6.2 Does your company occupy locations outside of Christchurch?

More than half (55%) of respondents are solely Christchurch based businesses with no operations in any other locations outside of Christchurch. Of the 45% of respondents who did have locations outside of Christchurch, 47% transferred staff to other locations.

Company locations outside of CHCH and the transfer of staff



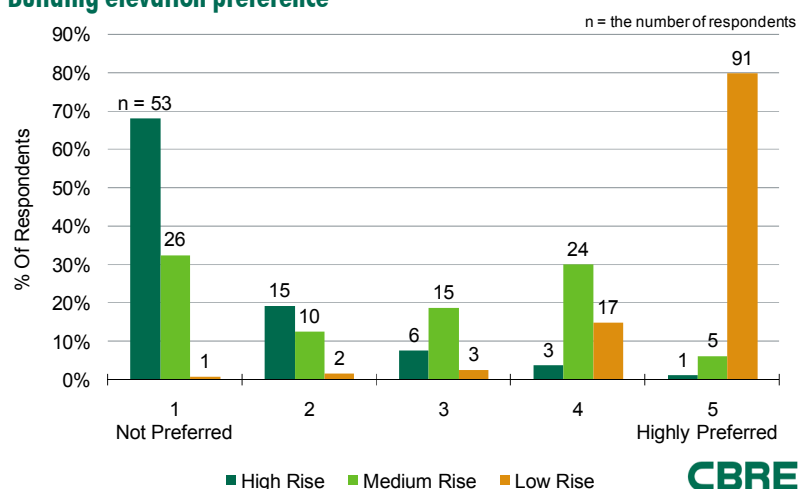
2.6.3 Ideally, what type of building would you prefer to locate in?

We define the following classes of buildings by height:

- Low-rise: 3 floors or lower
- Mid-rise: 4 to 8 floors
- High-rise: over 8 floors

Low rise was most preferred by 80% of respondents. There was the greatest aversion shown to relocating in high rise buildings (68% not preferring this height) which is not surprising, given the greater risks associated with evacuating a high rise in the event of an emergency, and as experienced by Christchurch CBD office occupants during the quake. Responses for medium rise buildings were mixed but were generally not preferred.

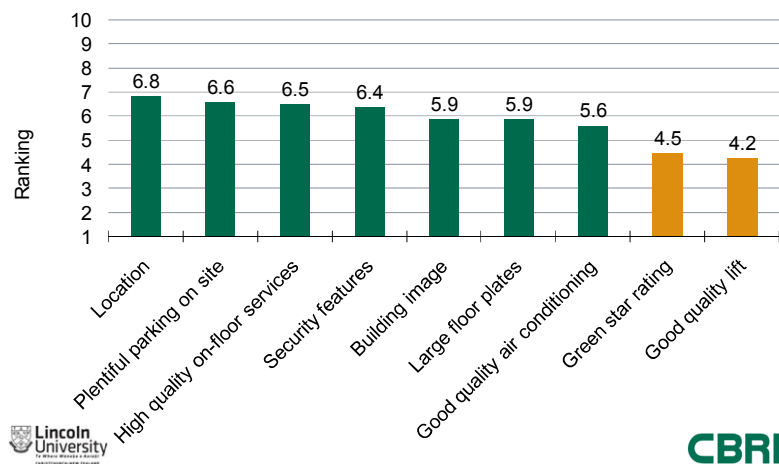
Building elevation preference



2.6.4 How do you rank the importance of building features for your organisation?

Respondents have ranked the importance of building features from 1, least important, to 10 most important. The rankings were averaged for each of the building features. An average score above 5.5 indicates it is somewhat important, however a score below 5.5 indicates it is not important. There is no clear preference of one particular feature; however location was seen as the most important feature, followed by plentiful parking, and high quality on-floor services. Good quality lifts and Green Star Rating were not considered important.

