

- *Canberra heads into lockdown with its lowest vacancy rate since 2009*
- *Heightened demand for A grade space is fuelling rental growth*
- *Sharp yield compression reflects buyer depth*



Canberra Office Market

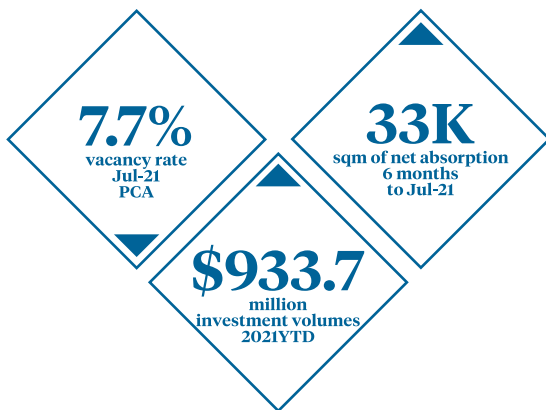
Market Report, September 2021

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PENT-UP DEMAND DRIVES FLURRY OF DEALS AHEAD OF LOCKDOWN

Investment volumes rebound to highest level in a decade as underlying demand fundamentals support a return to growth



“...the uptick in acquisition opportunities and subsequent firming of yields on those assets reflects extremely robust demand.”

The Key Insights

Canberra has again shown its resilience by recording the highest level of office demand nationally and lowest vacancy rate on the east coast in July.

Heightened demand for A grade space and its declining availability is fuelling rental growth, with a continuation of this trend expected until new supply comes online in 2022.

Total investment volumes (\$10m+) for the year to August have increased to \$933.7 million, up from \$80.6 million in 2020, with the strength of covenant driving competition.

Average A grade yields in the Civic and Parliamentary precincts compressed between 43 and 50bps over the six months to July 2021, reflecting sustained buyer depth for prime assets.

Canberra CBD Office Market Indicators—July 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	4.9	37,634	31,685	514	22.0	-0.1	5.80-5.90
Parliamentary	283,389	2.9	-1,634	0	497	20.0	+0.4	5.70-6.20
Town Centres	258,547	3.2	18,344	0	423	26.8	-0.5	7.20-7.70
Other	328,652	2.4	33,577	15,600				
Secondary								
Civic (City)	247,738	14.7	-10,640	-30,147	437	26.7	+3.0	6.50-7.35
Parliamentary	166,539	5.3	2,837	0	432	25.0	-1.3	6.25-6.75
Town Centres	192,739	21.5	26,590	17,801	343	29.6	+2.0	8.75-10.50
Other	408,570	11.5	-23,160	-3,834				
Total Market	2,315,104	7.7	83,548	31,105				

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 POSITION GOING INTO LOCKDOWN

Canberra heads into lockdown with its lowest vacancy rate since 2009

After being the only CBD office market nationally to not record an increase in its vacancy rate during 2020, Canberra has shown its resilience by recording the highest level of office demand nationally and lowest vacancy rate on the east coast in the six months to July.

Over the six months to July 2021, Canberra's vacancy rate declined to 7.7%, down from 10.1% in January 2021. This is the largest decline in the vacancy rate in one six-month period since January 2012 and the lowest vacancy rate in Canberra since 2009.

Highest level of net demand nationally

Canberra achieved the highest level of net demand nationally with 33,404sqm of positive net absorption recorded over the same period, up from its 10-year average of 10,177sqm. This follows 50,144sqm of positive net absorption in the six-month period to January 2021.

High demand for A grade space within the Civic and the Airport precincts due to expansion requirements contributed to the 40,310sqm of net absorption in this grade, resulting in a decrease in vacancy from 6.4% to 3.5%. Secondary stock also recorded a decrease, falling from 14.6% in January 2021 to 13.2%.

The competitive tension in A grade stock has been due to sustained high level of demand from government tenants, which make up the larger proportion of the leasing market in Canberra. However, the recent uptick in private sector demand for smaller suites and/or the sub 500sqm market

also contributed to demand levels during the first half of 2021, putting upward pressure on rents and incentives.

