

- *As the only CBD not to see a rise in vacancy, Canberra shows its resilience*
- *Face rents stabilise but secondary incentives could soften in the short-term*
- *Yields still holding below average, reflecting sustained buyer depth*

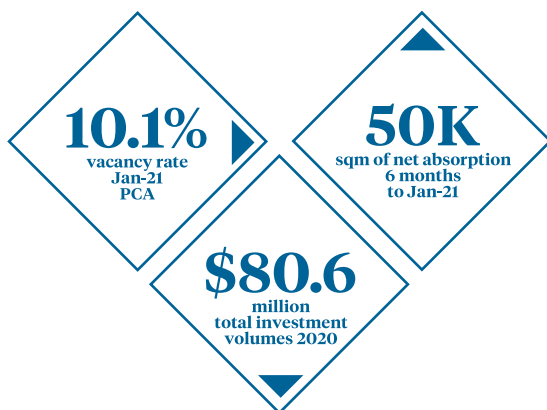
Canberra Office Market

Market Report, March 2021



RESILIENT DEMAND PROFILE REVEALS ITS STRENGTH

Investment volumes fall to a decade low but underlying demand fundamentals behind the leasing market remain positive, supporting a return to growth



“...demand from government has contributed to Canberra’s highest rate of net absorption over a six month period since January 2008.”

The Key Insights

Reflecting its resilience to the effects of the pandemic, Canberra is the only CBD office market in Australia to not record an increase in its vacancy rate during 2020.

Despite an influx of new supply, Canberra recorded its highest rate of net absorption over a six month period since 2008, assisted by government demand for newer office space.

In contrast to Sydney and Melbourne where sublease availability rose substantially during 2020, there has been no material change to sublease vacancy since the onset of the pandemic.

Total investment volumes (\$10m+) declined to \$80.6 million in 2020, reflecting the impact of lockdown measures.

Canberra CBD Office Market Indicators—January 2021

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)	AVERAGE CORE MARKET YIELD %*
A Grade								
Civic (City)	428,930	9.1	25,751	31,685	503	20.3	2.0	~5.80
Parliamentary	283,389	3.0	-1,939	0	482	18.0	0.0	5.70-6.20
Town Centres	258,547	3.0	26,799	17,300	412	25.0	0.0	7.20-7.70
Other	326,252	8.5	13,923	13,200				
Secondary								
Civic (City)	268,840	18.6	-12,015	-10,245	424	27.0	0.0	6.50-7.35
Parliamentary	166,539	6.1	7,036	0	421	22.0	0.0	6.25-6.75
Town Centres	192,739	23.6	23,287	17,801	336	30.0	0.0	9.00-10.50
Other	413,070	11.3	-15,643	-800				
Total Market	2,338,306	10.1	67,199	68,941				

Source: Knight Frank Research/PCA *assuming WALE 5.0 years

Parliamentary comprises Barton, Parkes and Forrest office precincts ; Town Centres comprise Phillip, Tuggeranong and Belconnen office precincts; Other includes remaining PCA sub localities

STRONG UNDERLYING DEMAND FUNDAMENTALS

Only CBD market not to see a rise in vacancy

Canberra is the only CBD office market in Australia to not record an increase in its vacancy rate during 2020. Reflecting its resilience to the effects of the pandemic, the office vacancy rate has held stable at 10.1% in the six months to January 2021. This can be attributed to the Commonwealth Government leasing almost all the new supply that came online during the same period. An earlier easing of Covid-19 restrictions than other states and territories has also helped to keep vacancy rate stable when other markets have experienced an increase.

In contrast to Sydney and Melbourne where sublease availability rose substantially during 2020, there has been no material change to sublease vacancy since the onset of the pandemic.

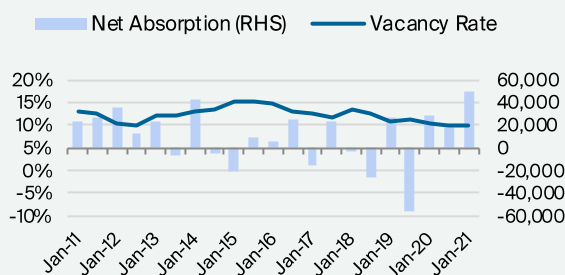
Above-average demand levels underpinned by government demand

Despite an influx of new supply, Canberra was the only CBD market to record higher than average demand with 50,144sqm of positive net absorption over the same period. This is the highest rate of net absorption over a six month period since January 2008. All other capital city CBD markets recorded negative net absorption.

