

MAY 2013

CANBERRA
OFFICE

Market Brief

HIGHLIGHTS

- As at January 2013, the total Canberra office market recorded vacancy of 11.9%. While this is up more than 200 basis points on the previous six months, this result is still below that of the highs of 2010-11 where vacancies peaked at 13.6%. The two-tiered nature of the market is best illustrated by the vacancy profiles. The Prime vacancy rate in Civic is at a four year low of 3.9%, the Parliamentary Precinct has yielded similar results, with a low Prime vacancy rate of just 3.7% while the Town Centre market has continued its long term 0% vacancy across the Prime market.
- With limited demand keeping the total vacancy levels elevated, face rents have seen no movement over the past three years across both Prime and Secondary. Effective rents however have reduced as incentives have now reached new highs, averaging 14% for Prime Civic, 16% for Prime Parliamentary Precinct and ranging 15%-20% in the Airport Precinct.
- There has been no major Prime investment activity over the past year; with lending still tight the fundamentals of the Canberra market have not been attractive to prospective investors. The uncertainty surrounding the next phase for this market due to the upcoming Federal election has also put pressure on average yields which have witnessed some increases early this year.

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Table 1
Canberra Commercial Market Indicators as at April 2013

Market	Total Stock (m²)^	Vacancy Rate (%)^	Annual Net Absorption (m²)^	Annual Net Additions (m²)^	Average Gross Face Rent (\$/m²)	Average Incentive (%)	Average Core Market Yield (%)
A Grade							
Civic (City)	279,874	3.9	29,658	20,800	415	13-15	7.50 – 8.50
Parliamentary Precinct	201,934	3.7	25,583	26,971	422	15-17	7.50 – 8.50
Town Centres	162,700	0	0	0	376	13-17	8.00 – 9.00
Airport	192,301	43.2	12,330	33,979	372	15-20	n/a
Secondary							
Civic (City)	412,922	17.5	-19,971	0	358	17-19	9.50 – 10.25
Parliamentary Precinct	175,691	8.6	-6,249	0	378	16-18	9.25 – 9.75
Town Centres	300,666	9.5	-7,874	-17,561	310	23-26	10.25 – 11.25
Total Market#	2,284,119	11.9	36,394	82,290			
Core Market Yield:	The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).						
Parliamentary Precinct:	Includes Barton, Parkes and Forrest office precincts						
Town Centres:	Includes the Phillip, Tuggeranong and Belconnen office precincts						
Source: Knight Frank/PCA ^ as at Jan 2013 #Includes additional sub markets as well as above major listed markets							

Leasing Market & Rents

The Canberra leasing market has been under increased pressure over the past three years as total vacancy levels have averaged 11.9%. This high total has been influenced by the weak performing Airport market which has a current total vacancy of 41.4% (43.2% Prime).

Despite these poor total results, the Prime markets have yielded strong results. The Civic market vacancy shows a four year low of 3.9%, however this has not stopped gross effective rents from falling 3.2% in the year to April 2013 as incentives reached 14% this period. Similarly, despite tight Prime vacancies in the Parliamentary Precinct of 3.7%, there has been flat growth in face rents. Gross effective results have also declined 3.2% to \$355/m² and incentives now average 16%. Town Centres historically have resulted in a nil vacancy position across the Prime market. Despite this, rents have trended similarly with no face growth recorded for the past three years yet incentives have increased five percentage points over the same time frame to average 15%.

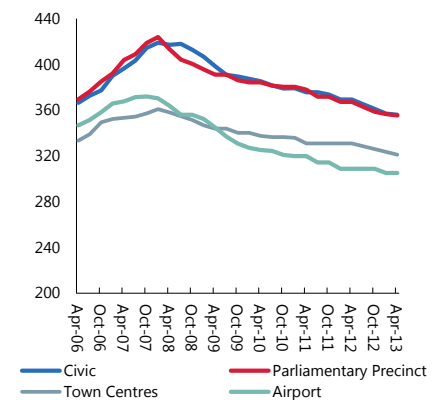
Despite these tight Prime vacancies, the secondary market has recorded sharp increases in vacancies across all markets which have also impacted rental growth. Incentives have reached a long term high

for this sector of the market ranging up to a high of 26% in Town Centres, while Civic and the Parliamentary Precinct average 18% and 17% respectively. Most recent deals have shown incentives of 20% or more as owners have had to reposition their assets to attract tenants, with this trend likely to continue.