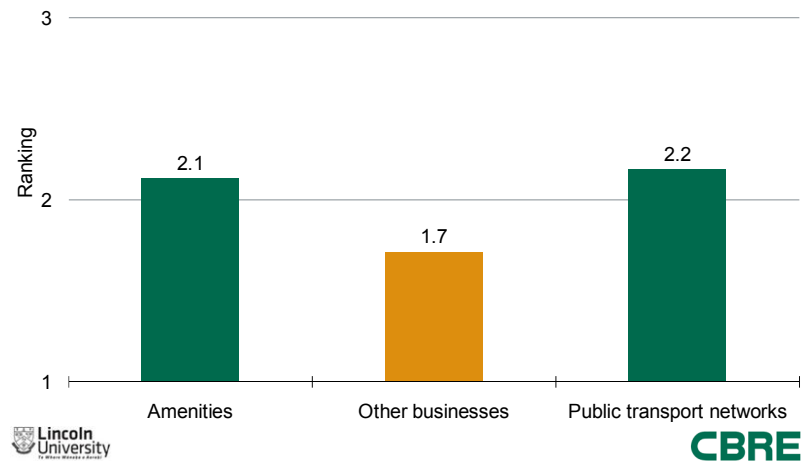
Importance of building features



2.6.5 What are the importance of locational factors

Respondents were asked to rank the importance of locational features in order from 1, least important, to 3 most important. An average score above 2 indicates it is somewhat important, however a score below 2 indicates it is not important. The rankings were averaged out across all respondents. Proximity to public transport networks was most important followed by proximity to amenities such as shopping and recreational facilities. Both of these factors were considered to be important. On the other hand, proximity to supporting and complementary businesses and services was not considered to be an important factor.

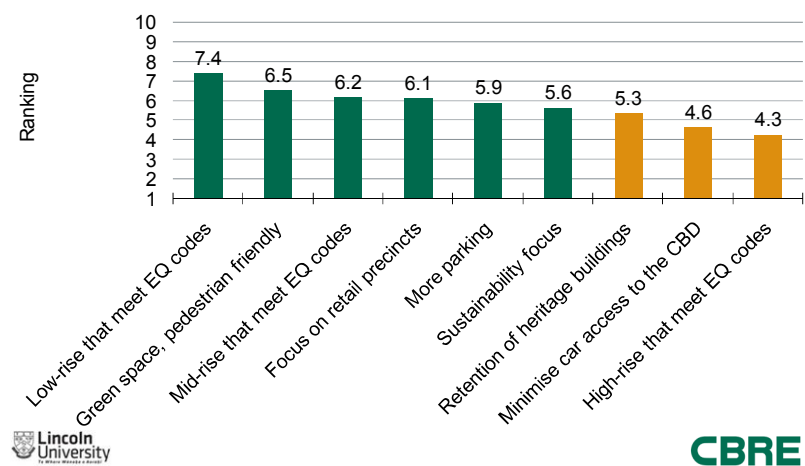
Locational factors



2.6.6 What do you see as priorities for the CBD rebuild?

Respondents were asked to rank the priorities for the CBD rebuild in order from 1, least important, to 10 most important. The rankings were averaged out across all respondents. An average score above 5.5 indicates it is somewhat important, however a score below 5.5 indicates it is not important. A low-rise building that meets or exceeds the current earthquake codes (3 floors or lower) was clearly the most important factor for the rebuild with an average score of 7.4. The next most important factor was more green space and a pedestrian friendly CBD. Minimising car access to the CBD and high rise buildings that meet or exceed the current earthquake codes (over 8 floors) were not considered as important to the CBD rebuild.

Priorities for the CBD rebuild



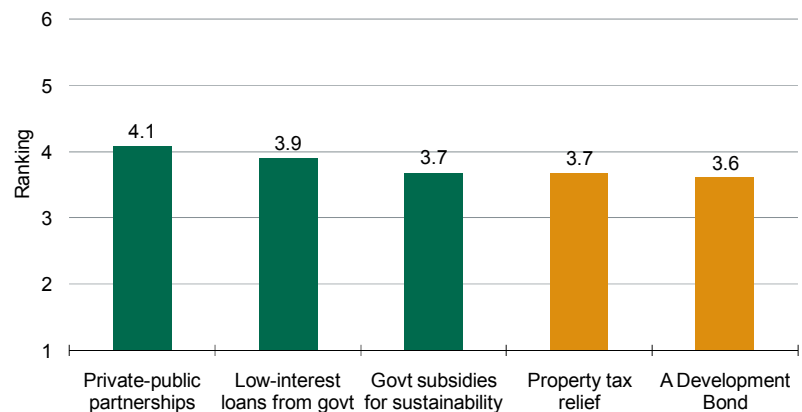
2.6.7 What do you think would be the best way to fund the CBD rebuild?

Respondents were asked to rank the following options to fund the CBD rebuild in order from 1, least important, to 6 most important:

- Development Bond issued by the government to raise funding for the rebuild.
- Property tax relief which will allow owners to be exempt from any taxes on the ownership, construction and leasing of a building.
- Low-interest loans from government.
- Private-public partnerships whereby capital investment is made by the government to assist private developers and may have an allotted equity share in the development.
- Government subsidies for owners that rebuild to sustainable/Green Star standards.

