

Canberra Office Market



March 2024

Steady rental growth supported by sustained demand from public administration occupiers and small private sector tenants

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Key Insights

Sustained demand from public and private sector occupiers, keeping vacancy rate lowest amongst capital cities



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 **8.3%**

Fall in overall vacancy y/y

Lowest vacancy rate amongst all capital cities

 **0.5%**

A Grade vacancy in Barton

Barton precinct remains tightly held with only 0.5% vacancy

 **26k**


Sqm of withdrawals

Stock withdrawn over 2023 for conversion to alternative uses

 **-86bps**

Yield softening y/y

A grade yields in Civic and Parliamentary precinct soften 86bps to average 7%

 **1.7%**

Annual rental growth

Prime net face rents average \$446/sqm in the civic precinct, an increase of 1.7% y/y

 **\$90m**

2023 transaction volumes

Transactional activity at its lowest level in over a decade for 2023

Canberra Office Market Indicators – January 2024

Grade	Total Stock sqm	Vacancy Rate %	Annual Net Absorption sqm	Annual Net Additions sqm	Average Gross Face Rent \$/sqm	Average Incentive %	Effective Rent Gth % y/y	Core Market Yield %*
A Grade								
Civic (City)	451,849	7.9	-1,443	0	560	114	27.0%	6.75-7.25
Parliamentary	283,389	1.7	-871	0	552	100	26.0%	6.75-7.25
Town Centers	258,547	6.6	29	0	450	84	28.4%	8.50-9.00
Other	397,372	11.2	16,377	0				
Secondary								
Civic (City)	240,800	9.1	727	-680	463	109	29.3%	8.25-8.75
Parliamentary	164,444	3.5	1,078	0	466	107	29.0%	8.00-8.50
Town Centers	181,985	20.7	-9,129	0	366	85	30.5%	9.50-10.00
Other	381,583	7.5	-3,638	-12,726				
Total Market	2,359,969	8.3	3,130	-13,406				

Source: Knight Frank Research/PCA * assuming WALE 5 years

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

Lowest vacancy amongst capital cities

VACANCY TRENDING BELOW 10 YEAR AVERAGE

Canberra's office vacancy rate dropped slightly over the year to measure 8.3% as at Jan-24, down from 8.9%, this was driven by positive net absorption of 3,130sqm over the last 12 months. Overall vacancy is still below its 10 year average of 11.2% and the lowest of the major capital cities. Prime space in Barton is near non-existent, whilst in the Civic precinct prime vacancy is 7.9%.

Of note is secondary vacancy, which has dropped to its lowest level in a decade to 9.7%. While the competitive tension in A Grade stock has been due to the sustained 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.

STEADY DEVELOPMENT PIPELINE

Following a decade high of development activity in 2022 which saw 113,467sqm added to the market, activity was subdued in 2023 with no new supply added in the second half of the year. On the other hand, withdrawals over the second half of the year totalled 13,406sqm, all of which have been permanently withdrawn for conversions to student accommodation, self-storage or retail.

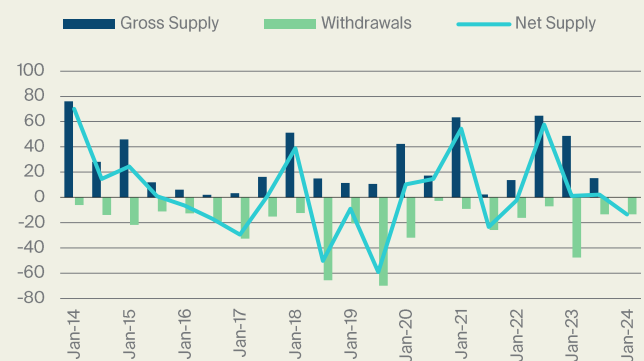
Over the next two years, new supply of c73,000sqm is forecast for delivery. Developments expected to be delivered include; 9-11 Molonglo Drive (19,333sqm), 23 National Circuit (4,500sqm), 19 National Circuit (18,128sqm) and 2 Faulding Street (6,600sqm). Additionally, DOMA Group development; 15 Sydney Avenue Barton (37,000sqm) is anticipated to be delivered by the end of 2026. With new stock to be delivered in the Civic and Barton precincts this will provide occupiers opportunity for prime office space in precincts that have historically had limited availability.

