



CANBERRA

OFFICE MARKET BRIEF OCTOBER 2018

Key Facts

As at July 2018, Canberra's overall vacancy rate measured 12.5%, decreasing from 13.2% six months prior stemming from withdrawals.

Sales of \$357.6 million were transacted in the 12 months to July 2018, fuelled by improved buyer depth.

Prime office stock has reached its highest level on record of 1,122,152 sq m, a 13% increase over the last 5 years.

Tight vacancy in the Civic and Parliamentary precincts has **increased prime gross face rents by 2.6% to \$471/sq m**.



MARCO MASCITELLI

Senior Research Analyst

Follow at @KnightFrankAu

Residential conversions driving withdrawals

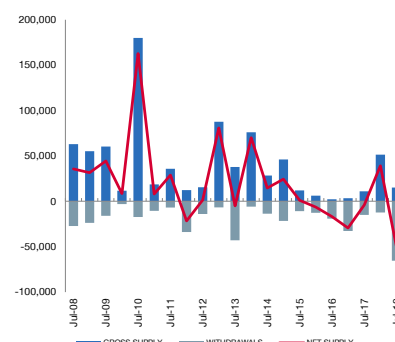
Following the strong surge in supply over the second half of 2017, there has been below average completions in the first half of 2018 as construction continues to progress on two major CBD developments. In the six months to July 2018, 15,110 sq m was added to the market. Supply was largely confined to refurbishments of existing stock, with 38 Sydney Avenue, Forrest (8,943 sq m) and 10 Brindabella Circuit, Airport (4,932 sq m). New stock entering the market was limited to 44 Thesiger Court, Deakin (1,235 sq m), which was partially pre-committed.

More significantly, withdrawals totalled 65,368 sq m over the same period, the highest on record for a six month period. The withdrawal of 77 Athllon Drive, Greenway (33,500 sq m) is to be converted to an aged care facility; whilst withdrawals at 20 Allara Street, City (11,257 sq m); 15 Bowes Street, Phillip (7,463 sq m); 9 Thynne Street, Bruce (2,300 sq m); and Dunlop Court, Bruce (1,325 sq m) are for proposed residential developments. This has resulted in net supply reaching its lowest level on record of negative 50,258 sq m.

Limited future speculative stock

Over 60,000 sq m of new supply is currently under construction over three developments and expected to reach completion over the next 24 months. Whilst primarily all pre-committed to Government tenants, developments include; Bld 1 Constitution Place (20,000 sq m-Mid 2020), Bld 2 Constitution Place (12,000 sq m- early 2020 -100% pre-committed), 13-15 Challis Street, Dickson (13,000 sq m-early 2020). Additionally Civic Quarter (16,000 sq m) is being constructed as a speculative development.

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

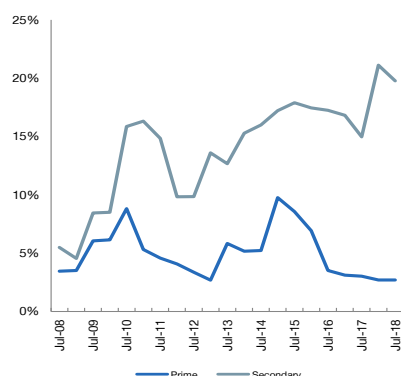


Limited demand from Government tenants impacts absorption

The lack of demand from large Government Departments in conjunction with tenant contraction, of note being Airservices Australia downsizing at 25 Constitution Avenue. This has been the catalyst for the negative absorption of 25,755 sq m recorded in the six months to July 2018 across the total Canberra market.

Split by grade, the prime market remained strong with 6,936 sq m absorbed in the first half of 2018, whilst in the secondary market there was negative absorption of 32,691 sq m driven by the substantial withdrawals at 77 Athllon Drive (33,500 sq m) and 20 Allara Street (11,257 sq m).

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



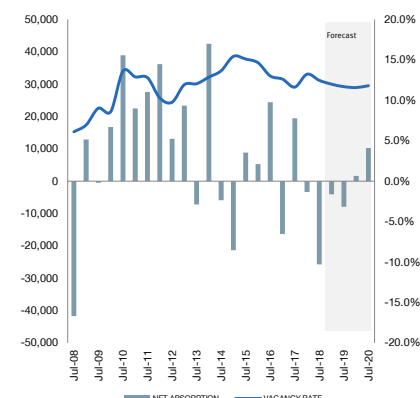
Source: Knight Frank Research/PCA
* incorporates Civic, Parliamentary Precinct & Town Centres

Vacancy remains steady

The overall vacancy rate across the total Canberra market has decreased from 13.2% to 12.5%, largely on the back of record high withdrawals amongst lower grade stock. A-grade vacancy remains tight at 8.5% across the Canberra market, and 3.5% excluding the Airport, with net absorption of 55,016 sq m in the 12 months to July 2018. Conversely, B and C-grade net absorption over the same period equated to -12,768 sq m and -74,637 sq m respectively, highlighting somewhat of a 'two tier' leasing market.

