

- *A grade vacancy is the lowest of all capital cities*
- *Pipeline is mostly committed, supporting further rental growth*
- *Investor appetite buoys capital flows to a record level as yields compress*

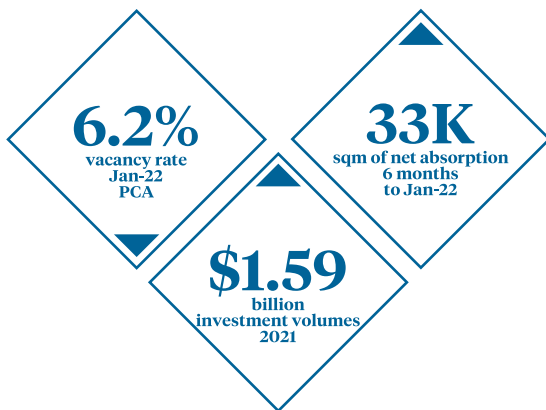
# Canberra Office Market

Market Report, March 2022



# RECORD HIGH INVESTMENT AS TENANT DEMAND FUELS NEW RENTAL GROWTH CYCLE

*Investment volumes climb to a new record high, as Canberra's underlying demand fundamentals position it as Australia's most resilient office market.*



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**“...the occupier market offers long-term growth upside and this will continue to play out with strong capital inflows and further yield compression.”**

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## The Key Insights

Canberra has again shown its resilience with its vacancy rate dropping to 6.2% in January 2022, half the national average and the lowest vacancy rate of the eastern seaboard cities.

There have been substantial rental gains over the last year, with Civic and Parliamentary gross face rents rising on average 4.3% year-on-year (y/y).

Total investment volumes (\$10m+) in 2021 have reached a record high of \$1.59 billion, with competition for assets resulting in sharp yield compression.

Average A grade yields in the Civic and Parliamentary precincts compressed 55bps over the 12 months to January 2022, reflecting sustained buyer depth for prime assets.

## Canberra CBD Office Market Indicators—January 2022

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)	437,975	2.7	36,458	9,045	524	22.0	+1.9	5.15-5.55
Parliamentary	283,389	2.0	2,874	0	504	20.0	+1.8	5.20-5.60
Town Centres	258,547	3.2	-615	0	428	26.8	+0.7	6.65-7.15
Other	328,652	1.9	23,985	2,400				
<b>Secondary</b>								
Civic (City)	240,280	12.2	-8,042	-28,560	439	26.7	+3.4	6.00-6.90
Parliamentary	166,539	3.8	3,858	0	437	25.0	-0.2	5.80-6.30
Town Centres	188,798	17.8	7,809	-3,941	347	29.6	+3.2	7.05-7.90
Other	408,070	10.2	241	-4,500				
<b>Total Market</b>	<b>2,312,250</b>	<b>6.2</b>	<b>66,568</b>	<b>-25,556</b>				

Source: Knight Frank Research/PCA \*assumes WALE 5.0 years, mid-rise full floor tenancy for A Grade, 3-5 Year WALE for Secondary \*\*Bassumes 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

# SUSTAINED DEMAND SEES VACANCY TIGHTEN

## Canberra vacancy rate declines again, despite the looming election

Canberra’s office vacancy rate has declined yet again, dropping from 7.7% in July 2021 to 6.2% in January 2022. This is half the national average and the lowest of the eastern seaboard cities. It is also the lowest vacancy rate recorded in Canberra since July 2008.

Of note is the decline in secondary vacancy, which after stagnating around 15-17% for some years has dropped to 11.1%, its lowest level since 2013. 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.

## A grade vacancy in Canberra is the lowest of all capital cities

Demand for prime quality floor space remains very strong, with A Grade vacancy now at 2.4%, down from 3.5% in July 2022, well below its 10-year average of 9.6% and the national average of 11.6%. The result confirmed that Canberra has sustained its position as the most resilient office market in Australia over the last two years, with its government employment base and rising demand from the private sector driving a consistently strong absorption rate of c.65,000 sqm annually over the same period.

