

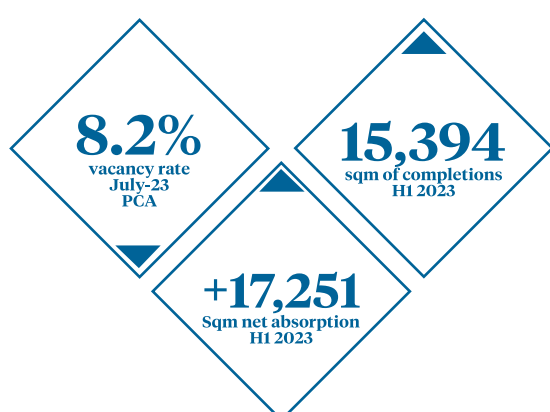
- *Lowest vacancy of the major capital cities*
- *Rental growth continues*
- *Yield softening playing out*

# Canberra Office Market

Market Report, August 2023



# POSTIVE DEMAND FOR PRIME GRADE STOCK



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“ Investors sought after Canberra assets given its blue chip tenant profile and competitive yield advantage against Eastern Seaboard capital cities.”

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## The Key Insights

Canberra vacancy remains lowest of eastern seaboard capital cities, measuring 8.2% as at July 2023.

Rental growth in Canberra continues with Civic and Parliamentary precinct A grade net face rents have increased by 3.6% y/y to measure \$446/sqm

Following a decade high of development activity in 2022 which saw 113,467sqm added to the market, completions were below average over the first half of 2023.

Average A grade yields in the Civic and Parliamentary precincts have softened by 103bps over the 12 months to July 2023 on the back of higher funding costs. Further softening of yields is anticipated.

## Canberra CBD Office Market Indicators—July 2023

GRADE	TOTAL STOCK SQM	VACANCY RATE %	ANNUAL NET ABSORPTION SQM	ANNUAL NET ADDITIONS SQM	AVERAGE GROSS FACE RENT \$/SQM*	AVERAGE INCENTIVE %*	EFFECTIVE RENTAL GROWTH % YOY (gross)	CORE MARKET YIELD %##
<b>A Grade</b>								
Civic (City)	451,849	7.1	-331	9,750	553	27.0	+3.9	6.25-6.75
Parliamentary	283,389	1.4	64	0	542	26.0	+5.0	6.25-6.75
Town Centres	258,547	6.2	1,439	0	444	28.4	+3.7	7.75-8.25
Other	397,372	12.0	11,720	12,394				
<b>Secondary</b>								
Civic (City)	241,480	9.4	3,927	1,200	459	29.3	+3.4	7.25-7.75
Parliamentary	164,444	3.7	173	702	461	29.0	+3.1	7.25-7.75
Town Centres	184,908	16.8	-473	-3,890	360	30.0	+3.8	8.00-9.00
Other	391,386	9.2	-3,996	-16,684				
<b>Total Market</b>	<b>2,373,375</b>	<b>8.2</b>	<b>12,523</b>	<b>3,472</b>				

Source: Knight Frank Research/PCA \*assumes WALE 5.0 years, mid-rise full floor tenancy #assumes WALE 5.0 years, stabilised asset  
Parliamentary comprises Barton, Parkes and Forrest office precincts ; Town Centres comprise Phillip, Tuggeranong and Belconnen office precincts ; Other includes remaining PCA sub localities

# POSITIVE TENANT DEMAND

## Canberra vacancy remains lowest of major capital cities

Canberra's office vacancy rate dropped slightly over the last six months to measure 8.2% as at July-23, down from 8.9%. Overall vacancy is still below its 10 year average of 11.4% and the lowest of the major capital cities. Prime space in Barton is still non-existent, whilst in the Civic precinct prime vacancy is 7.1%

Of note is secondary vacancy, which after stagnating around 15-17% for some years has dropped to 11%, its lowest level since 2012. While the competitive tension in A Grade stock has been due to the sustained high level of demand from government tenants, the uptick in private sector demand for smaller suites and/or the sub 500 sqm market has also gained some momentum and is contributing to the reduction in secondary vacancy.

## Steady development pipeline

Following a decade high of development activity in 2022 which saw 113,467sqm added to the market of which 95% was prime stock, completions were below average over the first half of 2023.

Completions (including refurbis) totalled 15,394sqm for the six months to July 2023, across three assets. There were two new boutique size developments which reached practical completion, 90 Denison Street (7,594sqm) and 13-15 Challis Street (4,800sqm). In terms of refurbishments 23 Marcus Clarke Street (3,000sqm) underwent a partial refurbishment which is now back on market.

