

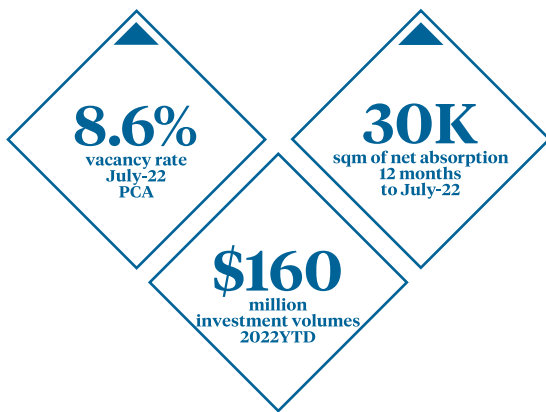
- *Lowest vacancy of the major capital cities*
- *Large pipeline of new developments*
- *Rental growth continues*

Canberra Office Market

Market Report, September 2022



NEW DEVELOPMENTS INJECT FRESH WAVE OF SUPPLY



◆ ◆

“There still remains capital awaiting to be deployed with some major assets likely to transact over the second half of this year.”

◆ ◆

The Key Insights

New supply has edged Canberra’s vacancy rate to 8.6% as at July 2022, 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 3.7% YoY measure \$431/sqm

Total investment volumes (\$10m+) 2022YTD have reached \$160 million, with assets still pending to transact over the second half of the year.

Average A grade yields in the Civic and Parliamentary precincts have softened by 12.5bps over the quarter on the back of higher funding costs and economic uncertainty. Further softening of yields is anticipated.

Canberra CBD Office Market Indicators—July 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 %##
A Grade								
Civic (City)	442,099	4.9	12,318	13,169	532	27.0	+3.6	5.25-5.75
Parliamentary	283,389	1.4	4,599	0	516	25.0	+3.8	5.25-5.75
Town Centres	258,547	6.8	-9,284	0	428	28.4	+1.2	6.75-7.25
Other	384,978	12.2	16,892	56,326				
Secondary								
Civic (City)	240,280	10.6	3,325	-7,458	444	27.3	+0.8	6.25-6.75
Parliamentary	163,742	3.2	414	-2,797	447	27.5	+3.5	6.00-6.50
Town Centres	188,798	18.3	3,006	-2,401	347	29.6	+1.2	7.75-8.50
Other	408,070	11.9	-1,578	-1,540				
Total Market	2,369,903	8.6	29,692	55,299				

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

SUSTAINED DEMAND

Canberra vacancy remains lowest of eastern seaboard capital cities

Canberra's office vacancy rate edged higher over the last six months to measure 8.6% as at July-22, up from 6.3% 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 11.4%, 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 edges higher on the back of new supply

The injection of new supply over the first half of the year has pushed prime vacancy up to 6.6% as at July-22, up from a low of 2.4% six months prior. Despite this rise, demand remains positive with positive net absorption of 2,133sqm over the last six months.

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 17.1% in the airport precinct. Prime space in Barton is still non-existent, whilst in the civic precinct vacancy remains low at 4.9% as at July-22.

Large pipeline of new developments

New development completions (including refurbishments) totalled 64,743sqm for the period. This was the largest injection of new supply in a six month period since 2014. There were three new developments by Capital Airport Group to reach PC over the period. They include 27 Scherger Drive (8,670sqm) which is fully leased to the federal Government, 6 Brindabella Circuit (20,185sqm) and 25 Catalina Drive (23,000sqm), both of which were speculative developments.

Over the next 18 months, new developments expected to be delivered include; Civic Quarter stage 2 (33,000sqm) 100% committed, 90 Denison Street, Deakin (8,000sqm), and Morris Property group, section 100 spec development (34,234sqm). Beyond these, there is a mooted pipeline of over 100,000sqm of schemes either seeking pre-commitments or DA approval.