With the federal election needing to be held by 21 May 2022, the government’s ‘caretaker period’ is nigh. While this will slow down the churn of existing space in the near term, with vacancy already at low levels, the impact is expected to be minimal with private sector demand likely to fill the gap in

the short-term by absorbing the majority of the uncommitted refurbished or new supply due to come online in 2022.

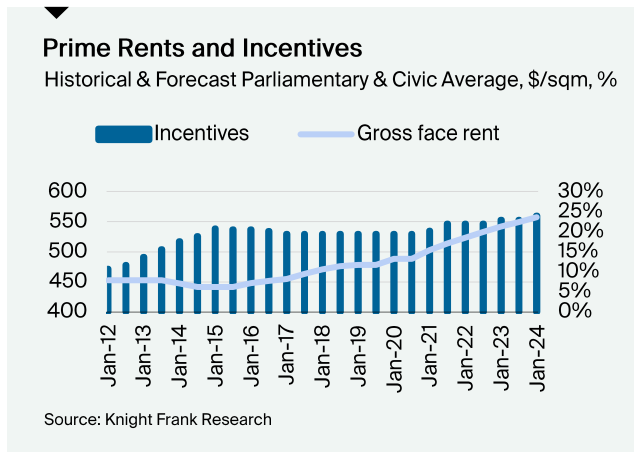
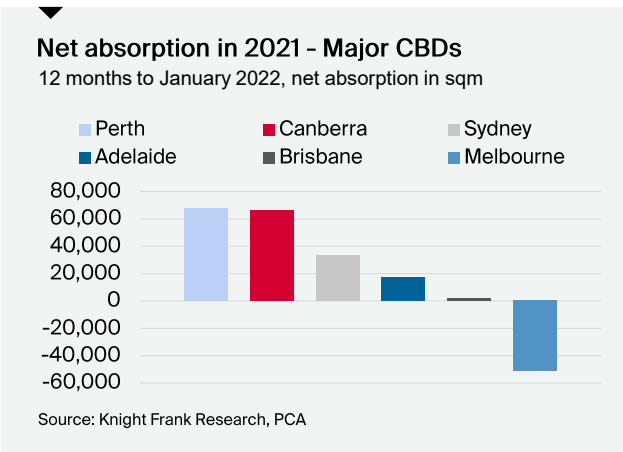
## Pipeline of new supply is mostly committed, supporting further rental growth

New development completions (including refurbishments) are forecast to reach c.117,527 sqm in 2022. While this is a substantial injection of new office space to Canberra’s office market, it is understood that more than 70% of this is already pre-committed to Commonwealth Government agencies, including Civic Quarter Stage 2 (33,000 sqm), 27 Scherger Drive (8,200 sqm) and 35 Hibberson Street (4,263 sqm).

## Supply-led growth underpinned by demand for A grade space and its limited availability

There have been substantial rental gains over the last year, with Civic and Parliamentary gross face rents rising on average 4.3% y/y, with heightened demand for A Grade space and the introduction of new supply, helping to rebase rents. In q/q terms, Civic and Parliamentary A grade gross face rents increased 1.9% and 1.4% to average \$524/sqm and \$504/sqm in January 2022. Secondary Civic and Parliamentary gross face rents increased to \$439/sqm and \$437/sqm respectively, averaging growth of 0.3% and 1.2% q/q.

With an election looming, the depth of evidence for larger deals has declined, with smaller spec suite transactions dominating the majority of activity recently. However, there is still some opportunity for face rental growth in the second half of 2022, driven by the sustained demand for A Grade space and limited availability in new supply due to high pre-commitment rates. Limited movement in incentives is expected over the same period.