The Airport market has been an underperformer due to historic speculative supply additions and subdued demand; which has kept vacancy levels averaging 32.6% over the past five years. This has flowed through to gross face rents, falling from the highs of \$403/m² in early 2008 to of \$372/m². Furthermore incentives have rising from around 7% during this same time period to currently range from 15% to 20%.

Looking ahead, the Civic market is expected to see continued albeit limited declines in effective rents due to rising incentives over the remainder of 2013. Encouragingly, 2014 will show limited new stock completions, however uncertainty in the lead up to the Federal election and an expectation of public service staff cuts may see the first period of negative take up across the total market in four years. After this 2014 market shock, limited speculative supply is likely to improve the total vacancy situation, more so across the prime market.

Figure 1
Canberra Gross Effective Rents
By Region (\$/m²)



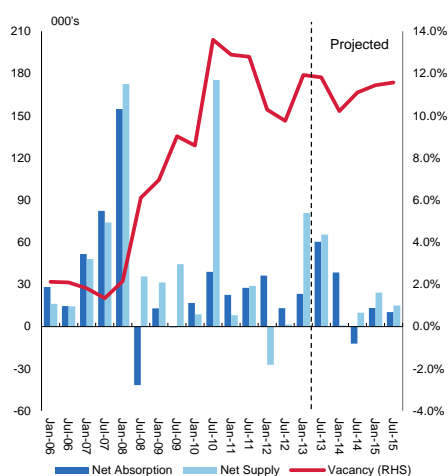
Source: Knight Frank Research

Development Activity

With limited demand for new stock from the private sector and further concerns surrounding future cuts in public sector jobs, all new supply projects not under construction are expected to be shelved until full commitment is sourced. Close to 100,000m² of new stock is nearing completion across the total Canberra market, while a further 41,500m² is however expected to be removed from the market. After a lag in supply during 2014, supply via earmarked

refurbished stock is likely to re-enter the market. With few projects expected to be completed prior to 2015, vacancy levels are expected to consolidate within the 11% -12% range over this period.

Figure 2
Net Supply, Net Absorption & Vacancy
Canberra Total forecast



Source: PCA/Knight Frank Research

A combination of dampened employment growth projections, further pressure by government agencies to reduce head count as well as reducing target workplace densities from 16 m² to 14 m², will ensure that the recovery phase for Canberra is

drawn out over the next three years. The secondary market will take longer to recover than the Prime market due to the limited demand particularly by public sector tenants who require higher Green Star and NABERS ratings.

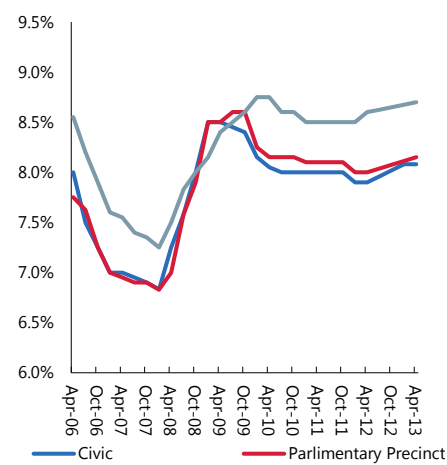
Sales & Investment Activity

There has been limited investment activity across Canberra over the past year. A combination of high vacancies and declining effective rents has not highlighted Canberra as a key investment market. With sales activity improving across most of Australian CBD's, demand for Canberra assets has lagged behind. As such, there has been some uplift more recently in the average yield profile for both prime and secondary assets across all sub markets of Canberra.

Current Civic average prime yields are recorded at 8.08% (April 2013) which has increased from 7.90% a year prior, the Parliamentary Precinct yielding a similar result up from 8.00% to current rate of 8.15%. However, strong demand remains for quality, prime, single tenant properties with long WALEs of 10 years or more. These properties are tightly held and would achieve firm yields of around 7.50%, well below those of multi tenanted, short WALE, prime assets which

would achieve the upper range of 8.50% or above. A two tier market remains in place with those secondary assets showing a broader and higher yield range from 9.25% to over 11.00% which has been strongly driven by government tenant's accommodation requirements. Increased government incentives for adaptive reuse or conversion to take up this older stock should be considered, ensuring this divide will not continue to broaden and worsen the vacancy situation for the secondary market.