Lower grade stock has demonstrated increased volatility, with vacancies in the parliamentary precinct increasing from 15.8% to 21.9% in the six months to July 2018, while town centre vacancies have decreased from 30.1% to 22.2%

FIGURE 3
Net Absorption and Vacancy



Source: Knight Frank Research

over the same period.

The latter is directly attributable to recent stock withdrawals, most notably 77 Athllon Drive, Greenway.

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 2.6% to \$471/m² (\$398/m² net) in the 12 months to July 2018. The Civic prime market outperformed with gross face rents increasing 3.0% over the year, compared to 2.4% for the Parliamentary precinct.

For the secondary market, gross face rents increased 1.7% in the 12 months to July 2018 (Civic and Parliamentary) to measure \$408/m² (\$328/m² net) as the elevated vacancy rate provided little upward pressure to rents.

Outside the Civic and Parliamentary precincts, rental growth for Canberra's Town Centres has been confined to the prime market with no rental growth recorded in the secondary market. In the 12 months to July 2018, prime gross face rents in the Town Centres measured \$405/m² (2.5% YoY). Incentive levels have remained steady over the past 12 months, averaging 18.7% for prime and 22.0% for secondary across the prime Civic and Parliamentary precincts. Similarly, Town Centre incentives have remained steady in the past 12 months for both prime and secondary recording 24.5% and 29.6% respectively.

TABLE 1
Canberra Office Market Indicators - July 2018

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)	299,888	2.6	5,580	0	476	73	19.5	5.75-6.50
Parliamentary	261,910	0.4	1,489	0	466	74	18	6.50-7.00
Town Centres	251,082	5.2	25,143	30,449	405	65	24.5	7.50-8.00
Other	309,272	23.6	22,804	14,266				
Secondary								
Civic (City)	357,524	17.1	-9,587	-1,622	406	88	24	7.00-8.25
Parliamentary	195,543	21.9	-20,566	-155	410	72	20	7.00-7.50
Town Centres	222,621	22.2	-45,002	-43,733	332	67	30	9.00-10.50
Other	423,562	9.6	-8,968	-10,367				
Total Market	2,321,402	12.5	-29,107	-11,162				

Source: Knight Frank Research/PCA

Parliamentary comprises Barton, Parkes and Forrest office precincts

Other includes remaining PCA sub localities

* Modern upper prime assets with long WALEs trading below this range (sub 6.00%)

Town Centres comprise Phillip, Tuggeranong and Belconnen office precincts

Looking ahead, with a lack of prime space available for lease in the Civic and Parliamentary precincts, gross face rental growth in the order of 2.5% per annum is anticipated over the next two years.

Incentives are forecast to remain steady as owners instead opt to drive face rental growth. Secondary rents are expected to increase by 2.0% per annum over the same period.

Strong interest from institutional investors across the market

Investment activity in Canberra for the 12 months to July 2018 recorded \$357.6 million (\$10 million+). Whilst the previous corresponding period recorded \$735.9 million, which was fueled by the large sale of 50 Marcus Clarke Street (\$321 million).

The first half of 2018 has been subdued with ISPT's acquisition of 6 National Circuit, Barton in February for \$37.5 million, the most notable sale so far this year, while 165 Canberra Avenue, Fyshwick was acquired by an interstate investor in May for \$11.5 million. Additionally CorVal has purchased 40 Cameron Avenue from Stockland in an off market transaction for \$23.9 million on a core market yield of 11.58%.

TABLE 2

Recent Leasing Activity Canberra

Address	NLA (sq m)	Gross Rental (\$/sq m)	Term (yrs)	Tenant	Date
42 Macquarie Street, Barton	312	\$410	5	Uniting Care	Sep -18
54 Marcus Clarke Street, City	241	\$410	5	Mediabrand	Aug-18
110 Giles Street, Kingston	257	\$480	3	Conscia	Aug-18
60 Marcus Clarke Street, City	213	\$430	4	Acacia Projects	Jul-18
20 Brindabella Cct, Airport	483	U/D	7	Shearwater	Jul-18

Source: Knight Frank Research

A number of assets are understood to be in various stages of due diligence, many of which have been the subject of off market offers in an investment market characterised by a lack of opportunities.