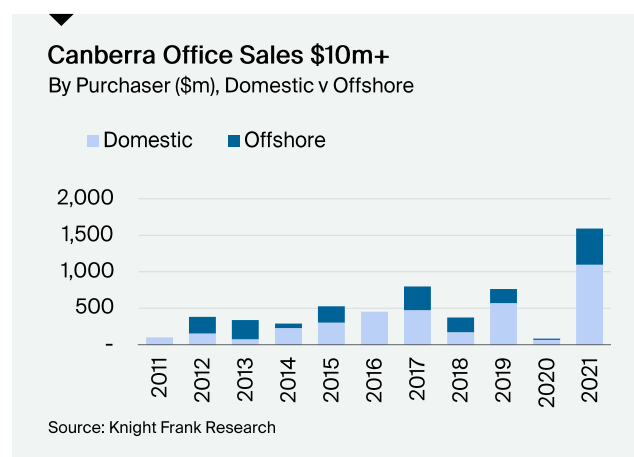


# INVESTORS TURN TO CANBERRA

## Investor appetite for Canberra buoys capital flows to a record level as yields compress

The record run of deals has continued through the year, with transaction volumes (\$10m+) for 2021 ending on a \$1.59 billion dollar high. This is the highest level of capital flows recorded in Canberra, up from the \$80.6 million in 2020 and triple the historical annual average of c.\$500 million.

The sweet spot remains in the \$50 to \$100 million price bracket, with the strength of covenant driving competition and sharp yield compression on A Grade assets. That said, there have been some opportunistic acquisitions of assets with shorter WALE profiles from domestic unlisted/wholesale capital and privates fuelled by the strength in the leasing market. Given the strong interest in the sale of 50 Marcus Clarke, which eventually sold to GIC and Charter Hall for \$335 million on a core market yield of 5.30% (despite the leasing retention risk), there is evidence of a large amount of capital waiting to be deployed which will keep investment activity elevated through 2022.

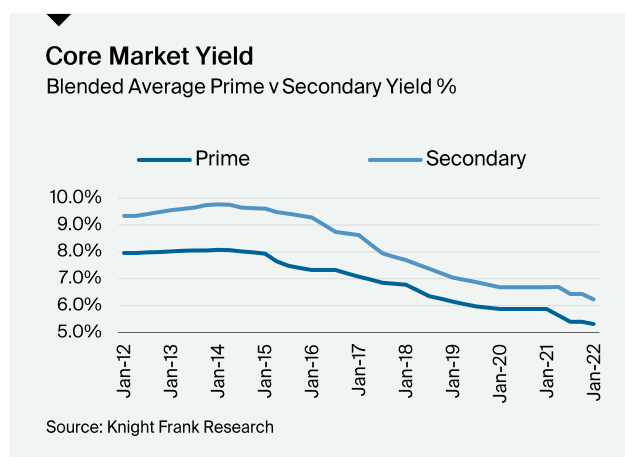


## Yield compression reflects buyer depth for all available options as it outperforms other capitals

With a noticeable upward trend in rental levels during 2021 and strengthening safe haven status as the nation's capital with attractive income streams from long-term government tenancies, yield compression has accelerated. Average A Grade yields have compressed on average 55bps y/y, to average 5.32% in Civic and Parliamentary, and to 6.9% in Town Centres, making the Canberra office market a leading performer in terms of yield compression nationally.

## Investor demand will prompt further yield compression after election

Canberra will remain high on the radar for a broadening group of investors. With office returns currently outperforming other major CBDs and low vacancy helping to sustain rental growth, the occupier market offers long-term growth upside and this will continue to play out with strong capital inflows and further yield compression.



## Recent significant sales

PROPERTY	PRICE \$M	CORE MARKET YIELD %	NLA SQM	\$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
<b>40 Bunda Street, Canberra Civic</b>	76.0	5.07	8,074	9,413	7.9	Charter Hall	Canberra Theatres Limited	Dec-21
<b>2-6 Bowes Street, Phillip</b>	84.6	5.27	12,376	6,832	9.3	Growthpoint Properties Aust	Altis Property	Dec-21
<b>24 Wormald Street, Symonston</b>	36.0	5.64	4,720	7,627	6.8	Charter Hall	Irongate	Nov-21
<b>West Block, 21 Queen Victoria Terrace, Parkes</b>	24.5	5.50	3,054	8,082	VP#	Oceania Property Group	Geocon	Nov-21
<b>50 Marcus Clarke Street, Canberra Civic</b>	335.0	5.30	40,201	8,333	3.7	GIC JV Charter Hall	Mirae Asset Global Investments	Sep-21