POSITIVE RENTAL GROWTH

Canberra continues its steady rental growth supported by sustained demand from public administration occupiers and small private sector tenants. In the Civic and Parliamentary precinct, prime net face rents have increased by 1.5% to measure \$449/sqm (\$556/sqm gross) over the last 12 months to January 2024. Similarly, 1.1% y/y net face rental growth has been reported in the secondary market, with net face rents averaging \$356/sqm (\$464/sqm gross). Average prime incentives in the Civic and Parliamentary precinct remain at all-time highs, measuring 26.5%. As a result, the prime net effective rents have increased by only 0.9% to \$302/sqm. Incentives are anticipated to remain at current levels for the medium term.

Canberra office supply and withdrawals

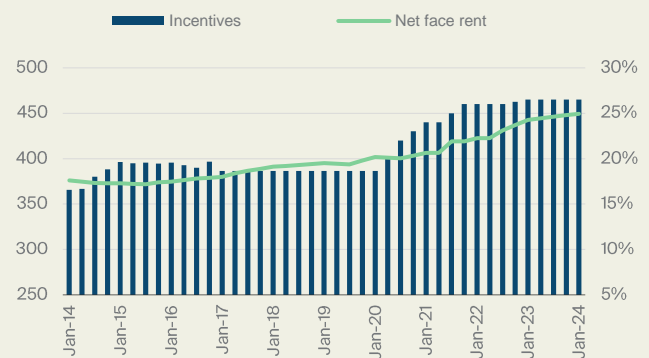
Per six month period ('000 sqm)



Source: Knight Frank Research, PCA

Prime office net face rents and incentives

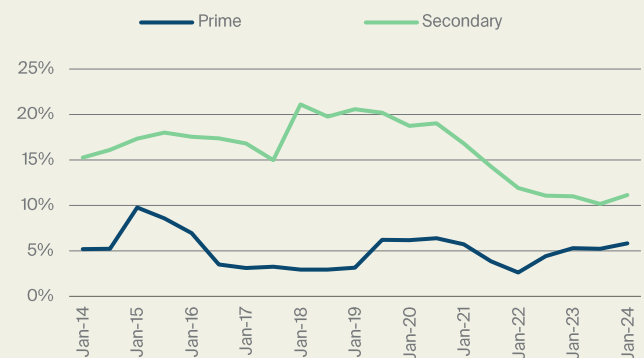
Parliamentary & civic average, \$/sqm, %



Source: Knight Frank Research

Canberra office vacancy major precincts*

Per six month period (%), by grade



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

Transactional activity lowest in over a decade

SUBDUED INVESTMENT ACTIVITY IN 2023

Investment activity totalled 90.4 million in 2023 across only three transactions. In the second half of 2023, Arcana Capital acquired Capital Centre at 2-6 Shea St, Phillip for \$17.4 million on a core market yield of 7.4%. The sale represents a one million loss for the vendor who previously acquired the property in 2021.

In addition, Dexus offloaded its recently renovated building at 12 Moore St, Civic to Marprop for \$50 million in late 2023 on a core market yield of 8.7%, the sale price was a 9% discount to its September valuation. It is worth noting that the purchaser, Marprop, also owns the adjacent office building – 14 Moore St, Civic and the diagonal building – 17 Moore St, Civic.

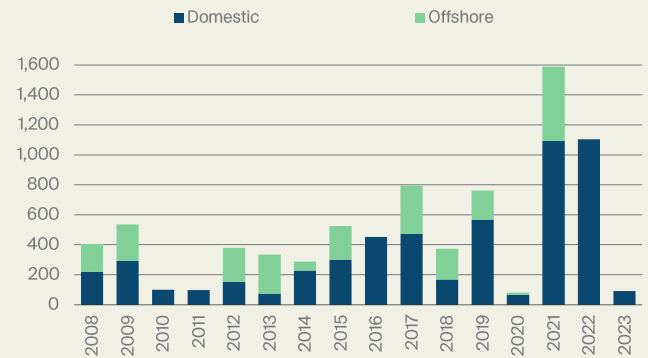
DECLINING CAPITAL VALUES

The average prime office yield in the Civic and Parliamentary precincts ended the year at 7.0%, representing an 86bps yield softening over the 12 months to January 2024. Secondary yields in the Civic and Parliamentary precinct softened 111 bps over the same period to 8.4%. Since mid 2022 yields have now softened by 150bps in the prime market and 200bps in the secondary market, whilst in town centers yields have also expanded by 200bps. The positive rental growth has had little effect on capital values, with values having declined by nearly 20% since mid-2022.

