

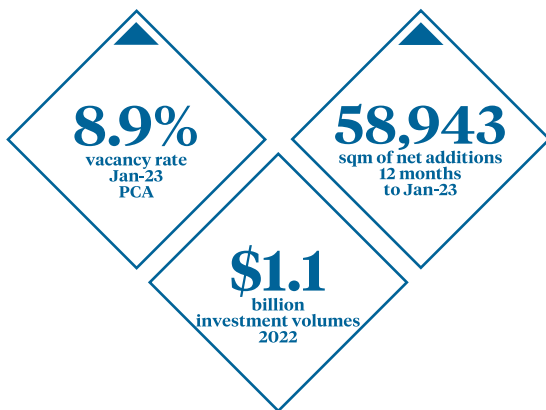
- *Lowest vacancy of the major capital cities*
- *Large pipeline of new developments*
- *Rental growth continues*

Canberra Office Market

Market Report, March 2023



NEW DEVELOPMENTS INJECT FRESH WAVE OF SUPPLY



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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

New supply has edged Canberra's vacancy rate to 8.9% as at January 2023, although still remaining the lowest amongst the eastern seaboard capital cities.

Rental growth in Canberra continues with Civic and Parliamentary precinct A grade net face rents have having increased by 4.7% y/y to measure \$443/sqm

Investors were active in 2022 with \$1.1 billion in transactions across the office market.

Average A grade yields in the Civic and Parliamentary precincts have softened by 78bps over the 12 months to January 2023 on the back of higher funding costs. Further softening of yields is anticipated.

Canberra CBD Office Market Indicators—January 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 %##
A Grade								
Civic (City)	448,849	7.0	-8,750	10,874	546	27.0	+4.2	6.00-6.50
Parliamentary	283,389	1.4	1,739	0	536	26.0	+4.9	6.00-6.50
Town Centres	258,547	6.6	-8,873	0	439	28.0	+2.6	7.50-8.00
Other	384,978	12.6	14,029	56,326				
Secondary								
Civic (City)	241,480	9.6	9,011	1,200	453	29.0%	-0.4	7.00-7.50
Parliamentary	164,444	4.2	-2,623	-2,095	457	29.0%	+2.4	7.25-7.75
Town Centres	188,798	18.8	-1,763	0	355	30.0%	+1.1	8.00-9.00
Other	400,708	11.0	-9,774	-7,362				
Total Market	2,371,193	8.9	-7,004	58,943				

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

STEADY DEMAND

Canberra vacancy remains lowest of eastern seaboard capital cities

Canberra’s office vacancy rate edged slightly higher over the last six months to measure 8.9% as at January-23, up from 8.6% six months prior. Despite the rise in vacancy it is still below its 10 year average of 11.6% and the lowest of the major capital cities.

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.

Largest annual influx of new supply in a decade, edges prime vacancy higher

2022 saw the largest injection of supply into the Canberra market in more than a decade with 113,467sqm added to the market in the 12 months to January 2023. With over 95% being prime stock, this has been the catalyst for the slight rise in A grade vacancy to 7.3%, up from 6.6% over the second half of 2022.

The catalyst for the rise has been the airport precinct on the back of new speculative developments at 6 Brindabella Circuit and 25 Catalina Drive, this has driven vacancy to 16.9% in the airport precinct. Prime space in Barton is still non-existent, whilst in the Civic precinct prime vacancy has increased to 7%.

Large pipeline of new developments

New development completions (including refurbis) totalled 48,724sqm for the six months to January 2023, this follows the 64,743sqm of new supply added in the first half of 2022. The largest and only new development to enter the market was Civic Quarter Stage 2 (33,000sqm), completed at the end of the year and 100% committed. In terms of refurbishments they include 26 Brisbane Avenue (2,745sqm), 5 Constitution Avenue (11,741sqm) and 9 Gordon Street (1,200sqm).

Over the next 18 months, new developments expected to be delivered include; 90 Denison Street, Deakin (7,000sqm), 9-11 Molonglo Drive (19,463sqm) and Morris Property Group’s, One City Hill spec development (34,086sqm). Additionally, QIC’s development; Section 96 (c37,000sqm) is anticipated to be delivered by 2026.