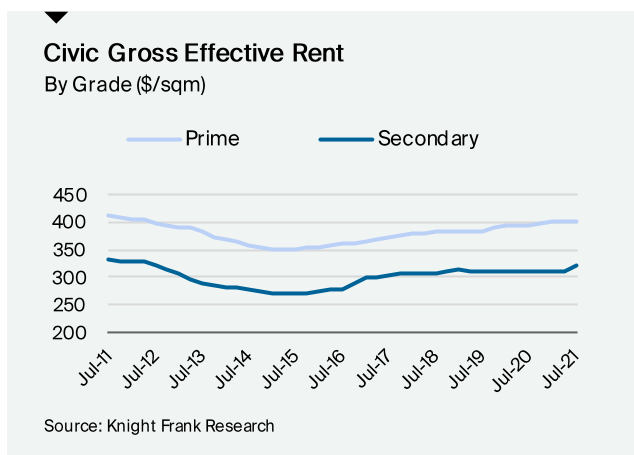
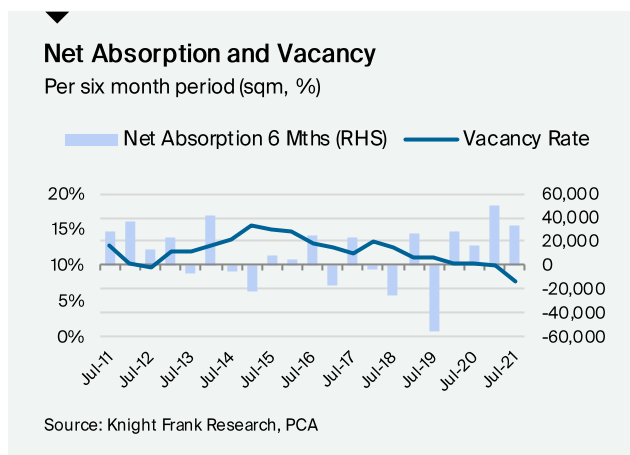
Limited pipeline of new stock and sustained demand will support rental growth

2,400sqm of stock was brought online in the six months to July 2021, following the completion of 9-15 Thynne Street, Bruce. The office component of the mixed-use project was pre-committed by AIHW. 25,602sqm was withdrawn over the same period, including Nara Centre and Allara House, which are pre-committed to the ACT Government and due back online later this year, and 12 Moore Street, due to return in 2022. Outside of these refurbishments, no significant new supply is expected to come online in Civic until 2022, including Civic Quarter Stage 2 (33,000sqm) and 27 Scherger Drive (8,200sqm).

Heightened demand for A grade space and its declining availability is fuelling rental growth

Civic and Parliamentary precinct A grade gross face rents have increased 5.1% and 3.1% q/q to average \$514/sqm and \$497/sqm in July. Secondary Civic and Parliamentary precinct gross face rents have increased to \$437/sqm and \$432/sqm respectively, averaging growth of 3.1% and 2.6% q/q. The substantial rental gains over the last quarter reflect the uptick in tenant demand as well as the influx of new and refurbished supply that has come online recently.

A high level of active tenant mandates, particularly from government, will see a continuation of strong rental growth rates at least until late 2022 when new supply is due to come online.



INVESTOR DEMAND PROMPTS COMPRESSION

Investment volumes rebound to highest level in a decade as yields compress

Despite the turbulence created by the pandemic, investor appetite for Canberra office assets has remained strong with the uptick in available acquisition opportunities from the first quarter of 2021 and the subsequent firming of yields on those assets reflecting extremely robust demand.

Total investment volumes (\$10m+) for the year to August have increased to \$933.7 million, up from \$80.6 million in 2020. The sweet spot remains in the \$50 to \$100 million price bracket, with the strength of covenant driving competition and sharp yield compression.

Sharp yield compression reflects sustained buyer depth for prime assets

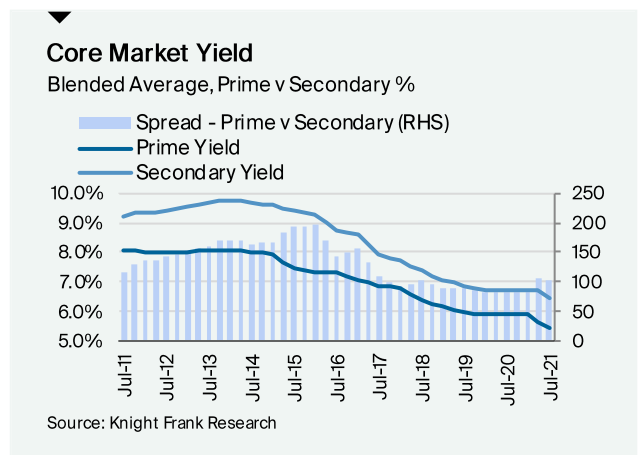
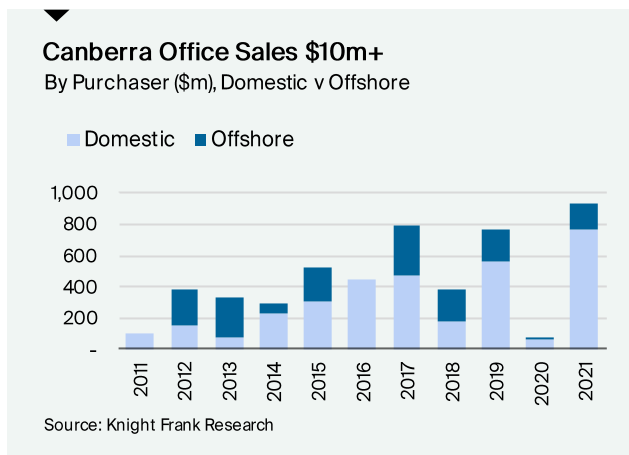
Average A grade yields in the Civic and Parliamentary precinct markets compressed between 43 and 50bps over the six months to July 2021, to average 5.44% and 5.38%