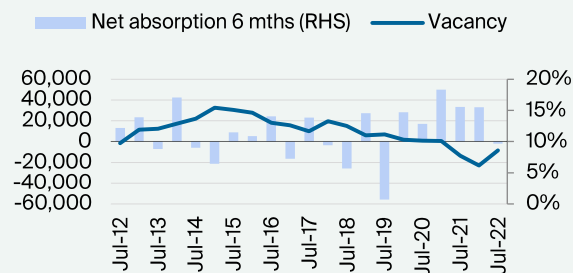
Positive face rental growth

Rental growth in Canberra continues with Civic and Parliamentary precinct A grade net face rents having increased by 3.7% over the last 12 months to measure \$431/sqm (\$524/sqm gross) as at July 2022. Similarly, secondary rents have increased by 2.5% to measure \$348/sqm (\$446/sqm gross face).

Average prime incentives remain at all time highs of 26%, having remained steady since the beginning of the year. This has resulted in slight net effective rental growth of 0.7% over the year to measure \$295/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

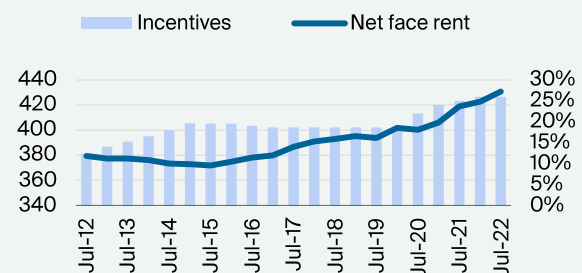
Per six month period (sqm, %)



Source: Knight Frank Research, PCA

Prime net face rents and incentives

Parliamentary & Civic average, \$/sqm, %



Source: Knight Frank Research

STEADY INVESTOR ACTIVITY

Above trend transactional activity

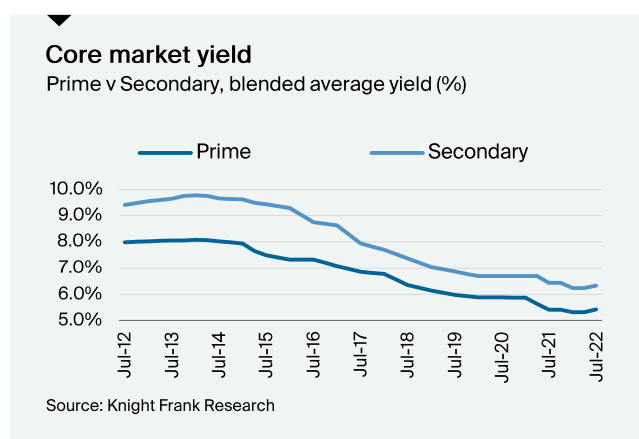
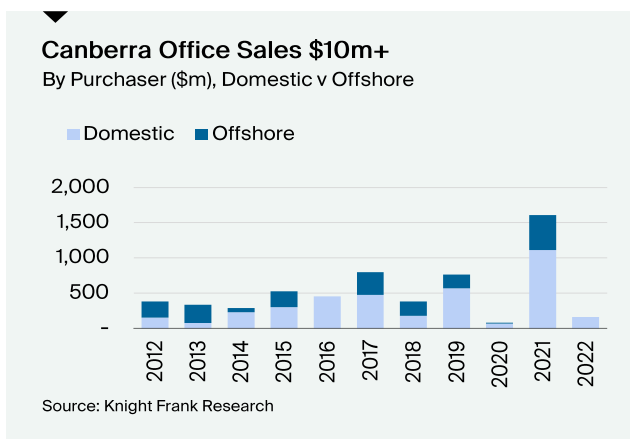
Following on from the record year of transaction activity in Canberra of \$1.59 billion in 2021, investor appetite for Canberra assets remains steady with investment volumes totalling \$160 million for the year to August 2022. This excludes the Geoscience HQ and 220 London Circuit assets which are subject for settlement and would propel transaction volumes in excess of \$750 million. There still remains capital awaiting to be deployed with some major assets likely to transact over the second half of this year.

Earlier this year, IOOF acquired 39 Brisbane Avenue, Barton for \$41 million from Quintessential Equity on a 5.04% core market yield and 6 year WALE. Furthermore, City of Brisbane Investment Corp acquired 33 Allara Street for \$71.25 million on a 5.7% core market yield. Whilst these transactions represented a core office sale with steady income and solid covenant there have been some opportunistic acquisitions of assets including the TGA building at 136 Narrabundah Lane by Charter Hall for \$21.5 million and Lovett Tower by a private investor for \$26.7 million.