Figure 3
Canberra Prime Average Yields
By Region



Source: Knight Frank Research

Table 2
Recent Leasing Activity Canberra Region

Address	Region	Area (m ²)	Face Rental (\$/m ²)	Term (yrs)	Lease Type	Tenant	Start Date
16-18 Mort Street	City	13,250	Conf	12	New	Telstra	Nov-13
4 National Circuit	Barton	6,342	Conf	15	New	Australian Government Solicitor	Sep-13
SAP House, Bunda Street	City	5,879	395 g	2.5	New	DIISRTE	Jul-13
28 Sydney Avenue	Forrest	5,056	460 sg	12	New	Pricewaterhouse Coopers	Jul-13
4 Mort Street	City	2,332	370 sg	3	New	DIISRTE	Mar-13
14 Mort Street	City	4,492	370 sg	3	New	DIISTRE	Mar-13
134 Reed Street North	Greenway	15,267	400 g	10	New	Medicare Australia	Mar-13
Manning Clarke Building, 87 Soward Way	Greenway	5,407	400 g	10	New	Medicare Australia	Mar-13
18 Canberra Avenue	Forrest	9,630	442 g	15	New	Department of Human Services	Jan-13

Table 3
Recent Sales Activity Canberra Region

Address	Price (\$ mil)	Core Market Yield (%)	NLA (m ²)	\$/m ² NLA	WALE (Years)	Vendor	Purchaser	Sale Date
4 Mort Street, City	14.75	11.5	5,465	2,699	3.6	Trafalgar Corporate Group Limited	Gladiator Investments Pty Ltd	Mar-13

Source: Knight Frank sg refers semi gross g refers gross Conf refers confidential DIISRTE Department of Industry, Innovation, Science, Research & Tertiary Education.

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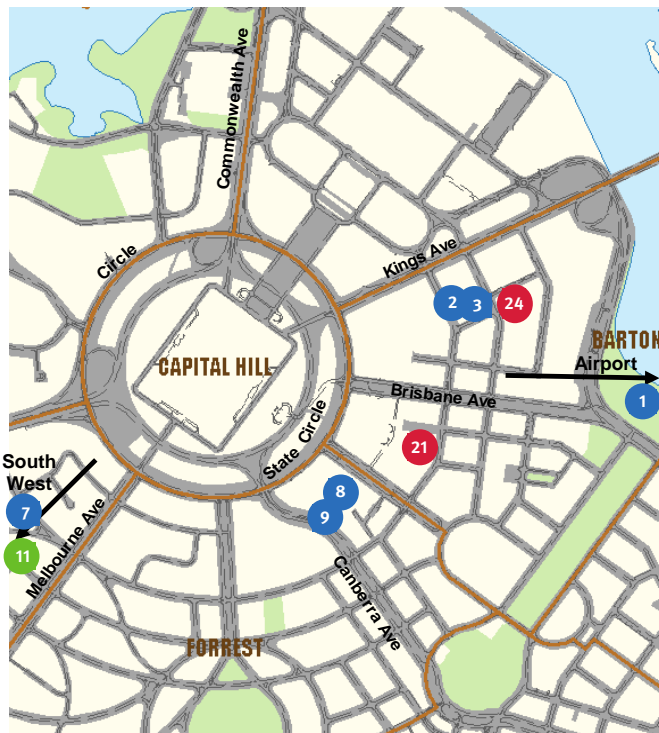
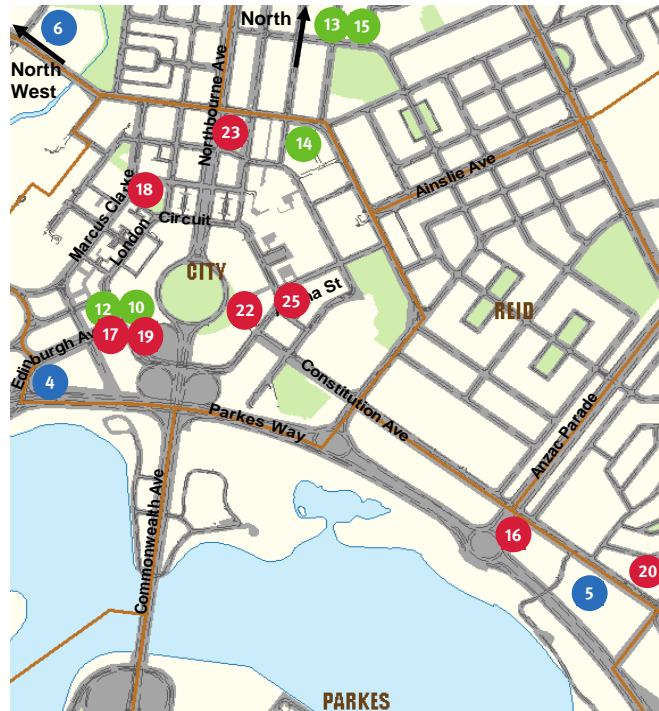
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MAJOR OFFICE SUPPLY

