



Key Facts

As at January 2020, Canberra's overall vacancy rate measured **10.3%**, tightening from 11.1% since July 2019.

Transactional investment volumes for 2019 reached **\$743 million**, more than double the volume in 2018.

Over the next 12 months **45,000 sq m of new supply** will come to market, all of which is pre-committed.



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At the time of writing this report, increased uncertainty in relation to the outbreak of Coronavirus (COVID-19) presents significant and evolving downside risks to the global economy that are impacting assumptions to short-term outlooks.

New supply on the horizon, predominately pre-committed

The Canberra office market experienced record levels of withdrawals over 2019 of 101,622 sq m. Recent withdrawal activity has been driven by owners temporarily removing stock for refurbishment purposes, along with secondary style space being converted to alternative uses.

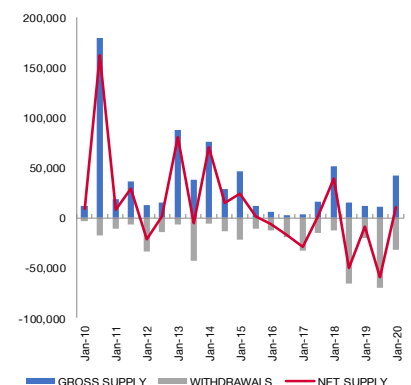
Whilst withdrawals outstripped new supply across the year, late 2019 saw 42,281 sq m added to the market. The Civic Quarter – Stage 1 (c16,000 sq m) development by Amalgamated Property Group headlined these figures. The development was speculatively built and has achieved strong commitment levels.

Throughout 2020 there will be a number of new developments reaching practical completion of which all have been pre-committed. This includes the Capital Airport Groups Constitution Place project Bld 1 20,000 sq m pre-committed to the ACT Government and Bld 2 12,000 sq m,

recently fully committed to corporate tenants. Additionally the new Access Canberra Headquarters at 13-15 Challis Street (c13,000 sqm), Dickson is due for completion imminently.

Refurbished stock that has come back to the market recently includes Challenger's 6 Chan Street (15,801 sq m), which underwent a partial refurbishment over the last six months, whilst the adjacent property, 5 Chan Street (17,300 sq m), is undergoing a full refurbishment due for completion in the middle of the year.

FIGURE 1
Supply Additions and Withdrawals
Per six month period (000' sq m)



Source: Knight Frank Research/PCA

Positive tenant demand over the second half of 2019 tightens vacancy

Significant withdrawals over 2019, in conjunction with positive absorption of 28,202 sq m in the second half of the year, has resulted in the overall vacancy rate tightening from 11.1% to 10.3% in the six months to January 2020. Vacancy is now 200bps lower than the 10 year average of 12.3%.

Split by grade, the prime market remained steady at 6.9% as at January 2020, well below the 10 year average of 11%, fuelled by solid absorption levels. The secondary market tightened to 14.3%, down from 16.0% in the six months to January 2020.

The Parliamentary Precinct A grade market remains the tightest precinct, recording vacancy of 2.3%, whilst the Civic A grade precinct increased from

6.6% to 8.4% over the second half of 2019. Outside the CBD, the A grade market in Town Centres tightened from 8.3% to 7.1% over the six months to January 2020. The Airport precinct remained steady at 12.7% over the same period, with limited activity since the Department of Home Affairs consolidation into the precinct 18 months ago.

The flight to quality demand from occupiers is highlighted in the disparity between the prime and secondary vacancy levels across the major precincts, with the prime rate at 6.2% in comparison to 18.7% for secondary space.

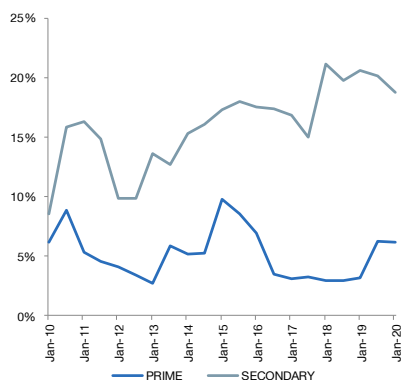
Moderate growth across the board

Although varying by grade and location, rental growth has been moderate over the past year. Across the prime Civic and Parliamentary precincts, gross face rents increased by 2.2% to \$485/sq m (\$395/sq

m net) in the 12 months to January 2020. Prime incentives are holding firm at 18.7%. For the secondary market, gross face rents increased 2.2% in the 12 months to January 2020 (Civic and Parliamentary) to measure \$423/sq m (\$334/sq m net). Incentives in the secondary market have seen an uptick from 22% to 24.4% as landlords look to achieve higher occupancy through their assets especially in recently refurbished assets.