The onset of the new year has seen a shift in tone and sentiment following consecutive quarterly declines in the inflation rate and a clearer economic outlook with markets factoring in the potential for rate cuts later this year. It remains to be seen whether these expectations will be met, but the debate provides a much more supportive backdrop for property than a year ago.

Canberra office sales \$10m+

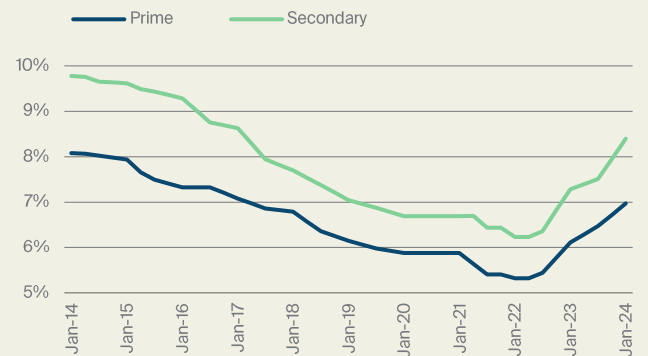
By purchaser (\$m), domestic v offshore



Source: Knight Frank Research

Canberra office 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
12 Moore St, Civic	50.0	8.7	11,929	4,192	3.7	Marprop Pty Ltd	Dexus	Dec-23
2-6 Shea St, Phillip	17.4	7.4	4,137	4,206	2.8	Arcana Capital	Bremont Group	Jun-23
54 Marcus Clarke St, Civic	23.0	7.6	4,435	5,186	2.7	Evri Group	Centuria Property Funds	Jun-23

Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Face Rent \$/sqm	Incentive %	Term yrs	Start Date
GRDC~	4 National Circuit	Barton	1,000	480	28	10	Aug-24
AMSA~	7 London Circuit	City	6,500	540	30	12	May-24
CASA~	7 London Circuit	City	8,500	540	30	12	Jan-24
Ricoh~	26 Brisbane Avenue	Barton	217	550 (g)	7	5	Jan-24
Diplomatic Mission of Oman~	26 Brisbane Avenue	Barton	530	510 (g)	25	5	Nov-23
Fujifilm Business Innovation~	40 Macquarie Street	Barton	203	460 (g)	8	2	Jul-23

~ Direct (g) gross face
Source: Knight Frank Research

Canberra major office supply

Property	Area (sqm)	Developer	Major tenants	Commitment levels (%)	Stage	Timing
7 London Circuit, City #	8,500	ISPT	Spec		Under Construction	H1 2024
18 Marcus Clarke Street, City #	13,500	ISPT	Spec	25%	Under Construction	H1 2024
2 Faulding Street, Symonston	6,000	Evri Group	Spec		Under Construction	H1 2024
1 Taubman Street, Symonston	3,402	Nikias Diamond	Spec		Under Construction	H2 2024
9-11 Molonglo Drive, Airport	19,463	Capital Airport Group			Under Construction	H1 2025
23 National Circuit, Barton	4,610	Doma Group	Doma Group		Under Construction	H1 2025
19 National Circuit, City	18,128	Cromwell Corporation			Under Construction	H2 2025
Blocks 10&11, Section 100, City	34,234	Morris Property Group	Spec		Under Construction	H1 2026
15 Sydney Avenue, Barton	37,000	Doma / Kenyon Investments	Commonwealth ATO	100%	Under Construction	H2 2026
50 Kent Street, Deakin	8,500	Evri Group	Spec		DA Approved	H1 2027
Section 96, City	34,000	QIC			DA Approved	H2 2028

Refurbishment
Source: Knight Frank Research

Barton precinct snapshot

OFFICE DEMAND IN CANBERRA STRONGEST IN THE COUNTRY SINCE 2020

Canberra has seen the strongest level of demand for office space since the start of 2020 among the major Australian office markets. Net absorption has totalled just over 128,000 sqm during this period, equivalent to 5.5% of total office stock.

Canberra's vacancy rate is currently 8.3%, well below its 10 year average and the lowest among the major CBD markets. The prime market is relatively tightly held, with the A-grade vacancy rate significantly lower than all other capital cities.