The rankings were averaged out across all respondents. An average score above 3.5 indicates it is somewhat important, however a score below 3.5 indicates it is not important. There was generally a near equal preference across all funding types. However private-public partnerships have been most preferred followed by low interest loans from government.

Best way to fund the CBD rebuild



2.7 Other comments

Finally, survey respondents were asked to make any additional comments about issues affecting office occupiers in Christchurch after the earthquake. As expected there are wide ranging views on various topics, however, the main points raised by respondents are summarised below. Some of these are comments made by an individual respondent where they had put some thought into their response, while others are wider views expressed across a number of respondents.

- Respondents have indicated that they want the market (developers, owners and tenants) to have significant input into deciding how and what to build in the new CBD.
- The speed of rebuild is important as some organisations indicate an unwillingness to wait around if things are not going to happen soon. Once timeframes can be put in place, businesses are able to make more concrete plans.
- Most look forward to being able to return to a CBD which will be a vibrant and busy central city precinct. The walkability of the CBD is viewed as a very important factor as the previous CBD was considered too spread out with a lot of side streets considered to be dark and unsafe.
- Although most respondents look forward to returning to the CBD, there needs to be real emphasis on drawing people back, including workers, residents and tourists.
- On the other hand, many people are still concerned about the aftershocks and whether a rebuild is actually possible. Alternatives suggested were to shift the commercial area out to the suburbs and use the CBD for recreational purposes only.
- Businesses who could only afford to rent at the lower end of the office market were in buildings which have since been demolished. There is a concern that rentals in newly constructed buildings will be much higher because they will be based on returns from build costs. This will make it unfavourable for these businesses to return to the CBD.
- The experience of sub letting premises has unpleasant and very expensive. Some tenants feel they were taken advantage of by landlords.
- There has been frustration in the way that various authorities have communicated information to businesses creating uncertainty.

2.8 Implications for the Christchurch office market

From the findings from the survey, Christchurch businesses have not been as adversely affected by the earthquake as has been thought. However, as businesses were forced to relocate and due to the availability of office space most businesses have been forced to occupy smaller space. This space has tended to be of lower quality compared to their previous space and hence rental rates have been lower. Future intentions indicate businesses are positive about expansion from their current premises (which is more of a temporary solution as indicated by the short lease terms being signed). There is a clear preference to return to the CBD into low rise buildings serviced by good amenities and public transport.

Future demand for CBD office space should not be an issue if buildings are safe and well serviced by amenities. The speed and certainty of the recovery will be a major determinant for the success of the future CBD as displaced tenants have only signed short term leases and once they expire they will need to make decisions about their future occupancy. For suburban office owners, there should be some concern about their longer term investment. While they are reaping the short term gains of strong tenant demand, a major event such as an earthquake is still not enough to encourage tenants to be based in the suburbs rather than the CBD.

3 January 2012 survey of office occupiers

In January 2012, Lincoln University and CBRE carried out a follow up survey to help understand some of the more recent issues facing office occupiers in Christchurch, particularly after the earthquake events of December 2011 and January 2012. Using the same methodology as the initial survey, the survey was sent out to 641 contacts (slightly less than the initial survey as some contacts had opted out). Over a period of 10 days, we received 140 responses which is a response rate of 21.8%.

3.1 Key Findings

- More than 50% of respondents indicated that they sustained some level of damage as a result of the aftershocks of December 2011 and January 2012.
- The CBD has become less attractive to office occupiers. Now only 32% (45 of the 140 respondents) plan to relocate to the CBD, down from 44%. This refers to the 32% of companies that relocated from the CBD following the February earthquake as well as companies that were existing suburban occupiers at the time of the earthquake.
- Our analysis indicates a possible CBD office demand base for the rebuild of approximately 180,000 sq. m.
- This compares to the original CBD size of 390,000 sq. m. Although this figure may seem low, the likelihood that the new CBD will be much smaller in terms of building size and area coverage will offset some of this shortfall.
- This reduction is for various reasons including frustration with the rebuild delay and the likelihood that rents will be unaffordable in new buildings. Suburban locations have also become more attractive as changes to businesses/client base mean that a CBD location is of lesser importance.
- Of the 45 respondents who plan to return to the CBD:
 - More than half are able to return to the CBD immediately or within the next year.
 - Two thirds indicated that they are prepared to keep waiting until the CBD is ready if it cannot be occupied when they intend to move back. However, nearly 30% of those respondents who plan to move to the CBD would instead commit to a long term lease in the suburbs if the CBD could not be occupied.
 - Half of the respondents indicated that they want to occupy a new building which meets earthquake standards, however this is closely followed by 40% of

respondents who said they would occupy an existing building that sustained no or little damage and is deemed earthquake safe.