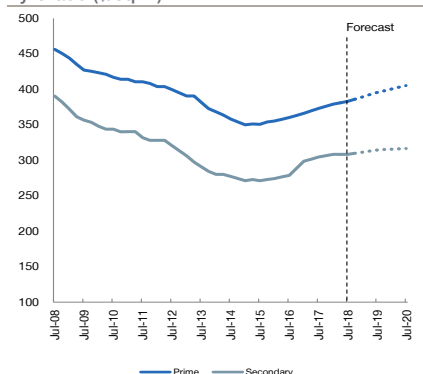
The recent sales of prime investments in 2018 has highlighted the strength of the Canberra investment market and confidence institutional investors have in the market. Institutions and private investors are now looking to Canberra for value-add opportunities in the secondary market rather than just the traditional long WALE Canberra assets.

Across the CBD and Parliamentary precincts yields continue to compress. In the prime market yields have tightened by 50bps over the 12 months to July 2018 to average 6.36%. In the secondary market yields are averaging 7.38%, compressing 45bps over the past 12 months. This has resulted in a yield spread of 102bps as at July 2018. With institutional and private investment expected to continue we anticipate continued yield compression.

FIGURE 4

Civic Gross Effective Rent

By Grade (\$/sq m)

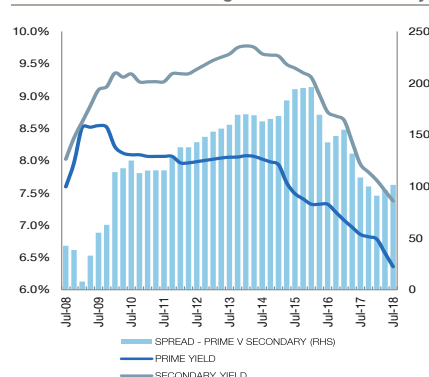


Source: Knight Frank Research

FIGURE 5

Core Market Yields & Spread

Canberra Blended Average – Prime & Secondary



Source: Knight Frank Research

TABLE 3

Recent Sales Activity Canberra

Address	Price (\$ mil)	Core Mkt Yield (%)	NLA (sq m)	\$/sq m NLA	WALE (yrs)	Vendor	Purchaser	Sale Date
40 Cameron Ave, Belconnen	23.9	11.58	14,018	1,705	1.5	Stockland	CorVal	Jul-18
165 Canberra Ave, Fyshwick	11.5	7.12	3,227	3,509	9.1	Private	Private	May-18
6 National Circuit, Barton	37.5	6.53	6,171	6,077	3.9	Doma Group	ISPT	Feb-18
42 Macquarie Street, Barton	15.6	8.45	4,054	3,848	2.6	Aust. Medical Assc.	EG Funds Mgmt	Dec-17

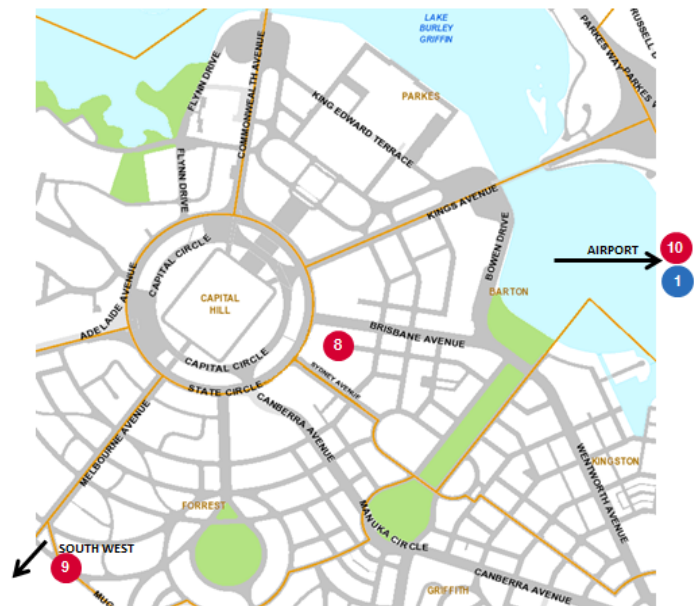
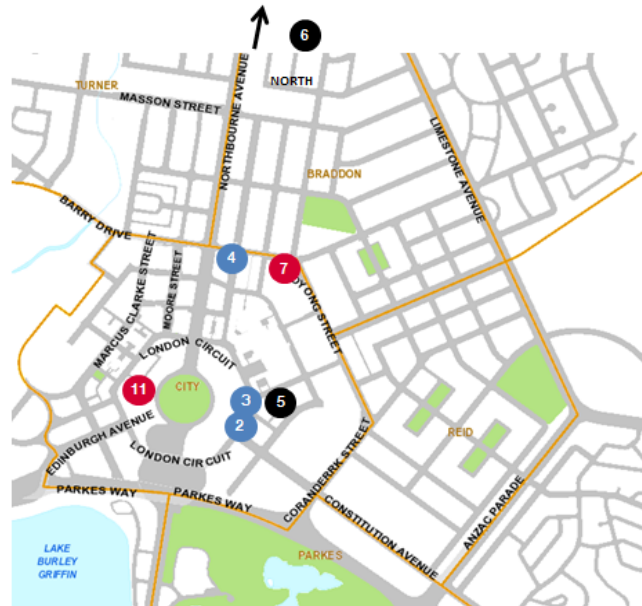
Source: Knight Frank Research