Over the next 18 months, new developments expected to be delivered include; 9-11 Molonglo Drive (19,333sqm), Morris

Property Group's, One City Hill spec development (34,086sqm), 23 National Circuit (4,500sqm) and 2 Faulding Street (6,600sqm). Additionally, QIC's development; Section 96 (c37,000sqm) is anticipated to be delivered by 2026.

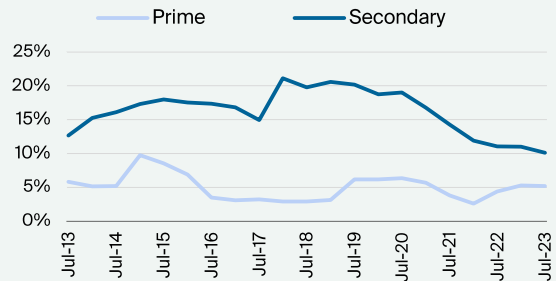
## Positive face rental growth

Canberra continues its steady rental growth supported by sustained demand from public administration occupiers. In the Civic and Parliamentary precinct, prime net face rents have increased by 3.6% to measure \$446/sqm (\$547/sqm gross) over the last 12 months to July 2023. Similarly, 1.9% y-o-y net face rental growth has been reported in the secondary market, with net face rents averaging \$355/sqm (\$460/sqm gross).

Average prime incentives in the Civic and Parliamentary precinct remain at all-time highs, measuring 26%. As a result, the prime net effective rents have increased by 2.3% to \$301/sqm. Incentives are anticipated to remain at current levels for the medium term.

### Canberra Vacancy Major Precincts\*

Per six month period (%), by grade

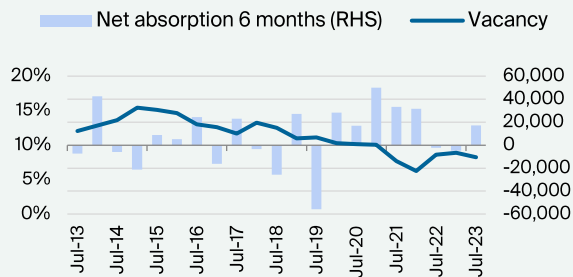


Source: Knight Frank Research, PCA

\* incorporates Civic, Parliamentary Precinct & Town Centres

### Net absorption and vacancy

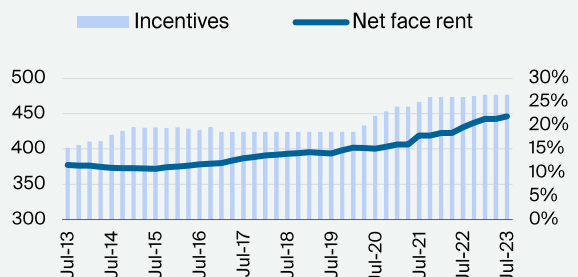
Per six month period (sqm, %)



Source: Knight Frank Research, PCA

### Prime net face rents and incentives

Parliamentary & Civic average, \$/sqm, %



Source: Knight Frank Research



# SUBDUED INVESTMENT ACTIVITY

## Clearer economic conditions likely to lead to a pick up in deal flow activity

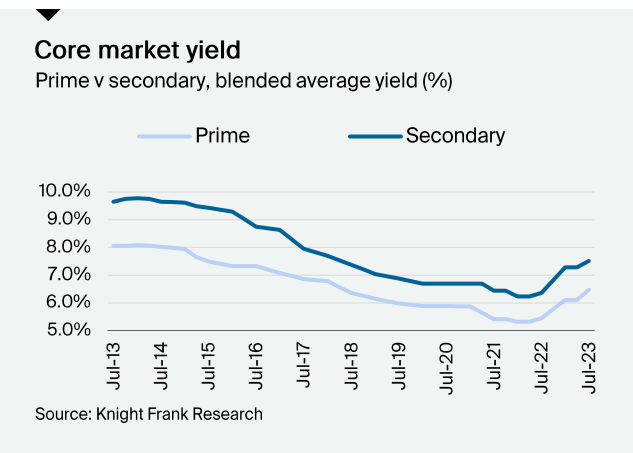
After an extended period of interest rate increases, recent RBA Board statements reflect growing confidence that the actions taken to date in raising the cash rate to 4.1% will prove sufficient to enable inflation to return to the target range of 2-3%. Forecasters are now expecting an extended pause from the RBA, which will provide a more reassuring backdrop for the property market and create the conditions for deal flow to gradually return.