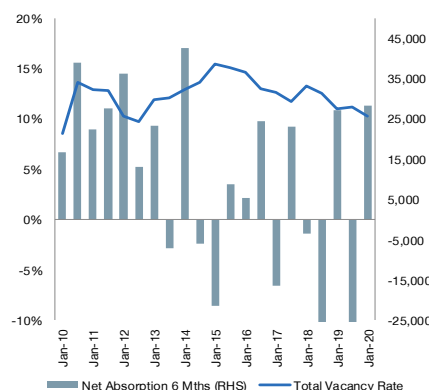
Slight growth was recorded in Canberra's prime and secondary Town Centre markets, with gross face rents increasing by 1.7% in the prime market to \$412/sq m and in the secondary market rents increasing by 1.3% to \$336/sq m over the 12 months to January 2020. Incentive levels have remained unchanged at 24.5% for prime and 29.6% in the secondary market.

FIGURE 2
Canberra Vacancy Major Precincts*
Per six month period (%) - by grade



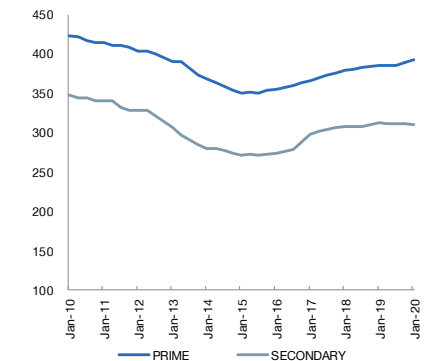
Source: Knight Frank Research/PCA
* Incorporates Civic, Parliamentary Precinct & Town Centres

FIGURE 3
Net Absorption and Vacancy



Source: Knight Frank Research/PCA

FIGURE 4
Civic Gross Effective Rent
By Grade (\$/sq m)



Source: Knight Frank Research

TABLE 1
Canberra Office Market Indicators - January 2020

Grade	Total Stock (sq m)	Vacancy Rate (%)	Annual Net Absorption (sq m)	Annual Net Additions (sq m)	Average Gross Face Rent (\$/sq m)	Outgoings (\$/sq m)	Average Incentive (%)	Average Core Market Yield (%)
A Grade								
Civic (City)	397,245	8.4	70,882	15,934	488	86	19.50	~5.80
Parliamentary	283,389	2.3	15,154	0	482	74	17.80	5.75-6.25
Town Centres	241,247	7.1	2,045	-24,204	412	65	24.50	7.25-7.75
Other	313,052	9.1	7,774	0				
Secondary								
Civic (City)	279,085	17.3	90,210	34,852	424	91	26.7	6.50-7.50
Parliamentary	166,539	10.3	19,310	-7,525	421	85	22.0	6.25-6.75
Town Centres	174,938	29.1	-46,391	-72,426	332	71	29.58	9.00-10.50
Other	413,870	7.7	5,206	-11,716				
Total Market	2,269,365	10.3	68,335	-11,716				

Source: Knight Frank Research/PCA
2 * Modern upper prime assets with long WALEs trading below this range (sub 6.00%)
Parliamentary comprises Barton, Parkes and Forrest office precincts
Town Centres comprise Phillip, Tuggeranong and Belconnen office precincts
Other includes remaining PCA sub localities

Diversification targets increases depth of the buyer pool

While institutional investors have been active in Canberra for some time, 2019 saw the depth of the buyer pool increase as investors, both domestic and offshore, looked to increase exposure to the market and improve portfolio geographical diversification targets.

Investment volumes for 2019 reached \$743 million. This is more than double the volume in 2018 (\$360m) and about 80% higher than the 10-year annual average of \$407 million.

While transactional volumes were subdued in the first half of 2019 because of the election, the tail-end of 2019 finished very strongly, suggesting that there remained a high level of confidence in the underlying market fundamentals, particularly for core plus/opportunistic plays.