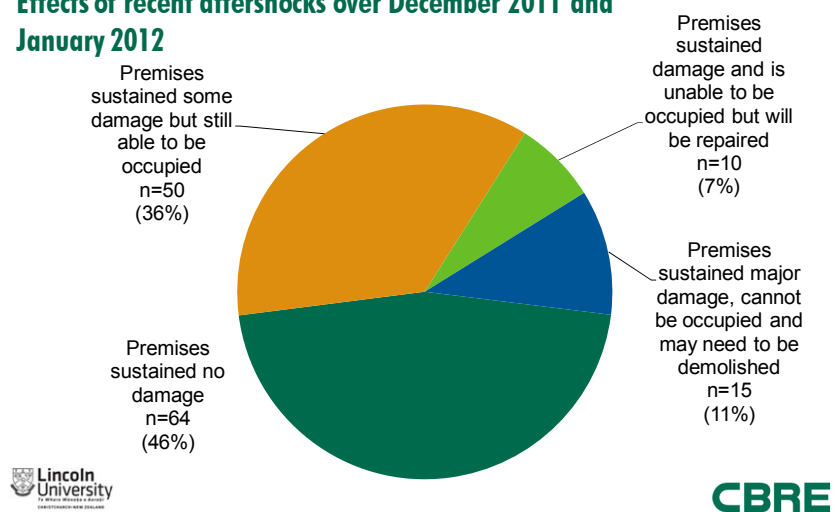
- Respondents indicated a preference for Grade A (new build) and Grade B (existing buildings) buildings. Top quality Premium grade buildings were least preferred.
- Respondents indicated a preference for higher quality space if they did not have to consider price.
- It appears for existing buildings (Grade B and C) tenants are willing to pay the indicative asking rentals. However, for new Premium Grade and Grade A buildings, there is a large gap between what the market is prepared to pay and the likely economic rental levels that will be required by landlords, as indicated by the market.
- If occupiers could not afford to occupy their preferred quality of space in the CBD, more than 40% of respondents who want to return to the CBD indicated they would instead locate outside of the CBD where it is more affordable. On the other hand more than 30% of respondents would occupy lower quality CBD space which is affordable.
- 78% of respondents were familiar with the Central City Plan.

3.2 Questions answered by all respondents

3.2.1 Has your premises suffered any damage after the recent aftershocks of December 2011 and January 2012?

Respondents have indicated only minor effects from the recent aftershocks of December 2011 and January 2012. The largest group said their premises sustained no damage, while the second largest group said their premises sustained some damage but could still be occupied. Together these groups contribute to 82% of respondents. The remaining 18% indicated their premises could not be occupied due to damage of varying levels.

Effects of recent aftershocks over December 2011 and January 2012

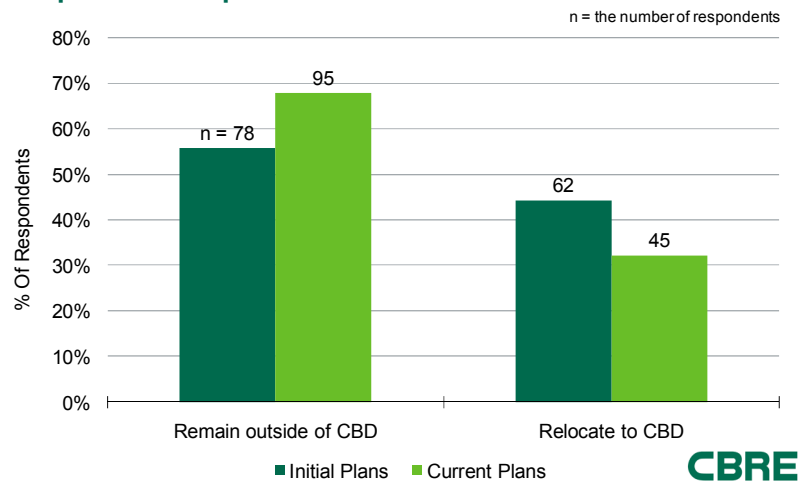


3.2.2 Have your relocation plans changed?

This question considers the relocation plans of all respondents regardless of whether or not they had relocated due to the earthquake. As we consider both groups of respondents (those that had moved due to the earthquake, and those that were already located in the suburbs), it gives an indication of demand potential for the CBD. This question differs to question 2.4.7 in the initial survey which looked solely at the intentions of those who had relocated due to the earthquake.