More than 63,000sqm came online in the second half of 2020. Government demand for office space, with specific sustainability targets and building amenities, as well as mandates to consolidate work groups into a single location has contributed to this wave of new supply and above-average absorption rates.

Net Absorption and Vacancy

Per six month period (000', sqm, %)



Source: Knight Frank Research, PCA

New supply helping to revitalise Civic and support future demand

Three new developments reached practical completion at the tail-end of 2020, all of which were fully pre-committed by government and private sector tenants. This includes the Capital Airport Group's Constitution Place two building project and the former Dickson Motor Vehicle Registry site.

Additionally, Challenger's 6 Chan Street (15,801 sq m), which underwent a partial refurbishment, came back online in Q4. It was refurbished as part of the ACT Government's Headquarters Project to consolidate staff from 12 different buildings into four, overall reducing their requirements from 100,317sqm to 85,700sqm by December 2020.

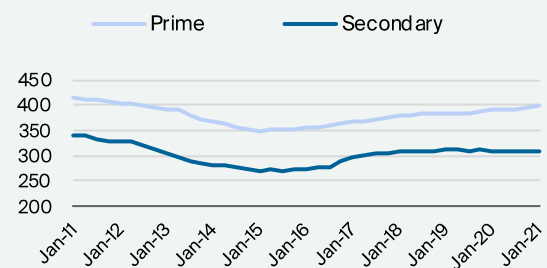
Face rents stabilise but secondary incentives could soften in the short-term

Generally average face rents are holding across most precincts and grades since the onset of the pandemic. While leasing evidence during the Covid-19 period generally suggests incentives have so far remain unchanged, they are expected to soften over the short to medium term, particularly in the secondary market as landlord's seek to maximise occupancy.

Civic and Parliamentary Precinct average prime incentives increased slightly from 18.8% to 19%, with A-Grade rents rising 1.5% YoY to \$492/m² (gross face). Average rents and incentives across all other precincts are unchanged in the 12 months to January 2021.

Civic Gross Effective Rent

By Grade (\$/sqm)



Source: Knight Frank Research

SUSTAINED BUYER DEPTH KEEPS YIELDS STABLE

Investment volumes fall to 10-year low reflecting the impact of lockdown measures

A lack of prime grade investment stock over the last 12 months has seen transaction volumes decline substantially, reflecting the impact of lockdown measures. Hard border closures that were enacted by some states and territories in the second half of 2020 were particularly volatile, impacting short-term investor sentiment and subsequently transactional activity.

Total investment volumes (\$10m+) dropped to \$80.6 million in 2020, less than 10% of the total volume of sales transacted in 2019 (\$761m).

Deals were predominantly exchanged in the first quarter, with no activity in the second half of the year, likely reflective of the lockdown measures.

However, the recent easing of restrictions in most states and territories is now allowing for greater levels of domestic travel between cities and this will assist in improving investor interest to divest or acquire assets in Canberra throughout 2021.

Yields still holding below average, reflecting sustained buyer depth for prime assets

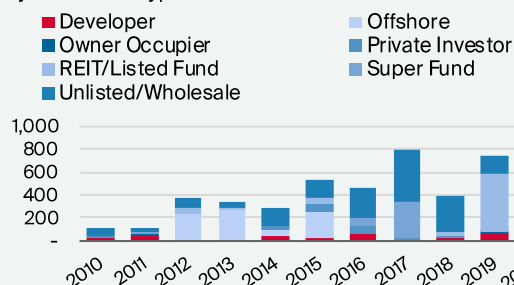
Average prime office yields have remained stable since the onset of the pandemic, with prime yields holding at 5.88% over the 12 months to January 2021.

Prime and secondary yields have traded below their 10 year averages since 2015, which reflects sustained buyer depth for prime assets across the broader Canberra market.