A GRADE OFFICE SPACE IN BARTON NEAR NON EXISTENT AND LIKELY TO REMAIN THIS WAY

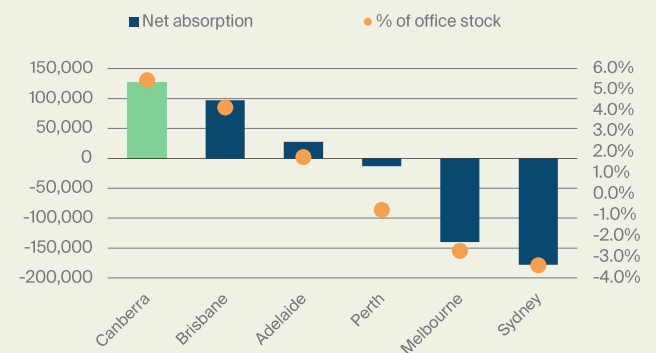
In particular, the Barton precinct within Canberra currently has limited A grade office space available and has experienced this for the last six years. Given its central location and amenity within the heart of the Canberra it has continued to be highly sought after by both the public and private sector. Additionally, with no new office developments for the past decade within the precinct this has kept office space tightly held. Furthermore, new development in the precinct remains limited in the future and coupled with strong demand levels, vacancy is forecast to remain tight.

DEMAND DRIVEN RENTAL GROWTH

Canberra's relatively tight leasing market conditions have driven a significant pick-up in rental growth. After recording zero growth in the 2010s, prime net face rents in Barton have grown over 4.8% over the last 18 months.

Net absorption since 2020 by CBD market

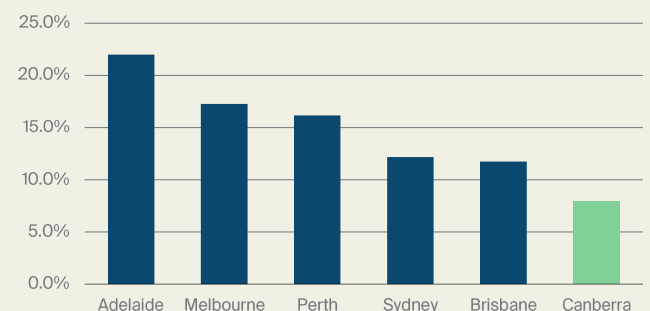
Sqm (LHS), percent of total CBD office stock (RHS)



Source: Knight Frank Research, PCA

Capital city A grade vacancy

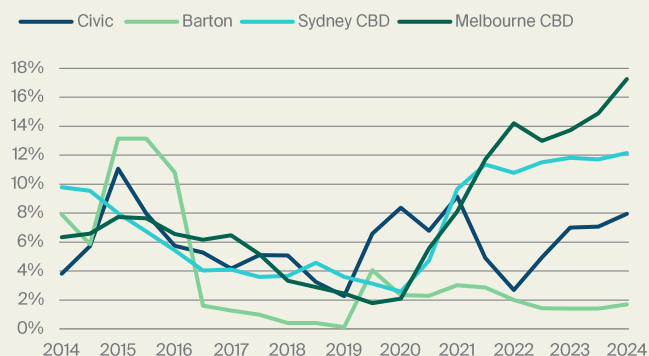
Per cent, as at Jan-24



Source: Knight Frank Research, PCA

A grade vacancy

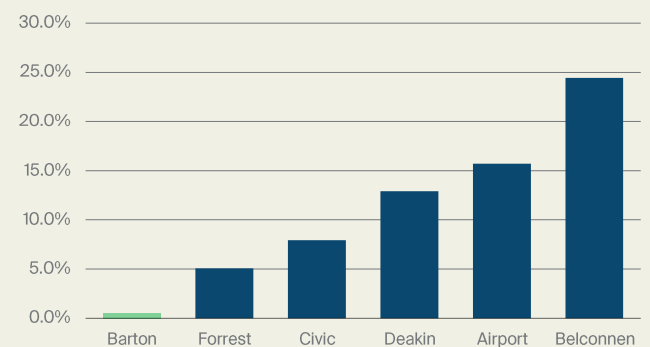
Per cent, by market as at Jan-24



Source: Knight Frank Research, PCA

Canberra A grade vacancy by precinct

per cent, as at Jan-24



Source: Knight Frank Research, PCA

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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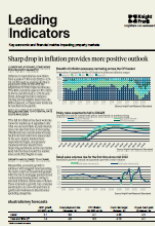


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