Currently, 68% (95) of the occupiers surveyed wish to remain outside of the CBD. This figure includes both companies that were suburban occupiers at the time of the February earthquake and former CBD occupiers that relocated after the earthquake.

Occupier relocation plans in relation to the CBD



Less than half (44%) of respondents indicated that they initially planned to relocate to the CBD, however, around a third of these respondents have indicated they have since changed their minds and currently 32% (45) of respondents plan to relocate to the CBD. Some of the reasons behind this are:

- Rents are likely to be too high and not sustainable for most businesses.
- Businesses will be well established in the suburban location by the time the CBD is able to be occupied so there is no reason to relocate back.
- Infrastructure in the CBD is not up to standard.
- Staff response to further earthquakes has been negative resulting in them not wanting to return to the CBD.
- Happy with current location as there have been changes to company structure/client base which means a CBD location is no longer important.
- Delays and uncertainty means it is better to commit to a suburban location for the long term.
- Prospect of disruption for years to come and working in a construction zone means the CBD is not attractive.
- Availability of professional office space will be limited in the short term.
- Having to commit to longer term leases outside of CBD which prevents them from returning to the CBD in the short term.
- Confirmed redevelopments in the CBD are not available to meet the businesses' timeframe.
- The building that the business was intending to return to is now unlikely to be repaired.

3.2.3 Estimated CBD office demand

From the results of the survey we have tried to estimate likely CBD office demand. CBRE monitors suburban office space occupancy for buildings above 500 sq. m. Prior to the earthquake there was 180,000 sq. m of office space in the suburban market with around 300 tenants. CBRE also monitors CBD office space and in total there was 390,000 sq. m of space prior to the earthquake. As the CBD office market represented around 68% of the total office market, we estimate there were around 650 office tenants in the CBD prior to the earthquake. Therefore we estimate the total size of the Christchurch office market is around 570,000 sq. m with around 950 tenants.

	No. Tenants	Total Sq. m
Suburban Office Occupiers	c 300	180,000
CBD Office Occupiers	c 650	390,000
Total	c 950	570,000
32% of occupiers to return to CBD	c 300	180,000

source: CBRE & Lincoln University

Based on our survey results, 32% of respondents indicate that they plan to return to the CBD. Applying this proportion to our estimates of the size of the office market we estimate that there is demand from around 300 tenants or 180,000 sq. m. This should be considered the low end of the possible range as our coverage of the suburban office market is not complete. Although this figure may seem low, the likelihood that the new CBD will be much smaller in terms of building size and area coverage will offset some of this shortfall. The 44% indicating that they initially planned to relocate to the CBD now falling to 32%, it represents a fall in demand of around 70,000 sq. m.

	No. Tenants	Total Sq. m
44% of occupiers to return to CBD	c 425	250,000
32% of occupiers to return to CBD	c 300	180,000
Difference	-125	-70,000

source: CBRE & Lincoln University

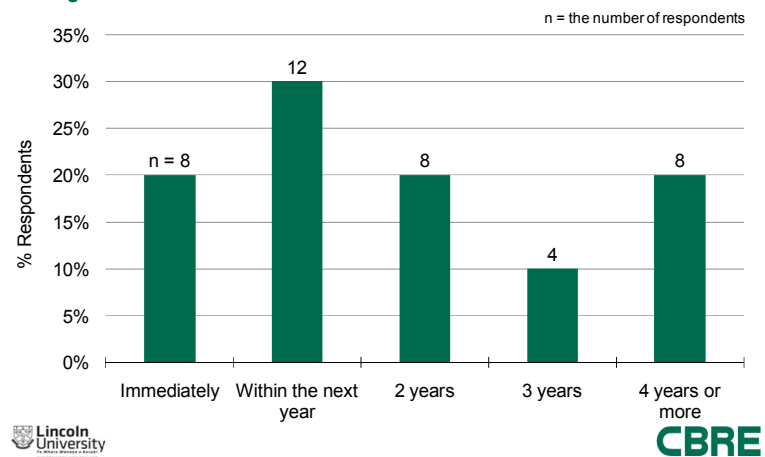
3.3 Questions answered by those who intend to move back into the CBD

The previous question determined that 32% (45) of respondents intend to move back into the CBD. The following questions were answered only by these respondents.