Yield begin to soften as higher funding costs become apparent across the market

Over the course of 2021 Canberra experienced yield compression on average of 55bps in the A grade market whilst most other capital cities remained static, however recently pricing and yield metrics sentiment has shifted. The impact of higher funding costs on pricing is starting to become apparent coupled with inflationary pressures and further rate rises still to come have seen yields begin to soften.

Average prime yields in the Civic and Parliamentary precinct have softened by 12.5 basis points to 5.45% similar to secondary yields now averaging 6.5%. This has been a similar story in town centres with A grade yields softening by 12.5bps to now average 7%, whilst secondary assets in town centres have softened by 25bps to average 7.7% given the higher risk profile. Further softening of yields is anticipated throughout the year as the impact of higher funding costs filters through the market.



Recent significant sales

PROPERTY	PRICE \$M	CORE MARKET YIELD %	NLA SQM	\$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
39 Brisbane Ave, Barton	41.0	5.04	4,868	8,422	6.0	IOOF Investment	Quintessential Equity	Mar-22
33 Allara Street, Canberra	71.2	5.70	9,747	7,310	4.7	City of Brisbane*	Molonglo Group	Mar-22
40 Bunda Street, Canberra Civic	76.0	5.07	8,074	9,413	7.9	Charter Hall	Canberra Theatres Limited	Dec-21
2-6 Bowes Street, Phillip	84.6	5.27	12,376	6,832	9.3	Growthpoint Properties Aust	Altis Property	Dec-21

Source: Knight Frank Research * City of Brisbane Investment Corporation

Canberra major office supply

ADDRESS	AREA (SQM)	DEVELOPER	MAJOR TENANTS	COMMITMENT LEVEL (%)	STAGE	EST. DATE OF COMPLETION
3 Constitution Avenue, City (Nara Centre) *	7,124	SC Capital Partners	ACT Govt	63%	Complete	H1 2022
35 Hibberson Street, Gungahlin	4,471	Krnc Group	Commonwealth DHA	100%	Complete	H1 2022
6 Brindabella Drive, Airport	20,185	Capital Property Group	Spec		Complete	H1 2022
27 Scherger Drive, Airport	8,500	Canberra Airport Group	Commonwealth TGA	100%	Complete	H1 2022
25 Catalina Drive, Airport	23,000	Capital Property Group	Spec		Complete	H1 2022
5-11 Constitution Avenue, City (Customs House) *	12,144	SC Capital Partners	Spec		Under Construction	H2 2022
Civic Quarter Stage 2	33,000	Amalgamated Property Group	Commonwealth Agriculture	100%	Under Construction	H1 2023
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
1 Taubman Street, Symonston	4,585	Nikias Diamond	Spec		DA Approved	H2 2023
7 London Circuit, City*	8,500	ISPT	Spec		Early Feasibility	H2 2023
18 Marcus Clarke Street, City*	26,000	ISPT	Spec		Early Feasibility	H2 2024
50 Kent Street, Deakin	8,500	Evri Group	Spec		DA Approved	H2 2024
23 National Circuit, Barton #	4,610	Doma Group	Doma Group		DA Approved	H1 2025
19 National Circuit, City	18,128	Cromwell Corporation	Pre-commit led		Under Construction	H1 2025
Section 96	34,000	QIC	Pre-commit led		DA Approved	H2 2026

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
ABCC	2 Constitution Ave, Civic	384	460	5	Apr-22
ACQSC	60 Marcus Clark Street, Civic	1,772	450	7	Nov-22
Smarter Knowledge	15 London Circuit, Civic	146	420	5	Oct-22
Advanced Navigation	40 Macquarie Street, Barton	328	450	3	July-22
Concept Six	60 Clarke Street, Civic	210	440	5	July-22
Sparke Helmore	224 Bunda Street, Civic	980	450	8	Dec-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.



Research

Marco Mascitelli
+61 2 9036 6656
Marco.Mascitelli@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

Ben Burston
+61 2 9036 6756
Ben.Burston@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

Recent Publications



Sydney CBD Office Report



North Shore Office Report



Sydney city Fringe report



National Industrial Report Q2-22



Brisbane City Fringe report



Outlook Report 2022

Knight Frank Research Reports are available at knightfrank.com/research

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.



Important Notice © Knight Frank Australia Pty Ltd 2022 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the