- 1 3-7 Molonglo Drive, Airport - 34,000m²
Capital Airport Group - awaiting commitment
- 2 4 National Circuit West, Barton - 18,000m² [AGD & AGS-]
ISPT - complete - 95% committed
- 3 4 National Circuit East, Barton - 11,600m²
ISPT - Q2 2013 - uncommitted
- 4 Nishi[^] - 21,000m² [Dept of Climate Change, ACCC, Clayton Utz]
Molonglo Group - Q4 2012 - 90% committed
- 5 ASIO HQ, Constitution Ave, Parkes - 40,000m² [ASIO]
Federal Govt - Q2 2013 - 100% committed
- 6 Benjamin Way, Belconnen - 5,800m²
Amalgamated Group - Q2 2013 - 100% committed [ACMA[^]]
- 7 Blk 10 Sect.16, Cowlshaw St, Tuggeranong - 26,000m² [DHS*]
Amalgamated Group - Q3 2013 - 100% committed
- 8 28 Sydney Ave, Forrest - 12,500m² [PwC]
BDC ACT - Q2 2013 - 40% committed
- 9 1 Canberra Ave, Forrest - 24,500m²
Willemsen Group - Q3 2014
- 10 Vernon North - Building 4, London Circuit[^] - 25,000m²
Leighton/Mirvac JV - 2016+ seeking pre-commit
- 11 45 Furzer St, Phillip - 22,000m²
Doma Group - 2015+ seeking pre-commit
- 12 Signature Building 2, London Circuit[^] - 16,000m²
Leighton/Mirvac JV - 2016+ seeking pre-commit
- 13 26-28 Antill St, Dickson (ex ACT Tab bldg) - 8,000m²
Amalgamated Group - 2015+ seeking pre-commit
- 14 Section 96[^] - 37,500m²
QIC - 2016+ seeking pre-commit
- 15 The Valley Ave & Gungahlin Pl, Gungahlin - 9,000m² [ACT Govt]
KDN Group, Q1 2015 - 100% committed
- 16 Anzac Park East, Parkes # - 12,534m²
Federal Govt - mooted
- 17 Landmark Building, London Circuit[^] - 50,000m²
Leighton/Mirvac JV - mooted
- 18 40 Marcus Clarke[^] - 14,000m²
Prime space - 2016+
- 19 Vernon South - Building 3, London Circuit[^] - 25,000m²
Leighton/Mirvac JV - mooted
- 20 71 Constitution Ave, Campbell - 10,000m²
Hindmarsh Group - 2017+
- 21 2 Darling Street, Barton - 19,000m²
Doma Group - 2016+
- 22 Section 4[^] - 40,000m²
ACT Government - 2017+
- 23 Myuna Complex, Northbourne Ave[^] - 52,000m²
Walker Group - 2016+
- 24 44 Macquarie St, Barton - 20,000m² mixed use
Doma/Morris Group - 2015+
- 25 Nangari Street[^] - 6,500m²
Molonglo Group - 2016+

- Under Construction/Complete
- DA Approved / Confirmed / Site Works
- Mooted / Early Feasibility



Map source: ACT Planning and Land Authority (ACTMAPi)

NB. Dates are Knight Frank Research estimates

Major tenant precommitment in [brackets]

Major refurbishment

[^] Civic precinct

* DHS Dept of Human Services

~ AGD Attorney General Department, AGS Australian Government Solicitor

[^] ACMA Australian Communications and Media Authority

Office NLA quoted

Americas

USA
Bermuda
Brazil
Canada
Caribbean
Chile

Australasia

Australia
New Zealand

Europe

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Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
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Ukraine

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Malawi
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Tanzania
Uganda
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Vietnam

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Abu Dhabi, UAE

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