3.3.1 When are you able to return to the CBD?

Respondents indicated that half are able to return to the CBD immediately or within the next year. This indicates the short term or casual nature of many leases.

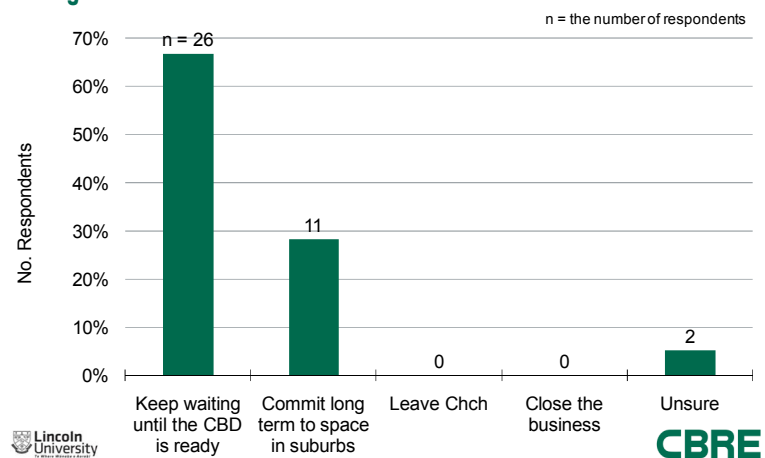
Timing of CBD return



3.3.2 If the CBD cannot be occupied at the time stated above, what will you do?

66% of respondents indicated that they are prepared to keep waiting until the CBD is ready. Fewer, but still a significant proportion (28%), indicated that they would commit long term to space in suburbs. No respondents indicated they would leave Christchurch or close the business.

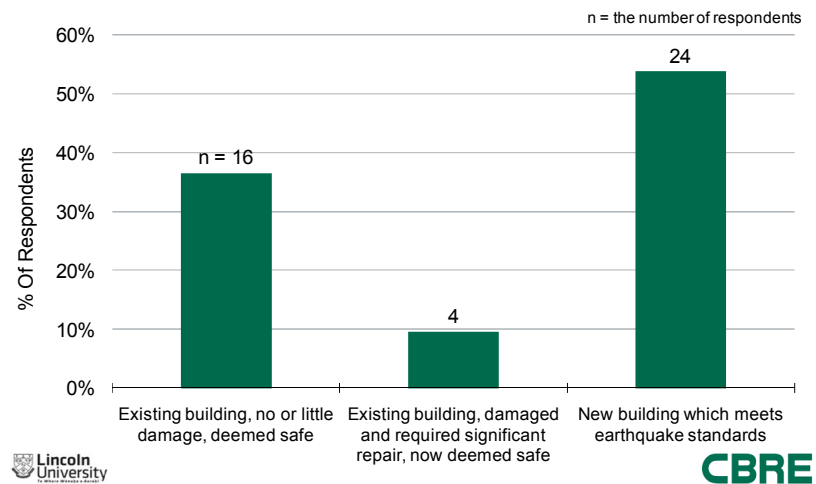
Timing of CBD return



3.3.3 What type of building would you consider locating to in the CBD?

More than half of the respondents indicated that they would want to occupy a new building which meets earthquake standards. This is then followed by nearly 40% of respondents who said they would occupy an existing building that sustained no or little damage and is deemed earthquake safe. Less than 10% indicated they would occupy an existing building that sustained damage and required significant repair but that is now deemed earthquake safe.

Building Types



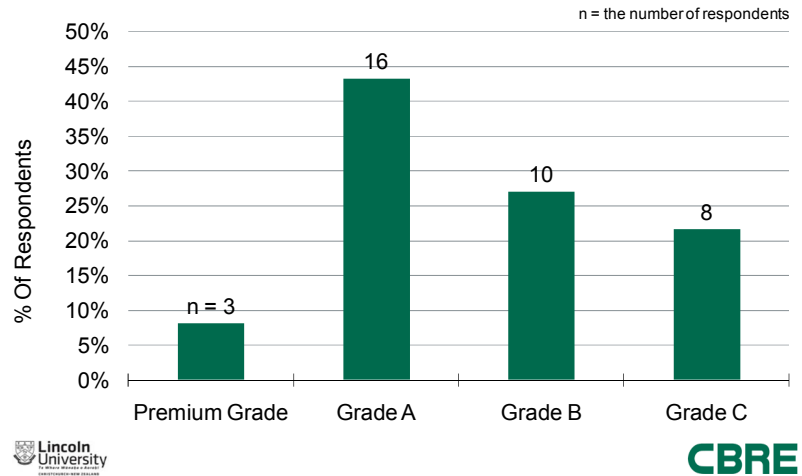
3.3.4 What quality of building would you require in the CBD taking price into account?