Source: Knight Frank Research #sold with vacant possession



## Canberra major office supply

ADDRESS	AREA (SQM)	DEVELOPER	MAJOR TENANTS	COMMITMENT LEVEL (%)	STAGE	EST. DATE OF COMPLETION
<b>12 Moore Street, City#</b>	7,000	AMP Capital	Spec / Commonwealth	30%	Complete	H2 2021
<b>48-56 Allara Street, City (Allara House) #</b>	9,004	SC Capital Partners	ACT Govt	100%	Complete	H2 2021
<b>3 Constitution Avenue, City (Nara Centre) #</b>	7,124	SC Capital Partners	ACT Govt	63%	Complete	H1 2022
<b>35 Hibberson Street, Gungahlin</b>	4,263	Krnc Group	Commonwealth DHA	100%	Complete	H1 2022
<b>6 Brindabella Drive, Airport</b>	20,296	Capital Property Group	Spec		Under Construction	H1 2022
<b>27 Scherger Drive, Airport</b>	8,500	Canberra Airport Group	Commonwealth TGA	100%	Under Construction	H1 2022
<b>90 Denison Street, Deakin</b>	8,000	Private	Commonwealth NDIA	80%	Under Construction	H2 2022
<b>25 Catalina Drive, Airport</b>	25,000	Capital Property Group	Spec		Under Construction	H2 2022
<b>5-11 Constitution Avenue, City (Customs House) #</b>	12,144	SC Capital Partners	Spec		Under Construction	H2 2022
<b>Civic Quarter Stage 2</b>	33,000	Amalgamated Property Group	Commonwealth Agriculture	100%	Under Construction	H2 2022
<b>2 Faulding Street, Symonston #</b>	6,000	Evri Group			Under Construction	H1 2023
<b>23 National Circuit, Barton #</b>	4,610	Doma Group	Doma Group		Under Construction	H1 2023
<b>Blocks 10&amp;11, Section 100</b>	38,000	Morris Property Group	Spec		Early Feasibility	H2 2023
<b>7 London Circuit, City#</b>	8,500	ISPT	Spec		Early Feasibility	H2 2023
<b>19 National Circuit, City</b>	18,128	Cromwell Corporation			Under Construction	H2 2024
<b>18 Marcus Clarke Street, City#</b>	26,000	ISPT	Spec		Under Construction	H2 2024
<b>50 Kent Street, Deakin #</b>	8,500				Early Feasibility	H2 2024

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

## Recent tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	FACE RENT \$/SQM (g)	TERM YRS	START DATE
<b>Infradebt</b>	64 Northbourne Avenue, Civic	163	430	5	Mar-22
<b>CPSU</b>	224 Bunda Street, Civic	584	430	5	Jan-22
<b>Konica Minolta</b>	42 Macquarie Street, Barton	329	430	5	Dec-21
<b>Australian Unity</b>	120 Giles Street, Kingston	366	500	7	Nov-21
<b>Australian Computer Society</b>	64 Northbourne Avenue, Civic	240	430	5	Nov-21
<b>FECCA</b>	54 Marcus Clarke Street, Civic	322	440	6	Oct-21

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.**



**Research**  
Katy Dean  
+61 2 9036 6612  
Katy.Dean@au.knightfrank.com



**Office Leasing**  
Daniel McGrath  
+61 2 6221 7882  
Daniel.McGrath@au.knightfrank.com



**Valuations**  
Martin Elliott  
+61 2 6221 7878  
Martin.Elliott@au.knightfrank.com



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



**Office Leasing**  
Nicola Cooper  
+61 2 6221 7861  
Nicola.Cooper@au.knightfrank.com



**Capital Markets**  
Sean North  
+61 2 6221 7868  
Sean.North@au.knightfrank.com



**Research**  
Ben Burston  
+61 2 9036 6756  
Ben.Burston@au.knightfrank.com

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