Institutional funds and trusts drove most of the investment activity in the second

TABLE 2
Recent Leasing Activity Canberra

Address	NLA (sq m)	Rent (\$/sq m)	Term (yrs)	Tenant	Date
16-18 Mort Street	2,294	430	4	Geocon	Oct-19
54 Marcus Clarke Street	513	430	7	Technology One	Feb-20
224 Bunda Street	251	450	7	DQA	Feb-20
64 Northbourne Avenue	508	430	5	Protiviti	Jan-20
15 London Circuit	160	420	5	Gravity Consulting	Jan-20

Source: Knight Frank Research All rents are gross face

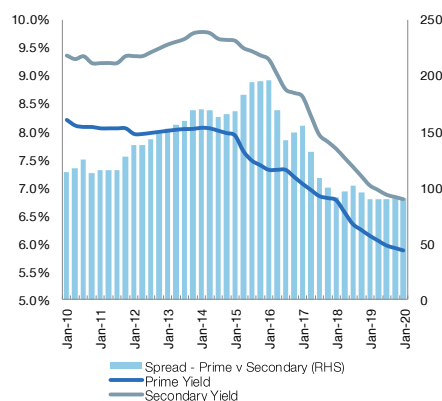
half of 2019. Institutions such as Centuria Property Funds, Elanor Investors Group and Charter Hall were amongst some of the larger acquisitions, while private developers actively acquired those assets tilted towards redevelopment potential. There was also a slight upswing in divestment activity of regenerated assets through the year.

Centuria Capital Group spent almost \$300 million in the space of a few

months, including the acquisition in December of Nishi Commercial for \$255.75 million on a yield of 5.10%. The purchase of the A grade building, which is predominantly leased to the Federal Government, follows the acquisition of the Optus Centre (10 Moore Street) in May for \$35 million.

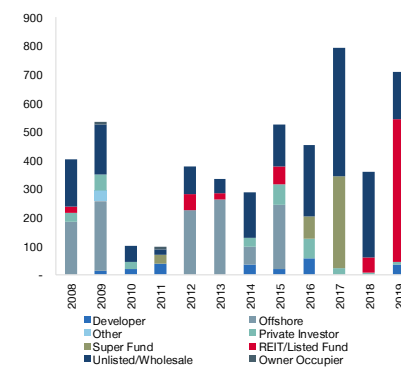
In another recent acquisition, Elanor Investors Group purchased Garema Court at 140-180 City Walk for \$71.50 million on a yield of 6.54%. The asset was sold down by Dexu as part of the group's strategy last year to divest its non-core assets. It was the last Canberra asset in the Dexu portfolio.

FIGURE 5
Core Market Yields & Spread
Canberra Blended Average—Prime & Secondary



Source: Knight Frank Research

FIGURE 6
Canberra Sale \$10m+
By Purchaser Type (\$m)



Source: Knight Frank Research

Yields continued to compress in 2019

The strong appetite for both income-security and value-add assets continued to put downward pressure on yields in 2019. Average prime market yields in the CBD and Parliamentary precincts are showing a 27bps sharpening YoY to 5.90% and secondary yields to 6.69% (-35bps).

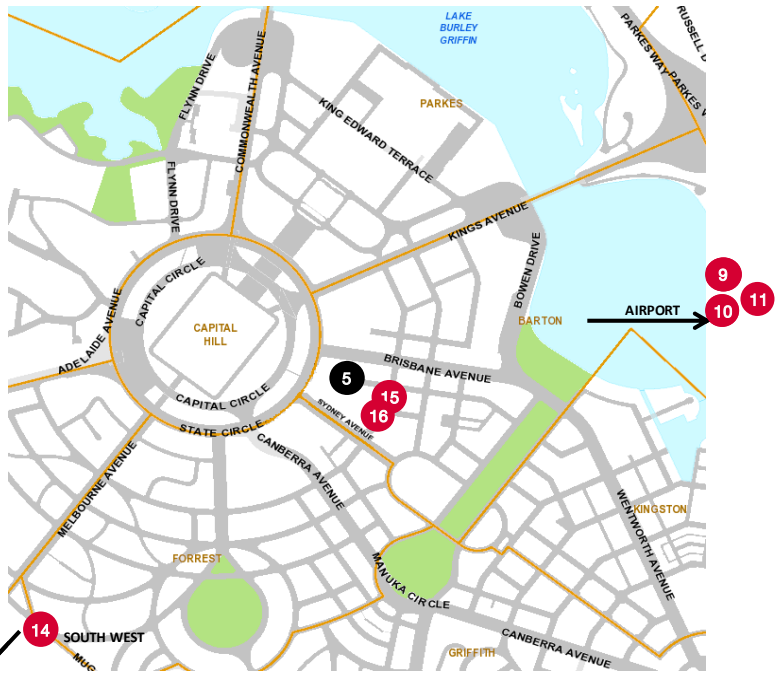
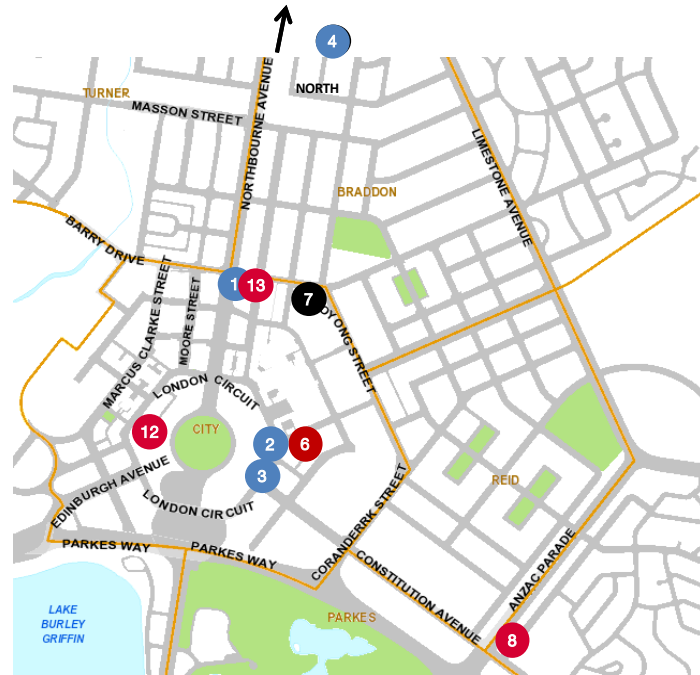
TABLE 3
Recent Sales Activity Canberra