MAJOR OFFICE SUPPLY

- 1 3 Molonglo Drive, Airport - 36,000m² [Dol&BP*]
Capital Property Group - Complete - 100% committed
- 2 Constitution Place[^] (Bld. 2) - 12,000m² ≈
Capital Property Group - H2 2020 - 100% committed
- 3 Consitution Place (Bld. 1)[^] - 20,000m² [ACT Govt]
ACT Govt/Capital Property Group - H1 2020, 100% committed
- 4 Civic Quarter, Northbourne Ave[^] - 15,000m² ≈
Amalgamated Property Group - Q3 2019
- 5 5 Nangari Street, City - 1,600m²
Molonglo Group - 2020+
- 6 13-15 Challis St, Dickson - 13,000m² (MVR site #)
100% committed - 2020+
- 7 Section 96[^] - 37,500m²
QIC - 2020 subject to pre-commitment
- 8 2 Darling Street, Barton - 11,500m²
Doma Group - 2020+
- 9 Section 12 (Block 9 & 10), Greenway - 35,000m²
A&S Haridemos - 2021+
- 10 25 Catalina Drive, Airport - 25,000m²
Capital Property Group - 2020+
- 11 Section 100 - 40,000m²
Morris Property Group 2020+

NB. Dates are Knight Frank Research estimates
Major tenant precommitment in [brackets]
* Dept of Immigration & Border Protection
≈ Speculative development
[^] Civic precinct
Office NLA quoted
Major refurbishment
- Development is of the same size as what it's replacing

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



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

RESEARCH

Ben Burston

Partner, Head of Research and Consulting
+61 2 9036 6756
Ben.Burston@au.knightfrank.com

Marco Mascitelli

Senior Research Analyst
+61 2 9036 6656
Marco.Mascitelli@au.knightfrank.com

OFFICE LEASING

Nicola Cooper

Partner, Head of Office Leasing, ACT
+61 2 6221 7861
Nicola.Cooper@au.knightfrank.com

Daniel McGrath

Director, Commercial Sales &
Office Leasing, Canberra
+61 2 6221 7882
Daniel.McGrath@au.knightfrank.com

CAPITAL MARKETS

Paul Henley

Partner, Head of Commercial Sales
+61 3 9604 4760
Paul.Henley@au.knightfrank.com

VALUATIONS

Steven Flannery

Partner, Head of Valuations, Canberra
+61 2 6221 7881
Steven.Flannery@au.knightfrank.com

Martin Elliott

Partner, Valuations, Canberra
+61 2 6221 7878
Martin.Elliott@au.knightfrank.com

Front cover photo: DSS Building, Soward Way Greenway
* Major Precincts incorporates Civic, Parliamentary Precinct & Town Centres

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



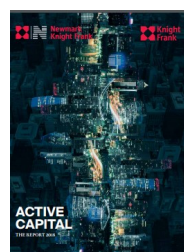
Sydney CBD Office
Market Overview
September 2018



Melbourne CBD Office
Market Overview
September 2018



Student Housing
2018



Active Capital
2018

Knight Frank Research Reports are available at KnightFrank.com.au/Research

Important Notice

© Knight Frank Australia Pty Ltd 2018 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the form and content within which it appears.