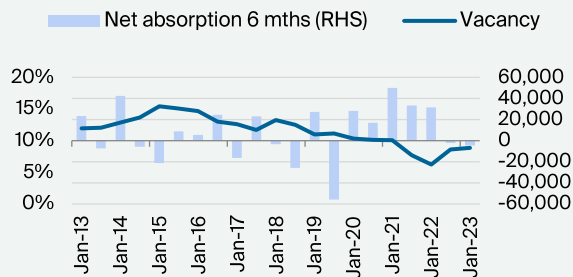
Positive face rental growth

Rental growth in Canberra continues with Civic and Parliamentary precinct A grade net face rents having increased by 4.7% over the last 12 months to measure \$443/sqm (\$541/sqm gross) as at January 2023. Similarly, secondary rents have increased by 2.7% to measure \$353/sqm (\$455/sqm gross face).

Civic and Parliamentary precinct average prime incentives remain at all time highs measuring 26%, having remained steady since the beginning of the year. This has resulted in net effective rental growth of 3.6% over the year to measure \$299/sqm. With a steady pipeline of new development stock there is scope for incentives to rise slightly further as landlords look to attract new tenants and seek pre-commitments.

Net absorption and vacancy

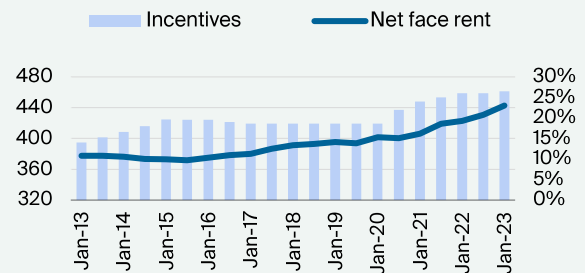
Per six month period (sqm, %)



Source: Knight Frank Research, PCA

Prime net face rents and incentives

Parliamentary & Civic average, \$/sqm, %



Source: Knight Frank Research

STEADY INVESTOR ACTIVITY

Investors were active in 2022 with \$1.1 billion in transactions across the office market

Following record high transaction activity in 2021 of \$1.6 billion, sales volumes remained well above the long run average with \$1.1 billion in transactions across 8 assets (\$10m+) for 2022. Investors sought after Canberra assets given its blue chip tenant profile and competitive yield advantage against Eastern Seaboard capital cities.

Charter Hall acquired Geoscience HQ from Real I.S. for \$363.5million in H2 2022, representing a record commercial property transaction in Canberra. With the Commonwealth agency—Geoscience Australia as the sole tenant for the facility, the sale reflected a 5.13% core market yield with 9.9-year WALE. Furthermore, Charter Hall purchased 21 Genge Street occupied by the Australian Tax Office and the Department of Veteran Affairs for \$290million on a 5.1 year WALE. Investa added 220 London Circuit (Constitution Place) to its commercial fund portfolio for \$272.48 million, which is leased to the ACT government with an 17 year WALE.

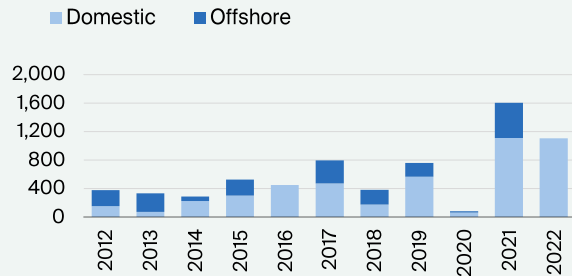
Impacted by higher funding costs, yields continue to soften

The impact of higher funding costs on pricing is starting to become apparent coupled with inflationary pressures and further expected rate rises, which have seen yields soften further. Over the course of 2022, the average prime office yield softened by 78bps to 6.1% whilst the secondary assets increased by 105bps to 7.3%.