In the only deal so far this year, private investor Evri Group acquired 54 Marcus Clarke Street from Centuria for \$23 million. The asset sold fully occupied with a 2.7 year WALE on a core market yield of 7.6%. Looking ahead, as the economic outlook has become clearer along with Canberra's blue chip tenant profile and competitive yield advantage, investor activity is likely to pick up over the medium term.

## Yield softening continues

Average prime office yields in the Civic and Parliamentary precincts have expanded by 103 bps to 6.5% over the year, whilst the secondary average yields softened 115 bps over the same period to 7.5%. A similar story has been observed in Town Centres, with prime office yields softening 99 bps to 7.8% in 12 months to July 2023.

The steady rental growth has not been enough to offset the softening in yields which has resulted in capital values decreasing since late 2022. This trend is echoed nationally as the market has repriced due to higher funding costs. The yield softening trend is anticipated to continue in the near term but at a slower pace given the cash rate has neared its peak.



## Recent significant sales

PROPERTY	PRICE \$M	CORE MARKET YIELD %	NLA SQM	\$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
<b>54 Marcus Clarke Street, Canberra Civic</b>	23.0	7.63	4,435	5,186	2.7	Evri Group	Centuria Property Funds	Jun-23
<b>21 Genge Street, Canberra Civic</b>	290.0	7.34	43,256	6,704	5.1	Charter Hall	Real I.S. Australia	Sep-22
<b>220 London Circuit, Canberra Civic</b>	272.48	4.25	22,309	12,214	16.8	ICPF*	Capital Property Group	Aug-22
<b>101 Jerrabomberra Ave, Symonston</b>	363.5	5.13	32,659	11,130	9.9	Charter Hall	Real I.S. Australia	Jul-22

Source: Knight Frank Research \* Investa Commercial Property Fund

## Canberra major office supply

ADDRESS	AREA (SQM)	DEVELOPER	MAJOR TENANTS	COMMITMENT LEVEL (%)	STAGE	EST. DATE OF COMPLETION
<b>90 Denison Street, Deakin</b>	8,000	Private	Commonwealth NDIA	80%	Complete	H1 2023
<b>2 Faulding Street, Symonston</b>	6,000	Evri Group	Spec		Under Construction	H2 2023
<b>Blocks 10&amp;11, Section 100, City</b>	34,234	Morris Property Group	Spec		Under Construction	H2 2023
<b>9-11 Molonglo Drive, Airport</b>	19,463	Capital Airport Group			Under Construction	H2 2024
<b>7 London Circuit, City*</b>	10,591	ISPT	Spec		Under Construction	H2 2023
<b>18 Marcus Clarke Street, City#</b>	26,000	ISPT	Spec	25%	Under Construction	H2 2023
<b>1 Taubman Street, Symonston</b>	3,402	Nikias Diamond	Spec		Site works	H2 2023
<b>19 National Circuit, City</b>	18,128	Cromwell Corporation			Site works	2025
<b>23 National Circuit, Barton</b>	4,610	Doma Group	Doma Group		DA Approved	H1 2025
<b>50 Kent Street, Deakin</b>	8,500	Evri Group	Spec		DA Approved	2025
<b>15 Sydney Avenue, Barton</b>	33,521	Doma/Kenyon Investments	Commonwealth ATO	100%	DA Approved	2025
<b>Section 96, City</b>	34,000	QIC			DA Approved	2026
<b>Cnr Northbourne &amp; London Circuit, City</b>	70,000	Walker Corp	Commonwealth DEWR	100%	DA Lodged	2026
<b>8 Petrie Plaza, City</b>	5,000	NDH	Spec		DA Lodged	2026
<b>175-179 London Circuit, City</b>	4,436	Morris Property Group	Spec		DA Lodged	2026

NB. Dates are Knight Frank Research estimates; Office NLA quoted # Major refurbishment

## Recent tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	FACE RENT \$/SQM (g)	TERM YRS	START DATE
<b>Aon</b>	5 Farrell Place	309	530	5	Aug-23
<b>Distillery Software</b>	10 Moore Street	230	465	5	May-23
<b>TIMG</b>	10 Rudd	488	445	3	Sep-23
<b>Fujifilm Business Innovation</b>	40 Macquarie Street, Barton	203	460	2	Jul-23
<b>Kinsella</b>	26 Brisbane Avenue, Barton	290	510	8	May-23
<b>OneZero Financial Systems</b>	26 Brisbane Avenue, Barton	318	530	7	Apr-23
<b>Tech Council</b>	15 London Circuit, Civic	160	440	5	Apr-23
<b>Luerssen Australia</b>	26 Brisbane Avenue, Barton	259	525	7	Mar-23
<b>Gosource</b>	15 London Circuit, Civic	431	470	7	Mar-23

All rents are gross face

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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