Respondents were asked which of the following building grade they would require taking into account price:

- Premium Grade – New building. Constructed to the highest quality, prestige lobby, high architectural merit, latest generation building services, onsite undercover parking. The total occupancy cost could be in the region of \$425-450 per sq.m (rent plus outgoings).
- Grade A – New building. Good quality construction including many but not all Premium features. The total occupancy cost could be in the region of \$350-375 per sq.m (rent plus outgoings).
- Grade B – Existing building of average quality with some but not all Grade A features and to a lower standard. The total occupancy cost could be in the region of \$225-275 per sq.m (rent plus outgoings).
- Grade C – Existing building of lower quality air conditioned space. The total occupancy cost could be anything below \$225 per sq.m (rent plus outgoings).

Respondents indicated a preference for Grade A (new build) and Grade B (existing) buildings. Top quality premium grade buildings were least preferred.

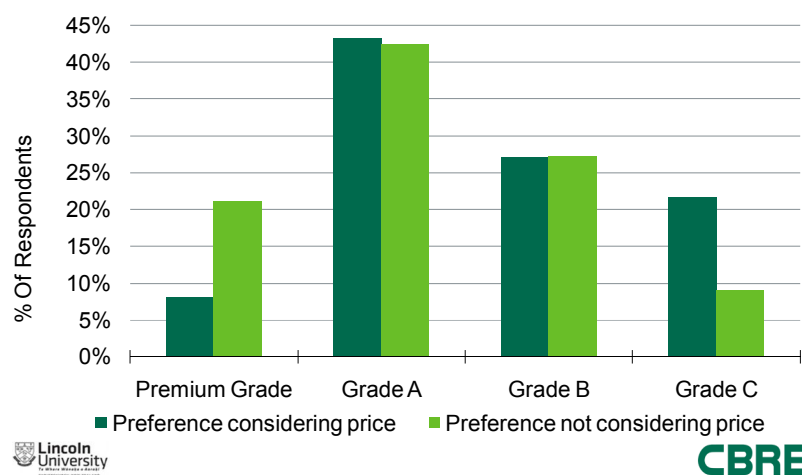
Building quality preference



3.3.5 Notwithstanding your response from the previous question, what is the quality you would prefer disregarding price?

Respondents indicated a preference for higher quality space if they did not have to consider price. Over a third (36%) of respondents indicated a preference for higher quality space than their response in the previous question.

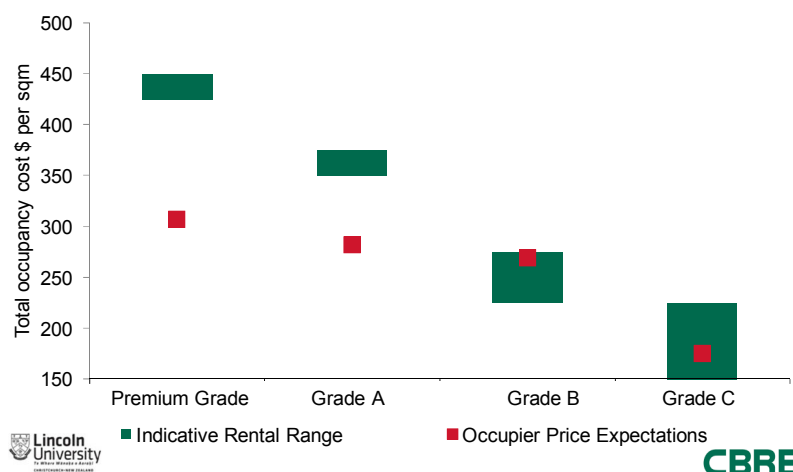
Building quality preference



Respondents were also asked how much they were prepared to pay for each quality grade and the following chart illustrates the difference between tenants' willingness to pay and the indicative rents that are likely to be required for such buildings from landlords. This is based on

likely development costs/economic rents derived from conventional feasibility models which may or not apply to the Christchurch rebuild due to the complexities with insurance payouts. We have taken an average of the occupier price expectations.