Average prime yields in the Civic and Parliamentary precinct have softened by 78 basis points to 6.1%, whilst secondary yields experienced further softening of 105bps to average 7.3% in the 12 months to January 2023. This has been a similar story in town centres with A grade yields softening by 87bps to now average 7.7%. Further softening of yields is anticipated throughout the year as the impact of higher funding costs filters through the market.

Canberra office sales \$10m+

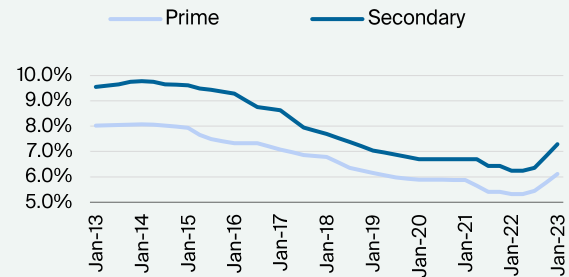
By purchaser (\$m), domestic v offshore



Source: Knight Frank Research

Core market yield

Prime v Secondary, blended average yield (%)



Source: Knight Frank Research

Recent significant sales

PROPERTY	PRICE \$M	CORE MARKET YIELD %	NLA SQM	\$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
21 Genge Street, Canberra Civic	290.0	7.34	43,256	6,704	5.1	Charter Hall	Real I.S. Australia	Sep-22
220 London Circuit, Canberra Civic	272.48	4.25	22,309	12,214	16.8	ICPF*	Capital Property Group	Aug-22
101 Jerrabomberra Ave, Symonston	363.5	5.13	32,659	11,130	9.9	Charter Hall	Real I.S. Australia	Jul-22
33 Allara Street, Canberra Civic	71.25	5.70	9,747	7,310	4.6	City of Brisbane#	Molonglo Group	Mar-22

Source: Knight Frank Research * Investa Commercial Property Fund #City of Brisbane Investment Corporation

Canberra major office supply

ADDRESS	AREA (SQM)	DEVELOPER	MAJOR TENANTS	COMMITMENT LEVEL (%)	STAGE	EST. DATE OF COMPLETION
5-11 Constitution Avenue, City (Customs House) #	12,144	SC Capital Partners	Spec		Complete	H2 2022
Civic Quarter Stage 2	33,000	Amalgamated Property Group	Commonwealth Agriculture	100%	Complete	H2 2022
90 Denison Street, Deakin	8,000	Private	Commonwealth NDIA	80%	Under Construction	H1 2023
2 Faulding Street, Symonston	6,000	Evri Group	Spec		Under Construction	H2 2023
Blocks 10&11, Section 100	34,234	Morris Property Group	Spec		Under Construction	H2 2023
9-11 Molonglo Drive, Airport	19,463	Capital Airport Group			Under Construction	H2 2023
7 London Circuit, City*	10,591	ISPT	Spec		Under Construction	H2 2023
18 Marcus Clarke Street, City*	26,000	ISPT	Spec	25%	Under Construction	H2 2023
1 Taubman Street, Symonston	3,402	Nikias Diamond	Spec		Site works	H2 2023
19 National Circuit, City	18,128	Cromwell Corporation			Site works	H2 2024
23 National Circuit, Barton	4,610	Doma Group	Doma Group		DA Approved	H1 2025
50 Kent Street, Deakin	8,500	Evri Group	Spec		DA Approved	H2 2024
Section 96	34,000	QIC			DA Approved	2026
Cnr Northbourne & London Circuit	70,000	Walker Corp/DEWR		100%	DA Lodged	2026
8 Petrie Plaza	9,000	NDH	Spec		DA Lodged	2026
175-179 London Circuit	3,730	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
Kinsella	26 Brisbane Avenue, Barton	290	510	8	May-23
Gosource	15 London Circuit, Civic	431	470	7	Mar-23
CTO Group	26 Brisbane Avenue, Barton	282	515	7	Dec-22
Sparke Helmore	224 Bunda Street, Civic	980	450	8	Dec-22
Tencent	60 Marcus Clarke Street, Civic	425	450	3	Nov-22
Omnia Inclusive Employment Solutions	64 Northbourne Avenue, Civic	227	450	3	Nov-22

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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