Average A-grade yields in the Civic and Parliamentary Precinct markets stabilised at 5.87% and 5.88% respectively in January 2021. Transactional volumes outside these core markets remains limited and historically shows a risk premium. A-grade Town Centre yields remain steady at 7.4% as at January 2021. Secondary yields in Civic and the Parliamentary Precinct average 6.86% and 6.53% respectively, with no movement in the 12 months to January 2021.

Canberra Sales \$10m+

By Purchaser Type



Source: Knight Frank Research

Recent significant sales

PROPERTY	PRICE \$M	CORE MARKET YIELD %	NLA SQM	\$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
5 Tennant Street, Fyshwick	15.3	7.02	4,127	3,707	6.6	Private Offshore	Reform Development Group	Jul-20
7 National Circuit, Barton	14.5	U/D^	2,073	6,995	N/A	ISPT	National Party	Apr-20
28&32 Corinna Street, Phillip	11.5	10.40	4,770	2,411	N/A-	Local Developer	Private Investor	Feb-20
1 Thynne Street, Bruce	39.3	6.18	5,848	6,720	9.7	KM Property Funds	Private Investor	Feb-20

*passing yield ^Understand site has been purchased for redevelopment purposes. U/D=Undisclosed N/A=Not applicable

Canberra major office supply

ADDRESS	AREA (SQM)	DEVELOPER	MAJOR TENANTS	COMMITMENT LEVEL (%)	STAGE	EST. DATE OF COMPLETION
Civic Quarter, Northbourne Ave[^]	16,000	Amalgamated Property Group	Westpac, St George, Amazon, various corporates		Complete	H1 2020
Constitution Place[^] (Bld 1)	20,179	Capital Property Group	ACT Govt	100%	Complete	H2 2020
Constitution Place[^] (Bld 2)	11,508	Capital Property Group	KPMG, various corporate	100%	Complete	H2 2020
13-15 Challis St, Dickson (DKSN Site)	13,000	Doma Group	ACT Govt	100%	Complete	H2 2020
9-15 Thynne Street, Bruce	2,400	TP Dynamics	AIHW	100%	Under Construction	H1 2021
27 Scherger Drive, Airport	8,200	Canberra Airport Group	Commonwealth TGA	100%	Under Construction	2021
48-56 Allara Street, City (Allara House) *	9,004	SC Capital Partners	ACT Govt	100%	Under Construction	2021
3 Constitution Avenue, City (Nara Centre) *	7,194	SC Capital Partners	ACT Govt	63%	Under Construction	2021
6 Brindabella Drive, Airport	21,000	Capital Property Group	Spec		Under Construction	2021
90 Denison Street, Deakin	8,000	Private	Commonwealth NDIA	80%	Under Construction	2022
Block 1 Section 12 Hibberson Street, Gungahlin	4,471	Krnc Group	Commonwealth DHA	100%	Under Construction	2022
25 Catalina Drive, Airport	25,000	Capital Property Group	Spec		Under Construction	2022
5-11 Constitution Avenue, City (Customs House) *	12,027	SC Capital Partners	Spec		DA Approved	2022
12 Moore Street, City*	7,000	AMP Capital	Spec		DA Approved	2022
Civic Quarter Stage 2	33,000	Amalgamated Property Group	Commonwealth Agriculutre	100%	Under Construction	2023
7 London Circuit, City*	8,500	ISPT	Spec		Early Feasibility	2023
18 Marcus Clarke Street, City*	26,000	ISPT	Spec		Early Feasibility	2024

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

Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	FACE RENT \$/SQM (n)	TERM YRS	START DATE
APPEA	60 Marcus Clarke Street	240	\$430	6	Mar-21
The Hub Australia	68 Northbourne Avenue	1,600	\$585	12	Mar-21
DFK Everalls	224 Bunda Street	614	\$445	7	Jan-21
Dept. of Defence	25 Constitution Avenue	7,200	\$440	5	Sep-20
ACT Corrective Services	2 Constitution Avenue	1,162	\$455	7.5	Jul-20

Pre-commitment ^ Renewal ~Existing space *Sublease 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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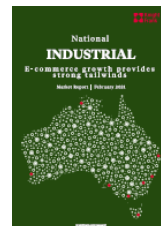
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