respectively. Similarly A grade Town Centre yields have compressed 50bps over the same period to 6.90%.

Average secondary yields are showing 26 to 38bps compression over the last six months suggesting that there is an increase in buyer's willingness to buy assets with value-add or reversionary income potential due to the underlining long-term resilience of Canberra's office market.

Investor demand will prompt further yield compression

Despite the protracted lockdown restrictions, the stable performance of Canberra office market and its attractive income streams from long-term government tenancies, makes it incredibly appealing to investors seeking a safe haven for investment. Additionally, with a yield variance of between 100 and 150 bps on Sydney and Melbourne, Canberra remains very attractive. With investors increasingly competing for assets, further yield compression is likely in the short-term.



Recent significant sales

PROPERTY	PRICE \$M	CORE MARKET YIELD %	NLA SQM	\$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
18 Canberra Avenue, Forrest	97.93 **	5.04	9,646	10,152	6.3	Charter Hall ^	DOMA Group	Aug-21
25 Cowlshaw Street, Greenway	306.0	4.38	26,052	11,746	10.1	Charter Hall ~	AIP Asset Management	Jul-21
38 Sydney Avenue, Forrest	73.8	5.05	8,900	8,286	8.3	Irongate Group	Blackstone	Jun-21
121 Marcus Clarke Street, Civic (50%)	107.5	5.73	25,760	8,346	3.1	121 MCS Pty Ltd	MTAA Super Fund	Mar-21
14 Mort St, Civic	53.5	6.40	9,383	5,701	4.0	Blackstone	Soilbuild Business Space REIT	Mar-21
9 Brisbane Avenue, Barton	60.5	5.98	8,692	6,960	6.3	Marprop Pty Ltd	Private	Mar-21

**adjusted price prior to capex ^ Charter Hall Prime Office Fund (CPOF) ~Charter Hall Group JV Charter Hall Long WALE REIT

Canberra major office supply

ADDRESS	AREA (SQM)	DEVELOPER	MAJOR TENANTS	COMMITMENT LEVEL (%)	STAGE	EST. DATE OF COMPLETION
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%	Complete	H1 2021
48-56 Allara Street, City (Allara House) *	9,004	SC Capital Partners	ACT Govt	100%	Under Construction	H2 2021
3 Constitution Avenue, City (Nara Centre) *	7,194	SC Capital Partners	ACT Govt	63%	Under Construction	H2 2021
6 Brindabella Drive, Airport	21,000	Capital Property Group	Spec		Under Construction	H2 2021
27 Scherger Drive, Airport	8,200	Canberra Airport Group	Commonwealth TGA	100%	Under Construction	H1 2022
90 Denison Street, Deakin	8,000	Private	Commonwealth NDIA	80%	Under Construction	2022
Block 1 Section 12 Hibbersson 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 / Commonwealth	30%	DA Approved	2022
Civic Quarter Stage 2	33,000	Amalgamated Property Group	Commonwealth Agriculture	100%	Under Construction	2023
7 London Circuit, City*	8,500	ISPT	Spec		Early Feasibility	2023
18 Marcus Clarke Street, City*	26,000	ISPT	Spec		Under Construction	2024
Blocks 10&11, Section 100	34,086	Morris Property Group	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 (g)	TERM YRS	START DATE
NACCHO	2 Constitution Avenue	358	480	3	Jul-21
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

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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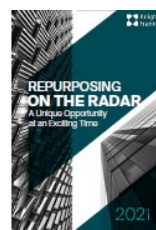
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