Address	Price (\$ mil)	Core Mkt Yield (%)	NLA (sq m)	\$/sq m NLA	WALE (yrs)	Vendor	Purchaser	Sale Date
2 Phillip Law Street, Canberra	255.75	5.10	27,411	9,330	7.9	Molonglo	Centuria Property	Dec-19
140-180 City Walk, Canberra	71.50	6.54	11,438	6,251	4.2	Dexu	Elanor Investors	Dec-19
16-18 Mort Street, Canberra	108.5	5.68	14,146	7,670	6.6	Oxford Property Group	Charter Hall	Jun-19
10 Moore Street, Canberra	35.0	6.72	6,709	5,217	4.3	Quintessential Equity	Centuria Capital	May-19
Finlay Crisp Offices, 1-5 Constitution Avenue, Canberra	62.00	U/D	28,518	2,174	U/D	Dexu JV CPP Investments Board	SC Capital Partners	Apr-19

Source: Knight Frank Research

MAJOR OFFICE SUPPLY

- 1 Civic Quarter, Northbourne Ave[^] - 16,000m² ≈
Amalgamated Property Group - Complete
- 2 Constitution Place[^] (Bld 1) - 20,000m² [ACT Govt]
Capital Property Group - H2 2020 - 100% committed
- 3 Constitution Place[^] (Bld 2) - 12,000m² ≈
Capital Property Group - H1 2021 - 100% committed
- 4 13-15 Challis St, Dickson - 13,000m² [DKSN Site]
100% committed - H1 2021
- 5 Section 96[^] - 41,000m²
QIC - 2020 subject to pre-commitment
- 6 2 Darling Street, Barton - 20,000m²
Doma Group - 2020+
- 7 5 Nanagari Street, City - 1,600m²
Molonglo Group - 2021+
- 8 APE - 65,000m²
Amalgamated Property Group - 2021+
- 9 25 Catalina Drive, Airport - 25,000m²
Capital Airport Group - 2021+
- 10 6 Brindabella Drive, Airport - 21,000m²
Capital Airport Group - 2021+
- 11 9 Molongo Drive, Airport - 20,000m²
Capital Airport Group - 2021+
- 12 Section 100 - 38,000m²
Morris Property Group - 2022+
- 13 Balance of Civic Quarter - 35,000m²
Amalgamated Property Group - 2022+
- 14 Section 12 (Block 9 & 10), Greenway - 35,000m²
A & S Haridemos - 2022+
- 15 19 National Circuit - 19,000m²
Cromwell DA Lodged 2023
- 16 23 National Circuit - 40,000m²
DOMA/Goodwin & Kenyon. Early Feasibility 2023+



NB. Dates are Knight Frank Research estimates
 Major tenant precommitment in [brackets]
 ≈ Speculative development
[^] Civic precinct
 Office NLA quoted
 # Major refurbishment

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

Source of Map: ACT Planning and Land Authority (ACTMAP)



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Front cover photo: 21 Genge Street, Civic
* Major Precincts incorporates Civic, Parliamentary Precinct & Town Centres

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