Occupancy cost expectations of occupiers

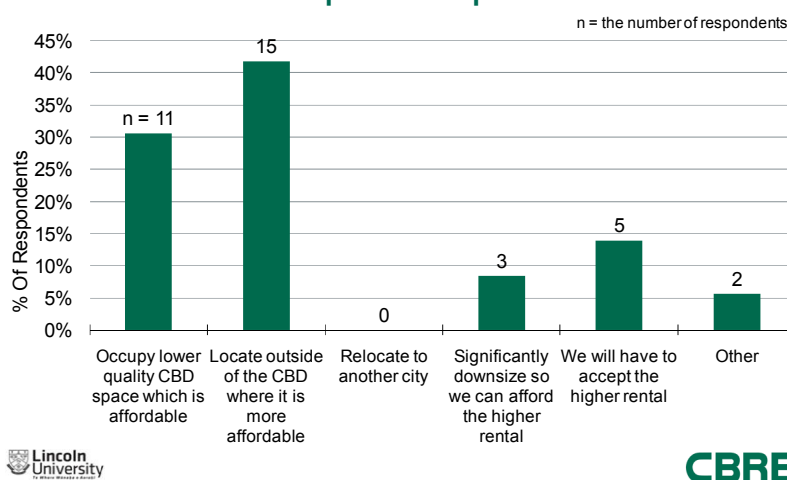


The chart above illustrates that for existing buildings (Grade B and C) tenants are willing to pay prevailing market rates. However, for new Premium Grade and Grade A buildings, there is a large gap between expectations, which may negatively impact the quantum of demand for such space when the rebuild gets under way.

3.3.6 If the desired office space cannot be rented for the levels willing to be paid as stated in the previous question, what will you do?

More than 40% of respondents indicated they would locate outside of the CBD where it is more affordable, while more than 30% of respondents would occupy lower quality CBD space which is affordable. No respondents indicated they would relocate to another city. Of note is that downsizing space requirements and accepting the higher rental was not so popular. Other respondents said they would buy their own building.

Alternatives if desired office space is too expensive



3.3.7 Are you familiar with the Central City Plan? And what is your opinion of it?

78% of respondents were familiar with the Central City Plan. Opinions were generally critical and a summary of comments are as follows:

- Very ambitious and uneconomical. The fact that the city is not starting with a “blank canvas” makes it even more unrealistic.
- Not convinced that the rebuild will happen as most of it is being driven independently by property owners.
- Concerns at prescriptive building regulations especially strict and unrealistic parking codes for the CBD compared to the suburbs. Private developers also need to be able to develop what they want to.
- It is not so good for landowners who may incur substantial costs to comply with Council requirements yet have a building that no-one can afford to rent. May look good on paper but the practicality of the plan, costs of implementation and the cost to businesses to locate within the plan are serious concerns.
- There needs to be a lot of consultation, leniency and an essence of speed to ensure that the CBD is actioned successfully. If the process is too long then people will get impatient and will look elsewhere.
- Land owners are waiting to see what businesses/buildings are re-instated before they judge what they are going to build there or if they sell the land and build somewhere else.
- The rebuild will need Government intervention to happen as the market is fickle.

3.4 Implications from the follow up survey

This follow up survey has highlighted some topical issues facing Christchurch office occupiers.

Demand for the CBD has fallen since our initial survey with some occupiers expressing frustration over the delays and disruption of moving back into the CBD. Our analysis indicates a possible CBD office demand base for the rebuild of approximately 180,000 sq. m. This compares to the original CBD size of 390,000 sq. m. Although this figure may seem low, the likelihood that the new CBD will be much smaller in terms of building size and area coverage will offset some of this shortfall. However there is a concern that demand for the CBD may weaken over time as initial short term leases will be expiring and although many have indicated they will keep waiting until the CBD is ready, some will commit to long term leases in the suburbs.

In terms of building preferences, the response from occupiers is that although higher quality buildings are nice to have, taking into account price, occupiers prefer lower quality existing buildings or lower quality new buildings. The concern with new builds is that rentals are likely to be too high for tenants to afford which has been illustrated by the gap analysis of respondent expectations of rents and the indicative market rentals that may need to be achieved to make the rebuild feasible (although the complexity about insurance payouts is a complicating factor when determining development costs/economic rents). As preference for buildings which sustained little or no damage appear to be nearly as strong as new buildings, demand for the existing buildings is likely to be strong but will be compounded by the fact that many buildings across the CBD will, or have been, demolished leading to supply constraints.